

# ANNUAL REPORT 2006



Wise Financial Thinking for Life

## FROM MUTUAL TO GLOBAL

“KNOWLEDGE IS OF THE PAST, WISDOM IS OF THE FUTURE”



“DO NOT GO WHERE THE PATH MAY LEAD,  
GO INSTEAD WHERE THERE IS NO PATH AND LEAVE A TRAIL.”



# Vision

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

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## Financial Highlights

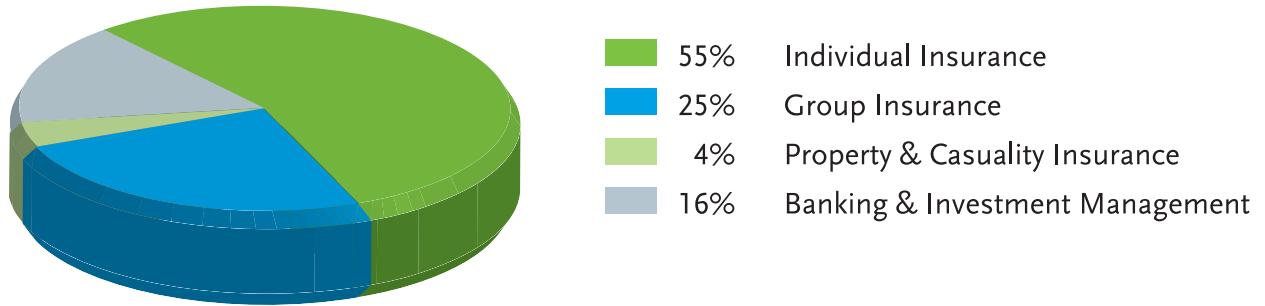
### SHAREHOLDER RETURNS

	2006	2005
Earnings per common share	Bds 50.8 cents	Bds 46.0 cents
Dividends per common share	13.0 cents	12.0 cents
Net income attributable to shareholders	Bds\$ 135.3m	Bds\$ 121.5m
Total shareholders' equity	\$ 827.7m	\$ 730.3m
Return on shareholders' equity	19.0%	18.8%

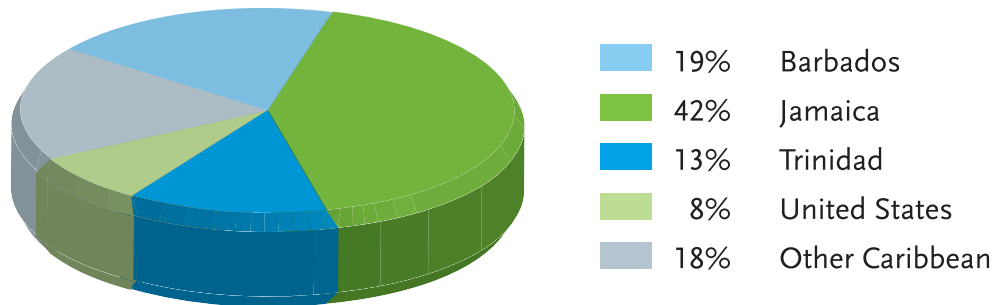
### GROUP PERFORMANCE

	2006	2005
Total revenue	Bds\$ 1,318.8m	Bds\$ 1,158.0m
Income from ordinary operations	\$ 201.1m	\$ 194.4m
Net income after tax	\$ 173.2m	\$ 170.4m
Total assets	\$ 6,726.6m	\$ 6,396.8m
Total equity	\$ 1,084.6m	\$ 952.7m

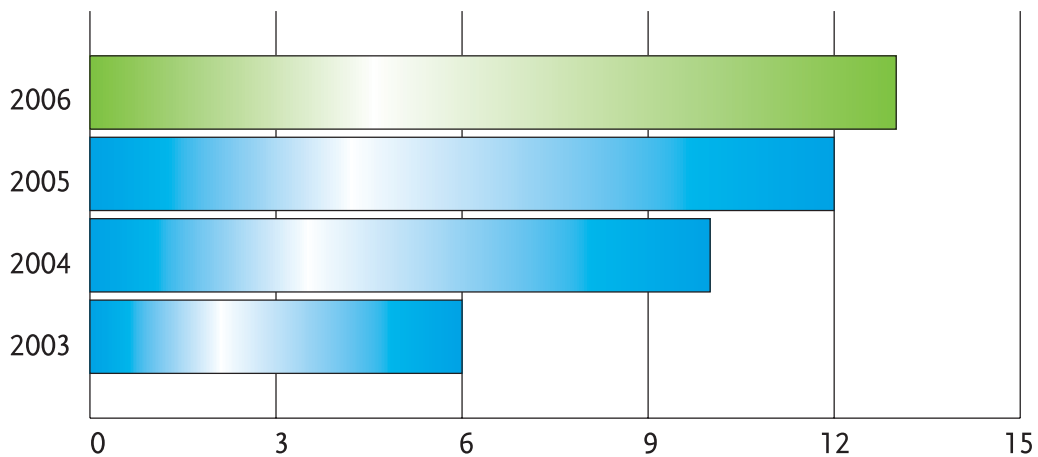
REVENUE BY BUSINESS SEGMENT



REVENUE BY GEOGRAPHICAL SEGMENT



DIVIDENDS PER COMMON SHARE (¢)



# Directors' Report

## BOARD OF DIRECTORS



**J Arthur L Bethell**  
Age 66  
Citizen of Barbados  
Director since December 2002

Mr Arthur Bethell is the non-executive Chairman of the Company. He retired as President and Chief Executive Officer of the Group on June 30, 2002, having been appointed to that office in 1995. Mr Bethell has extensive knowledge of the insurance industry, having joined the Group in 1965. He has held the positions of Superintendent of Agencies, Sales Manager and Vice President, Marketing. He was also Chief Executive Officer of Sagicor Capital Life Insurance Company Limited. He is a Director of a number of subsidiaries within the Group.

Board/Board Committees		Position		Attendance Record	
Board of Directors		Chairman		10 of 10	100%
Board Investment Committee		Member		N/A	N/A
Director's Interest					
Shares as at 31-Dec-06		Shares as at 10-May-07		Grants/Options	
Beneficial	Non-beneficial	Beneficial	Non-beneficial	As at 31-Dec-06	As at 10-May-07
38,500	Nil	38,500	Nil	Nil	Nil



**Terrence A Martins**  
Age 65  
Citizen of Trinidad and Tobago  
Director since January 2004  
Independent Director

Mr Terrence Martins is the non-executive Vice Chairman. He has brought a wealth of knowledge to Sagicor, with over forty years of experience within the financial services industry, both in the Caribbean and the United Kingdom. His areas of expertise include banking, finance, administration, corporate governance, and risk management. Mr Martins previously held the position of Group Chief Executive Officer of RBTT Financial Holdings Limited. He is currently the Chairman of Caribbean Information and Credit Rating Services Ltd (CariCRIS), a Caribbean rating agency. He previously held several directorships within the RBTT Financial Holdings Group in and outside of Trinidad and Tobago, and is also a former member of the Integrity Commission of Trinidad and Tobago.

Board/Board Committees		Position		Attendance Record	
Board of Directors		Vice-Chairman		10 of 10	100%
Corporate Governance Committee		Chairman		6 of 6	100%
Human Resource Committee		Member		3 of 3	100%
Board Investment Committee		Chairman		N/A	N/A
Director's Interest					
Shares as at 31-Dec-06		Shares as at 10-May-07		Grants/Options	
Beneficial	Non-beneficial	Beneficial	Non-beneficial	As at 31-Dec-06	As at 10-May-07
70,000	Nil	70,000	Nil	Nil	Nil





**Andrew Aleong**  
 Age 46  
 Citizen of Trinidad and Tobago  
 Director since June 2005  
 Independent Director

Mr Andrew Aleong holds an MBA from the Richard Ivey School of Business, University of Western Ontario, Canada. He has spent his entire professional career in various management positions within the Albrosco Group of Trinidad and Tobago. He is currently the Director, Sales and Marketing, and a Director of several companies within that Group. Mr Aleong is a past president of the Trinidad and Tobago Manufacturers' Association.

Board/Board Committees		Position		Attendance Record	
Board of Directors		Director		10 of 10	100%
Audit Committee		Member		2 of 2*	100%
Director's Interest					
Shares as at 31-Dec-06		Shares as at 10-May-07		Grants/Options	
Beneficial	Non-beneficial	Beneficial	Non-beneficial	As at 31-Dec-06	As at 10-May-07
483,037	Nil	483,037	Nil	Nil	Nil

\* Mr Aleong was appointed to the Audit Committee on June 28, 2006.



**David W Allan**  
 Age 69  
 Citizen of Barbados  
 Director since December 2002  
 Independent Director

Mr David Allan is a former President and Chief Executive Officer of The Mutual Group, now Sagicor, a position he held for 23 years. He joined the Group in 1956 and was elected Director of The Mutual, now Sagicor Life Inc, in 1986. Mr Allan retired as President and Chief Executive Officer in 1995. He also serves as a Director of Life of Jamaica Limited and Sagicor Life Inc and is a Director of Barbados-registered exempt insurance companies. Mr Allan, with more than 50 years experience in the life insurance industry, is a former West Indies cricketer.

Board/Board Committees		Position		Attendance Record	
Board of Directors		Director		8 of 10	80%
Audit Committee		Member		1 of 4	25%
Board Investment Committee		Member		N/A	N/A
Director's Interest					
Shares as at 31-Dec-06		Shares as at 10-May-07		Grants/Options	
Beneficial	Non-beneficial	Beneficial	Non-beneficial	As at 31-Dec-06	As at 10-May-07
1,705	Nil	1,705	Nil	Nil	Nil



# Directors' Report

## BOARD OF DIRECTORS



**Professor Hilary McD Beckles**  
Age 51  
Citizen of Barbados  
Director since June 2005  
Independent Director

Professor Hilary Beckles earned his PhD from Hull University, United Kingdom, and received an Honorary Doctorate of Letters from the same university in 2003. He has served as the Head of the History Department and Dean of the Faculty of the Humanities, University of the West Indies. In 1998, he was appointed Pro-Vice-Chancellor for Undergraduate Studies, and, in 2002, the Principal of Cave Hill Campus. Professor Beckles has published widely on Caribbean economic history, cricket history and culture, and higher education, and serves on the editorial boards of several academic journals. He has lectured in Africa, Asia, Europe and the Americas. He is a Director of Sagicor Life Inc and Life of Jamaica Limited.

Board/Board Committees		Position		Attendance Record	
Board of Directors		Director		7 of 10	70%
Human Resource Committee		Member		0 of 1*	0%
Director's Interest					
Shares as at 31-Dec-06		Shares as at 10-May-07		Grants/Options	
Beneficial	Non-beneficial	Beneficial	Non-beneficial	As at 31-Dec-06	As at 10-May-07
9,579	Nil	9,579	Nil	Nil	Nil
* Professor Beckles was appointed to the Human Resource Committee on June 28, 2006.					



**Marjorie M Chevannes-Campbell**  
Age 55  
Citizen of Jamaica  
Director since June 2005  
Independent Director

Mrs Marjorie Chevannes-Campbell holds an MSc in Accounting from the University of the West Indies and is a member of the Institute of Chartered Accountants of Jamaica and of the Hospitality, Financial and Technology Professionals. She is General Manager of the Urban Development Corporation (the UDC Group), Jamaica, which is a large property owning company that manages several entities such as hotels, attractions, a maintenance company, a water supply company, a shopping centre, a conference centre and a golf course. Prior to assuming this position she worked in other positions within the UDC Group. She is a Director of Life of Jamaica Limited, and of several other private and public sector companies within Jamaica.

Board/Board Committees		Position		Attendance Record	
Board of Directors		Director		8 of 10	80%
Director's Interest					
Shares as at 31-Dec-06		Shares as at 10-May-07		Grants/Options	
Beneficial	Non-beneficial	Beneficial	Non-beneficial	As at 31-Dec-06	As at 10-May-07
1,087	Nil	1,087	Nil	Nil	Nil



**Christopher D deCaires**  
 Age 51  
 Citizen of Barbados  
 Director since June 2005  
 Independent Director

Mr Christopher deCaires is a Chartered Accountant and holds an MBA. He has over 25 years' professional and management consulting experience in Barbados and the wider Caribbean, United Kingdom and Brazil. He is the Managing Director of Fednav International Limited, and his areas of expertise include corporate finance, international taxation, financial management, mergers and acquisitions, information systems, organisational design and business planning. He is Chairman of World Cup Barbados. Mr deCaires is a former partner of Price Waterhouse, Barbados, where he was responsible for corporate finance, business advisory, corporate secretarial and trust services.

Board/Board Committees		Position		Attendance Record	
Board of Directors		Director		10 of 10	100%
Human Resource Committee		Chairman		2 of 3	66%
Director's Interest					
Shares as at 31-Dec-06		Shares as at 10-May-07		Grants/Options	
Beneficial	Non-beneficial	Beneficial	Non-beneficial	As at 31-Dec-06	As at 10-May-07
2,378	Nil	2,378	Nil	Nil	Nil



**Joyce E Dear**  
 Age 63  
 Citizen of Barbados  
 Director since August 2006  
 Independent Director

Mrs Joyce Dear is a Fellow of the Association of Chartered Certified Accountants of the United Kingdom and holds an MBA from the University of Warwick. She is also a member of the Hospitality Financial and Technology Professionals. She was, until 2004, a partner in the Assurance and Business Advisory Services Division of PricewaterhouseCoopers (PwC) in Barbados. Mrs Dear has over 31 years' experience in rendering audit and financial services to a wide variety of industries, including public companies, tourism and hospitality entities, manufacturing companies, statutory corporations and international funding agencies/government financed programs and projects. Mrs Dear was the PwC Industry lead partner for the public service assignments and is a past President of the Institute of Chartered Accountants of Barbados and a former Director of a general insurance company in Barbados.

Board/Board Committees		Position		Attendance Record	
Board of Directors		Director		3 of 3*	100%
Audit Committee		Member		0 of 2*	0%
Director's Interest					
Shares as at 31-Dec-06		Shares as at 10-May-07		Grants/Options	
Beneficial	Non-beneficial	Beneficial	Non-beneficial	As at 31-Dec-06	As at 10-May-07
2,000	Nil	2,000	Nil	Nil	Nil

\* Mrs Dear was elected a Director on August 11, 2006 and appointed a Member of the Audit Committee effective August 11, 2006.

# Directors' Report

## BOARD OF DIRECTORS



**Dr Oscar W Jordan**  
Age 68  
Citizen of Barbados  
Director since December 2002  
Independent Director

Dr Oscar Jordan, G.C.M., MB, ChB, FRCPE, DCH, Diabetologist, is an honorary Consultant Physician, Department of Medicine of the Queen Elizabeth Hospital, Barbados. He is a Fellow of Royal College of Physicians of Edinburgh. He is Chairman of the Diabetes Foundation of Barbados and Director of Clinical Medicine in Barbados for the University of St. George's, Grenada. A widely published and well respected physician, he is a past President of the Caribbean Golf Association. He became a Director of Sagikor Life Inc in 1990.

Board/Board Committees		Position		Attendance Record	
Board of Directors		Director		9 of 10	90%
Corporate Governance Committee		Member		6 of 6	100%
Director's Interest					
Shares as at 31-Dec-06		Shares as at 10-May-07		Grants/Options	
Beneficial	Non-beneficial	Beneficial	Non-beneficial	As at 31-Dec-06	As at 10-May-07
18,381	Nil	18,381	Nil	Nil	Nil



**William P Lucie-Smith**  
Age 55  
Citizen of Trinidad and Tobago  
Director since June 2005  
Independent Director

Mr William Lucie-Smith earned an MA degree from Oxford University and is a Chartered Accountant. He is a retired Senior Partner of PricewaterhouseCoopers, Trinidad and Tobago, where he headed the Corporate Finance and Recoveries Divisions, specialising in all aspects of business valuations, privatisation, mergers and acquisitions and corporate taxation. Mr Lucie-Smith has been a special adviser to the Trinidad and Tobago Government and Central Bank on divestment, and has served on several national committees, such as the Rampersad Committee, to review the reorganisation and rationalisation of State Enterprises of Trinidad and Tobago, and the Daly Committee on Corporate Insolvency and Company Law with special reference to severance pay. He is a Director of a number of subsidiaries within the Group. Since his retirement, Mr Lucie-Smith has been an independent Consultant.

Board/Board Committees		Position		Attendance Record	
Board of Directors		Director		9 of 10	90%
Audit Committee		Chairman		4 of 4	100%
Board Investment Committee		Member		N/A	N/A
Director's Interest					
Shares as at 31-Dec-06		Shares as at 10-May-07		Grants/Options	
Beneficial	Non-beneficial	Beneficial	Non-beneficial	As at 31-Dec-06	As at 10-May-07
14,000	Nil	14,000	Nil	Nil	Nil

## Sagicor Financial Corporation



**Stephen D R McNamara**  
Age 56  
Citizen of St Lucia  
Director since December 2002  
Independent Director

Mr Stephen McNamara is Senior Partner of McNamara & Company, Attorneys-at-Law of St. Lucia. He was elected to the Board of Sagicor Life Inc in 1997 and is also a Director of the Group's US subsidiaries, Sagicor USA Inc, Laurel Life Insurance Company and Sagicor Life Insurance Company, and the St Lucian subsidiary, The Mutual Finance Inc.

Board/Board Committees		Position		Attendance Record	
Board of Directors		Director		10 of 10	100%
Corporate Governance Committee		Member		6 of 6	100%
Board Investment Committee		Member		N/A	N/A
Director's Interest					
Shares as at 31-Dec-06		Shares as at 10-May-07		Grants/Options	
Beneficial	Non-beneficial	Beneficial	Non-beneficial	As at 31-Dec-06	As at 10-May-07
2,011	Nil	2,011	Nil	Nil	Nil



**Dodridge D Miller**  
Age 49  
Citizen of Barbados  
Director since December 2002  
President and Chief Executive Officer

Mr Dodridge Miller is a Fellow of the Association of Chartered Certified Accountants (United Kingdom), and obtained his MBA from the University of Wales and Manchester Business School, United Kingdom. He holds an LLM in Corporate and Commercial Law from the University of the West Indies. He was appointed President and Chief Executive Officer of The Mutual Group of Companies, now Sagicor, on July 1, 2002, having previously held the positions of Treasurer and Vice President, Finance and Investments, Deputy Chief Executive Officer and Chief Operating Officer. Mr Miller joined the Group in 1989. He was elected a Director of The Mutual Group in 2001. He is the Chairman of the Group's main operating subsidiaries, Sagicor Life Inc, Life of Jamaica Limited and Sagicor Life Insurance Company. Mr Miller has more than 20 years' experience in the insurance and financial services industries.

Board/Board Committees		Position		Attendance Record	
Board of Directors		Director		10 of 10	100%
Board Investment Committee		Member		N/A	N/A
Director's Interest					
Shares as at 31-Dec-06		Shares as at 10-May-07		Grants	
Beneficial	Non-beneficial	Beneficial	Non-beneficial	As at 31-Dec-06	As at 10-May-07
521,109*	Nil	521,109*	Nil	507,719	507,719
Options as at 31-Dec-06			Options as at 10-May-07		
Vested		Not vested		Vested	Not vested
Nil		159,817		39,954	119,863

\* Includes 507,791 Grants made in 2006

# Directors' Report

## SHAREHOLDERS' REPORTS

No Shareholder owns more than 5% of the capital of the Company.

During 2006, 1,432,588 shares were issued under the Long-Term Incentive Plan ("LTI") for Executives. On April 13, 2006, 1,342,027 fully vested Restricted Stock were issued under the LTI and on May 1, 2006, 304,915 Restricted Stock were granted over the four-year period commencing May 1, 2006, of which 91,474 became fully vested on May 1, 2006, with 90,561 being issued on August 31, 2006. 932,387 Stock Options at an exercise price of Bds \$3.95 were also granted on May 1, 2006, vesting evenly over the four-year period commencing May 1, 2007. These options expire on May 1, 2016. The total shares in issue as at December 31, 2006 and at May 10, 2007 were 266,985,336.

## ANALYSIS OF SHAREHOLDING

Number of Shareholders by Size of Holding as at December 31								
Size of Holding	Number of Shareholders		Percentage of Shareholders		Total Shares Held		Percentage Shares Held	
	2006	2005	2006	2005	2006	2005	2006	2005
1 - 1,000	6,015	5,781	15.43	14.52	3,917,331	3,888,250	1.47	1.46
1,001 - 2,500	16,618	17,107	42.64	42.98	27,634,402	28,439,332	10.35	10.71
2,501 - 5,000	7,817	8,177	20.06	20.54	27,081,522	27,872,247	10.14	10.50
5,001 - 10,000	4,460	4,570	11.44	11.48	31,920,923	32,747,364	11.96	12.33
10,001 - 25,000	3,212	3,302	8.24	8.31	45,979,406	47,433,618	17.22	17.86
25,001 - 100,000	651	670	1.67	1.68	30,457,612	31,913,138	11.41	12.02
100,001 - 1,000,000	189	180	0.48	0.45	50,692,562	46,507,000	18.99	17.51
1,000,001 - & above	17	15	.04	0.04	49,301,578	46,751,799	18.46	17.61
Total	38,979	39,802	100.00	100.00	266,985,336	265,552,748	100.00	100.00

Number of Shareholders by Country of Residence and by Type as at December 31, 2006								
Country	Directors, Management, Staff, Agents		Companies		Individuals		Total	
	Shareholders	%	Shareholders	%	Shareholders	%	Shareholders	%
Trinidad and Tobago	68	33.66	536	65.93	16,593	43.71	17,197	44.12
Barbados	129	63.86	190	23.37	12,464	32.83	12,783	32.80
Eastern Caribbean	3	1.48	34	4.18	7,558	19.91	7,595	19.48
Other Caribbean	1	0.50	50	6.15	366	0.96	417	1.07
Other	1	0.50	3	0.37	983	2.59	987	2.53
Total	202	100.00	813	100.00	37,964	100.00	38,979	100.00

## Sagicor Financial Corporation

Number of Shareholders by Country of Residence and by Type - December 31, 2005 Comparative								
Country	Directors, Management, Staff, Agents		Companies		Individuals		Total	
	Shareholders	%	Shareholders	%	Shareholders	%	Shareholders	%
Trinidad and Tobago	44	25.44	623	71.61	16,856	43.49	17,523	44.03
Barbados	120	69.36	172	19.77	12,903	33.29	13,195	33.15
Eastern Caribbean	5	2.89	35	4.02	7,926	20.45	7,966	20.01
Other Caribbean	3	1.73	38	4.37	230	0.59	271	0.68
Other	1	0.58	2	0.23	844	2.18	847	2.13
<b>Total</b>	<b>173</b>	<b>100.00</b>	<b>870</b>	<b>100.00</b>	<b>38,759</b>	<b>100.00</b>	<b>39,802</b>	<b>100.00</b>

Number of Shares Held by Country of Residence and by Type as at December 31, 2006								
Country	Directors, Management, Staff, Agents		Companies		Individuals		Total	
	Shares	%	Shares	%	Shares	%	Shares	%
Trinidad and Tobago	1,057,154	32.08	49,565,480	71.30	103,166,144	53.13	153,788,778	57.60
Barbados	2,224,473	67.51	15,686,559	22.56	62,509,406	32.19	80,420,438	30.12
Eastern Caribbean	3,956	0.12	459,252	0.66	21,759,381	11.21	22,222,589	8.32
Other Caribbean	1,000	0.03	3,802,979	5.47	2,519,460	1.30	6,323,439	2.37
Other	8,540	0.26	3,786	0.01	4,217,766	2.17	4,230,092	1.59
<b>Total</b>	<b>3,295,123</b>	<b>100.00</b>	<b>69,518,056</b>	<b>100.00</b>	<b>194,172,157</b>	<b>100.00</b>	<b>266,985,336</b>	<b>100.00</b>

Number of Shares Held by Country of Residence and by Type - December 31, 2005 Comparative								
Country	Directors, Management, Staff, Agents		Companies		Individuals		Total	
	Shares	%	Shares	%	Shares	%	Shares	%
Trinidad and Tobago	733,507	46.44	53,457,787	75.63	100,936,494	52.22	155,127,788	58.42
Barbados	677,608	42.90	13,528,254	19.14	64,657,075	33.45	78,862,937	29.70
Eastern Caribbean	7,173	0.45	462,374	0.65	22,617,225	11.70	23,086,772	8.69
Other Caribbean	160,187	10.14	3,230,899	4.57	1,499,388	0.78	4,890,474	1.84
Other	1,000	0.07	2,107	0.01	3,581,670	1.85	3,584,777	1.35
<b>Total</b>	<b>1,579,475</b>	<b>100.00</b>	<b>70,681,421</b>	<b>100.00</b>	<b>193,291,852</b>	<b>100.00</b>	<b>265,552,748</b>	<b>100.00</b>



# Directors' Report

## DIVIDENDS

A final dividend of Bds 7 cents per Share, payable on May 11, 2007, was approved for the year ended December 31, 2006 to the holders of Common Shares whose names were registered on the books of the Company at the close of business on April 19, 2007. An interim dividend of Bds 6 cents per Share approved for the half year ended June 30, 2006 was paid on September 29, 2006 to the holders of Common Shares whose names were registered on the books of the Company at the close of business on September 11, 2006. The total dividend for the 2006 financial year amounted to Bds 13 cents per Common Share.

## CORPORATE GOVERNANCE

### BOARD OF DIRECTORS

As at December 31, 2006, the Board comprised twelve Directors – the Chairman, ten independent Non-Executive Directors and the President and Chief Executive Officer. On August 11, 2006, Mrs Joyce Dear was elected to replace Mrs Vivian-Anne Gittens as a Director. Messrs David Allan, Terrence Martins and Dodridge Miller will retire at the fourth annual meeting and have offered themselves for re-election. The Directors bring a wide range of business and financial expertise to the Board. Biographical details of the current Directors are set out earlier in this Report together with details of their current interests in the Company.

The Sagicor Group has been successfully executing a business strategy to be the leading insurance company within the Caribbean and to use this strong market position to expand internationally. During the past 15 years, the Sagicor Group has doubled its size approximately every 5 years, when measured in terms of total assets. We intend to continue our growth and expansion in order to maintain our position in the top tier of major regional financial institutions, a position we believe is critical to Sagicor's long-term viability.

Our business strategy comprises four key components:

1. Further expanding the scale of our operations by participating in the consolidation of the financial services industry in the Caribbean, while continuing to streamline existing and acquired operations to extract synergies, and deliver a high quality of service to our customers.
2. Expanding into new product markets to offer a wider range of financial products and services.
3. Expanding into new geographic markets which offer the Sagicor Group attractive opportunities to profitably grow and expand its business operations.
4. Rigorous financial management to ensure optimization of the use of capital and the delivery of competitive returns to Shareholders.

During 2006 the Board met 10 times. The principal business was to:

- Receive and consider various reports and presentations from management on the performance of the Group
- Consider and approve the Strategic Plan and Projections of the Group for the period 2006 to 2009
- Review the strategic and business development initiatives forming part of the Strategic Plan
- Review and approve unaudited interim and audited annual consolidated financial statements
- Approve interim and final dividends
- Receive reports on work being carried out by Board Committees and consider and approve their recommendations as required.



## COMMITTEE REPORTS

### Corporate Governance Committee Report for the Year ended December 31, 2006

#### *Role of Committee*

The Corporate Governance Committee is a compulsory committee of the Board, and has powers delegated to it. The Committee has Terms of Reference which were approved by the Board on March 9, 2004. Its primary purpose is to:

- (i) monitor best practices for governance worldwide and review the Group's governance practices to ensure they comply with the highest standards of corporate governance;
- (ii) recommend to the Board, inter alia:
  - the frequency and content of Board meetings
  - the size and composition of the Board
  - suitable candidates for nomination as Non-Executive Directors
  - appointments to the Boards of Subsidiary and Associate Companies
  - membership and mandates of Board Committees
  - the communication process between the Board and Management
  - appointments of Executives to the Boards of companies outside the Sagicor Group;
- (iii) establish/monitor an appropriate Code of Conduct for the Company and to consider and deal with all matters of an ethical nature, including transactions between the Company, its subsidiaries and affiliates involving Directors;
- (iv) review annually the mandates and composition of Board Committees;
- (v) review the performance of Directors as a prelude to re-election;
- (vi) review the compensation of Directors based on comparative industry practices, if necessary, in consultation with independent advisors, and recommend appropriate adjustments.

#### *Composition*

The Board appoints and removes the Chairman and Members of the Committee which comprises independent Non-Executive Directors. The Chairman and Chief Executive Officer (CEO) may be invited to attend meetings but have no vote. The current members are:

- Mr Terrence Martins who was appointed Chairman on August 24, 2005
- Dr Oscar Jordan who was appointed a Member on March 9, 2004, and
- Mr Stephen McNamara who was appointed a Member on March 9, 2004.

#### *2006 Activities*

The Committee met six times in 2006. The Corporate Secretary acts as secretary to the Committee and minutes of all meetings are recorded. Mr Martins, Dr Jordan and Mr McNamara attended six of the six meetings held. Committee Members earn no fees for serving as members other than their Directors' fees.

An important aspect of the strategy outlined above is the strengthening of our Corporate Governance framework. In 2006 the Corporate Governance Committee embarked on a project to build a robust Corporate Governance architecture for the Group which meets international best practice and regulatory standards. The project is ongoing. In this connection, a number of initiatives were undertaken, including a review of the Bylaws.

During the year, the Committee was assisted in its work by two independent professional consultants offering Director Compensation and Corporate Governance consultancy services. The principal business of meetings was to deal with:

- A Corporate Governance architecture project
- Director compensation
- Review of Bylaws
- The chairmanship of subsidiary boards
- Director nomination for the parent and subsidiary boards
- Committee appointments
- Director and Officer liability cover
- Managing conflicts of interest

## Directors' Report

The main area to which much of the Committee's time was devoted during the year related to the initiative to enhance the Corporate Governance architecture including Director Compensation.

### *Corporate Governance Architecture Project*

The subject which engaged much of the Committee's attention relates to the Corporate Governance Architecture Project which started in the last quarter of 2006 and continues into 2007.

The objective of the project is to build a Corporate Governance framework which provides entrepreneurial leadership, guidance and oversight to the Company within the bounds of law, community standards and ethical behaviour. The governance model therefore embraces international best practice, industry standards, statutory and regulatory requirements and provides a guide to governing the Group, the relationship between the Board and Management as well as subsidiary governance. The framework is structured on four main pillars:

- Values and Behaviours - corporate and business management values;
- Policies and Procedures - a corporate governance policy, a code of business conduct and ethics, an enterprise risk management policy, an internal control policy, investor relations and communications policy and other key policies;
- Roles and Responsibilities - size and composition of the Board, Director independence, subsidiary governance, Board charter, roles of the Board, Chairman, Directors, Board Committees, Chief Executive Officer and certain key Senior Management corporate positions, the relationship between the Board and Management, Board operations including boardroom dynamics and Director education;
- Performance and Accountability - performance evaluation of the Board, Committees and Directors, eligibility of Directors for re-nomination, CEO and Senior Management performance evaluation, strategic plan implementation, financial performance, enterprise risk management, internal control assessment, regulatory compliance, Shareholder/Investor relations and communication.

The project will, on completion, provide the Group with a comprehensive governance model, implementation of which will commence across the Group in 2007.

### *Review of Bylaws*

Another important aspect of the overall strengthening of our Corporate Governance framework was to review the Bylaws which relate generally to the conduct of the affairs of the Company. The following amendments were made to the Bylaws:

- By-law 3.6 provided for certain nationality qualifications for Directors. A majority of the Board had to be citizens or permanent residents of and ordinarily resident in Barbados and at least one director had to be a citizen of and ordinarily resident in Jamaica, Trinidad and Tobago and any country in the Eastern Caribbean respectively. As the Company pursues the strategy outlined above it is necessary to select Directors from a suitable pool of regional and international candidates with the requisite knowledge and experience, and to include on the Board persons who reflect the geographic and business diversity of the Group and who can make meaningful contributions to our growth and development into a global financial services Group. This Bylaw was repealed by the Board.
- Changes were made to Bylaws 9 and 12.3 to facilitate the listing of the Company's shares on the London Stock Exchange. Listing on an international stock exchange is also an integral part of the expansion strategy as it affords the Company access to capital in more established markets, creates a footprint in an international capital market and enhances our ability to compete in a global environment. The amendments to Bylaw 9 and the repeal of Bylaw 12.3 are intended principally to:
  - o permit the setting up of a branch register outside Barbados
  - o permit the deposit of Sagicor shares in depositaries other than the Barbados Central Securities Depository
  - o remove any references applicable to share restrictions
  - o permit Directors to prescribe the form of share transfer constituting a valid transfer (which may vary from jurisdiction to jurisdiction), and recognize both the regional and international origin of our Shareholders.

The existing Bylaw 3.6 did not fit with the new operating realities of the Group and accordingly was repealed by the Board.

## Sagicor Financial Corporation

### *Directors' Compensation Project*

The Board reviewed Directors' remuneration as part of the strengthening of the Corporate Governance framework. International best practice suggests that in order to attract Directors with the requisite knowledge and experience who can make meaningful contributions to the growth and development of a global financial services organization, Directors' remuneration should be sufficient to attract, retain and motivate Directors of the quality required to ensure the Company is managed successfully, and should reflect the time, commitment, accountability, risk, impact of decisions and responsibilities of the role, having regard to relevant market comparability.

Directors' fees were first fixed in 2004 at US \$20,000 per annum for the Chairman and US \$12,500 per annum for Directors. Over the last three years, the time, commitment and responsibilities required of their role as Directors have increased. Accordingly in 2006, the Corporate Governance Committee commissioned the independent firm of Ernst and Young of Atlanta ("the Consultants") to review director compensation. The objectives of the exercise were to:

- (i) Review competitive market practices for director total compensation, including best global practices and trends.
- (ii) Review all components of total compensation for the Non-Executive Chairman and Non-Executive Directors in terms of annual retainer, Board meeting fees, committee meeting fees, Board chair and committee chair fees, equity compensation, and other relevant items.
- (iii) Recommend a competitive level and structure of Board compensation for the Company and its main operating subsidiaries.

The project methodology involved gathering Board compensation data from comparable organizations in the Caribbean region and the United States and data comparability was matched along the size of the Sagicor Financial Group in terms of revenue, premium income and type of organization (financial services).

Best practices and trends in the United Kingdom, Europe and the United States were also reviewed in areas such as Board, Director and Chief Executive Officer performance evaluations, succession planning, time spent by Directors on company business, frequency of Board meetings, terms of office of Non-Executive Directors, the number of Executives serving on Boards, and the growing importance of Governance Committees as the third most prevalent Committee behind Audit and Human Resource Committees, the structure of Boards and the structure of director compensation combination (cash and equity).

Total cash compensation currently paid to the Chairman and Directors of the Company was then compared to US market data using the 50th percentile and Caribbean market data using the 90th percentile. On the basis of the above findings, the Consultants made the following recommendations which were accepted by the Board on the recommendation of the Committee:

- (i) Cash compensation should reflect accountability, risk, impact of decisions and market comparability.
- (ii) Annual retainers for Board and Committee service should be paid with no separate meeting fees.
- (iii) Increased retainers should be paid for Board and Committee Chairs.
- (iv) No director compensation should be paid to Executives serving on subsidiary Boards.
- (v) No equity compensation should be paid at this time and transition to equity compensation should be considered as the organization evolved and would include target ownership and pay-for-performance.
- (vi) No other benefit or perquisite programs should be paid at this time.
- (vii) Board and individual Director performance evaluations should be implemented and a tool and process should be developed to evaluate effectively overall Board performance and individual contribution.
- (viii) Cash retainers to compensate Non-Executive Board and Committee Chairs and Members should be recommended for approval by Shareholders as follows:

Board/Committee	Non-Executive Chair	Non-Executive Member
Board	US \$45,000 per annum	US \$40,000 per annum
Board Committees	US \$7,000 per annum	US \$5,000 per annum

The Board recommends the above fees to shareholders for approval.

## Directors' Report

Audit Committee Report for the Year ended December 31, 2006

### *Role of Committee*

The Audit Committee is a compulsory committee of the Board, and has powers delegated to it. The Committee has a Charter which was approved by the Board on August 25, 2004. Its mandate is to:

- (a) Assist the Board with oversight of:
  - (i) the integrity of the Group's financial statements,
  - (ii) the Group's compliance with legal and regulatory requirements,
  - (iii) the Independent Auditor's qualifications and independence, and
  - (iv) the performance of the Group's internal audit function and Independent Auditors.
- (b) Keep under review:
  - (i) the financial and compliance information required to be provided by the Group to shareholders, governmental agencies, regulators and others,
  - (ii) the systems of internal controls, including the internal audit functions, and
  - (iii) the audit process.
- (c) Review the results of the annual audit of the consolidated financial statements conducted by the Independent Auditors, including the nature and disposition of comments appearing in the Independent Auditors' management letter.
- (d) Exercise oversight responsibility of the major activities of subsidiaries and associates and ensure where necessary that subsidiary Boards and Audit Committees are functioning and exercising requisite oversight.
- (e) Review the actuarial reports and recommendations of the Actuaries.
- (f) Review and discuss the annual audited financial statements with management and the Independent Auditors and the quarterly financial statements with management.
- (g) Review with the Independent Auditors any audit problems or difficulties and management response.
- (h) Regularly review with the Independent Auditor any difficulties encountered in the course of the audit work, including any restrictions on the scope of the Independent Auditor's activities or access to requested information, and any significant disagreements with management.
- (i) Exercise oversight of the Company's annual and quarterly financial reporting process, including the related internal accounting controls and to review, prior to publication, the Company's annual consolidated financial statements and related significant accounting policies and changes.
- (j) Review investments, loans and transactions that have a material impact on the Group's earnings.
- (k) Discuss earnings releases as well as financial information and earnings guidance generally (i.e. discussion of the types of information to be disclosed and the type of presentation to be made).
- (l) Where necessary, ensure the review by the Independent Auditors of filings with the regulators and other published documents containing the Company's financial statements.
- (m) Inquire as to the accounting for new business transactions, products and changes to accounting policies.
- (n) Discuss with the Independent Auditors and management pending accounting policy changes and their impact on the Group, including implementation impacts on the financial statements.
- (o) Review the work of other audit firms.
- (p) Review the financial management and controls on a regular basis with the Internal Auditor on a private basis.

### *Composition*

The Board appoints and removes the Chairman and Members of the Committee who are all independent Directors. There are clearly defined rules for determining independence for the purpose of the Committee. The current members are:

- Mr William Lucie-Smith, who was appointed Chairman on June 28, 2006 (and a Member on August 24, 2005)
- Mr Andrew Aleong who was appointed a Member on June 28, 2006
- Mr David Allan who was appointed a Member on November 23, 2005 and
- Mrs Joyce Dear who was appointed a Member effective August 11, 2006.

All members of the Committee must be financially literate or must become financially literate within a reasonable period of time after his or her appointment to the Committee. At least one member of the Committee must have accounting or related financial management expertise. There are two experienced qualified Chartered Accountants on the Committee.

### *2006 Activities*

The Committee is required to meet at least quarterly and met four times in 2006 with the external Auditors being present on one of these occasions. The Corporate Secretary acts as secretary to the Committee and minutes of all meetings are recorded. Mr Lucie-Smith attended four of the four meetings held, Mr Aleong attended two of the two meetings held while he was a Member, Mr Allan was present for one of four meetings and Mrs Dear was overseas for the two meetings held after her appointment.

The Committee has power to require and oversee any investigations deemed necessary and to employ auditors, advisors, or consultants as are needed to conduct such investigations. Committee Members earn no fees for serving as members other than their Directors' fees.

The principal business of the meetings was to:

- Review actuarial reports
- Review unaudited interim and audited annual consolidated financial statements
- Recommend interim and final dividends to the Board
- Receive a report from the external Auditors on the annual audit
- Review the minutes of the audit committees of the main operating subsidiaries
- Review the accounting treatment of important items such as intangible assets, the Long Term Incentive Plan and the Employee Share Ownership Plan
- Review the Auditors Management Letter on the annual audit and Management's responses
- Review Management's audit plan and the Auditors approach to the audit for the current year
- Approve non-audit services to be performed by the external Auditors
- Approve the job description and advertisement for the recruitment of a Group Internal Auditor
- Receive reports on the progress of the Enterprise Risk Management Project started during 2006.

### *Enterprise Risk Management*

Enterprise Risk Management ("ERM") plays a critical role in good Corporate Governance and in 2006 the Group commenced an ERM Project, the primary objective of which is to ensure that all risk exposures are identified and managed effectively, and more particularly to:

- coordinate the risk-taking activities of various business units and subsidiaries
- ensure appropriate management of risk and create a risk management culture throughout the organization
- broaden confidence of shareholders, policyholders, regulators and rating agencies that the risks are well managed
- maximize return on a risk adjusted basis
- gain competitive advantage by 1) leveraging existing exposure to design innovative products that have offsetting exposures and 2) executing effective Asset Liability Management strategies that increase competitiveness of products through yield enhancement, risk reduction and/or lower capital costs
- promote effective allocation of capital and ensure that the organization is adequately compensated for the risks underwritten
- lower reserve and capital requirements
- reduce the financial risk exposure and earnings volatility to within an acceptable level
- increase profitability by improving the risk/reward profile of the business
- establish risk limits that accurately reflect the organization's willingness and ability to take on risk
- understand the risk profile of all product lines and make any bets explicit
- provide a strategic decision making framework for management
- increase the economic value of the company, thereby increasing future earnings.

## Directors' Report

The methodology involves a review of current risk management practices and the benchmarking of those risk practices with a view to:

- making recommendations for improvements in the context of the implementation of ERM
- identification of significant sources of risk exposure
- summary of the goals and objectives for the ERM initiative
- determination of the priorities and scope for ERM
- identification of implementation challenges and key success factors
- an implementation plan for ERM
- the development of an ERM Policy Statement and Procedure Manual.

Human Resource Committee Report for the Year ended December 31, 2006

### *Role of Committee*

The Human Resource Committee is a committee of the Board, and has powers delegated to it. The Committee has a Charter which was approved by the Board on May 1, 2006. Its primary purpose is to:

- (i) Exercise oversight responsibility over the development and effective utilization of Sagikor's human resources.
- (ii) Approve Sagikor's human resources principles, policies and practices, including but not limited to recruitment, compensation, benefits, incentive and share plans.
- (iii) Exercise oversight responsibility over the administration of Sagikor's human resources policies and practices.
- (iv) Review and recommend to the Board any material changes to Sagikor's pension plans which require the approval of the Board.
- (v) Receive annual reports from Management on compliance with applicable legislation relating to Sagikor's pension plans, including confirmation that actuarial valuations are completed no less frequently than as required by law.
- (vi) Report on executive compensation as required in public disclosure documents.
- (vii) In relation to Senior Managers (excluding the Chief Executive Officer (CEO)):
  - a. Review and recommend to the Board for approval the general compensation philosophy and guidelines for Senior Managers.
  - b. Approve the recruitment of Senior Managers and report to the Board on such appointments.
  - c. Agree on the compensation, including salary, incentives, benefits and other perquisites, of Senior Managers and approve adjustments to such compensation from time to time.
  - d. Review, approve and report to the Board on succession plans for all Senior Managers, including specific development plans and career planning for potential successors.
- (viii) In relation to the CEO:
  - a. Review and recommend to the Board for approval the general compensation philosophy and guidelines for the CEO.
  - b. Consider annually the Governance Committee's report on the CEO's performance and agree on the compensation, including salary, incentives, benefits and other perquisites of the CEO and approve adjustments to such compensation from time to time.
- (ix) With regard to incentive plans:
  - a. Review and recommend to the Board for approval the establishment and amendment of incentive plans for Executives, Employees and Sales Agents.
  - b. Interpret and make determinations deemed necessary or desirable by the Committee for the administration of incentive plans.
  - c. Make grants under incentive plans and report to the Board on any such grants.
  - d. Correct any deficiency, inconsistency or omission in incentive plans.
- (x) With regard to equity based plans:
  - a. Review and recommend to the Board for approval the establishment and amendment of equity-based plans for Employees and Executives, having regard at all times to the dilutive impact of such plans on the shareholders of any public company within the Sagikor Group.
  - b. Interpret and make determinations deemed necessary or desirable by the Committee for the administration of equity-based plans.
  - c. Recommend to the Board for its approval any proposed amendment to equity-based plans, including any amendment requiring regulatory or shareholders' approval.
  - d. Make grants under equity-based plans to eligible persons according to the rules of the plans and report to the Board on such grants.



*Composition*

The Board appoints and removes the Chairman and Members of the Committee who are all independent Directors. The current members are:

- Mr Christopher deCaires, who was appointed Chairman on June 28, 2006 (and a Member on October 26, 2005)
- Professor Hilary Beckles who was appointed a Member on June 28, 2006 and
- Mr Terrence Martins who was appointed a Member on October 26, 2005.

*2006 Activities*

The Committee is required to meet at least quarterly and in 2006 met three times. From 2007, the Committee will meet six times per year. The Corporate Secretary acts as secretary to the Committee and minutes of all meetings are recorded. Mr deCaires and Mr Martins attended two and three of the three meetings held respectively, while Professor Beckles was overseas for the one meeting held after his appointment. Any member of the Committee may, with Board approval, engage outside advisors and consultants. Committee Members earn no fees for serving as members other than their Directors' fees.

Throughout the year, the Committee was assisted in its work by an independent professional firm offering human resource consultancy services. The principal business of the meetings was to:

- Approve the Committee's Charter
- Approve a comprehensive Human Resource Development plan for the Sagikor Group, including the structure and composition of management, succession planning and compensation
- Review Human Resource strategic initiatives and their implications, including a review of the market competitiveness of total executive compensation and developing a total compensation strategy which aligns pay with key business strategies and succession planning
- Approve the rules of the Long-term Incentive Plan (LTI) and the Employee Share Ownership Plan (ESOP)
- Designate LTI plan participants and award restricted stock and stock option awards to plan participants under the LTI
- Make awards to ESOP participants
- Grant cash incentive awards to management and staff
- Approve executive appointments
- Review the accounting treatment for the LTI and ESOP
- Authorize the audit of the LTI and ESOP
- Commission a review of the Committee's structure and operations.

Board Investment Committee Report for the Year ended December 31, 2006

Matters pertaining to the group investment portfolio were handled directly by the full parent board during the period under review. Individual financial investment decisions at subsidiary level were dealt with by the respective Board Investment Committee of the specific subsidiary. As an important component of the Corporate Governance Architecture Project, a parent board Risk Policy Committee is being created with a mandate which will address the wider issue of group-wide portfolio risk management under an enterprise risk management model.

**AUDITORS**

The incumbent Auditors, PricewaterhouseCoopers, offer themselves for re-appointment for the ensuing year.

By Order of the Board of Directors.



Sandra Osborne  
Corporate Secretary

June 1, 2007



## Chairman's Report



**J Arthur L Bethell**  
Chairman

Dear Shareholders,

After a record year of acquisitions in 2005, during which the Sagcor Group acquired five companies, 2006 has been a year of consolidation. The year was used to bring these new acquisitions fully on-stream and to integrate them within the Sagcor Group. This integration process has gone very well and the newly acquired companies are now contributing to our overall Group performance. However, 2006 was not just a year of consolidation, it was a year in which Sagcor made two further but significant strides in our thrust to become a global financial institution. The first of these occurred in May 2006, when Sagcor raised US \$150 million on the United States Bond Market. This event was significant not only because our bond issue was successful, but because Sagcor was the first non-governmental Caribbean Company to receive a financial strength rating from Standard & Poor's, Sagcor Life Inc. our principal operating subsidiary received a financial strength rating of BBB+ and an issuer credit rating

of BBB. This was indeed a proud and significant moment for us as it gave testimony to our financial strength and strong and consistent operating performance. Through this strategic initiative, Sagcor established an initial foot print in the international capital market. The second initiative was a successful application to list on the main market of the London Stock Exchange, a process which was completed with the official listing of all of the common shares of Sagcor on the London Stock Exchange.

When we speak of becoming a global financial institution, it is not intended to suggest that Sagcor is or will be operating all over the world. "Global" in this sense speaks to the path we intend to follow, a journey which was started in 2000 when we began the process of demutualization. Indeed, the theme of this annual report "From Mutual to Global" best describes Sagcor's ongoing journey to become a globally integrated financial institution.

## Sagicor Milestones

<p><b>1840 – 1858</b></p> <p>Establishment of the Barbados Mutual Life Assurance Society</p> <p>St Vincent branch opened</p> <p>Branches in Trinidad and Tobago &amp; Grenada branches opened</p>	<p><b>1861 – 1896</b></p> <p>St Kitts branch opened</p> <p>Antigua &amp; Montserrat branches opened</p> <p>Demerara (Guyana) branch opened</p> <p>Dominica branch opened</p> <p>Jamaica branch opened</p>	<p><b>1987</b></p> <p>Mutual Finance Company Ltd established</p> <p>Acquisition of Travelers Portfolio and the rebranding of Aruba, Bahamas, Belize, Cayman Islands, Curacao, St Maarten and Haiti to Capital Life</p>	<p><b>1993 – 1994</b></p> <p>Establishment of the Mutual Bank of the Caribbean, the first indigenous bank to Barbados</p> <p>Mutual Financial Services and Caribbean Caricard Services established</p>	<p><b>1996 – 1998</b></p> <p>Capital International Management Services established</p> <p>Establishment of Mutual Asset Management Inc and Mutual Funds Inc</p> <p>Acquisition of the Panama branch of Atlantic Southern Insurance Company and rebranding to Capital de Seguros</p>
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## Sagicor Financial Corporation

February 14, 2007, the day of our official listing on the London Stock Exchange was therefore a proud and important moment in the history of the Sagicor Group especially since such a listing is an important part of our international business strategy.

Sagicor is the second oldest insurance company in the Americas, established in 1840 in Barbados, the company operated for most of its history as a Mutual Life Assurance Society. However, we exist in an ever changing world, and recognized that the mutual business model may not be appropriate for the future. And so it was decided that we would reinvent our company and create a Caribbean based financial institution with the financial strength and operating capability to compete in the international financial services arena.

From the beginning of the 1990s, we at Sagicor, have been following a carefully crafted business strategy to transform our company from a local single line life insurance company into a regional and then into an international financial services Group. Some of the key transformational points in this journey were:

1. The consolidation of the Caribbean life insurance industry between the late 1990s and early 2000s. Sagicor led this consolidation emerging as the Region's leading insurance company.
2. The demutualization of the Company at the end of 2002 and its conversion into a shareholder owned company to create a flexible capital structure and to facilitate access to capital.
3. The re-branding of the company from "The Barbados Mutual Life Assurance Society", a name it carried for more than 160 years, to Sagicor, a name which reflects our heritage, but also reflects our borderless, timeless journey into the future.

Today, Sagicor is the leading life insurance company in the Caribbean. Our assets have moved from US \$150 million at the beginning of the 1990s to US \$3.3 billion by end of Year 2006. Our Revenue has moved from US \$40 million to US \$660 million and our profits from US \$2 million to US \$87 million. Our policies inforce have also grown substantially, moving from 60,000 to 600,000. All of this while maintaining very strong Risk Base Capital ratios, low debt to equity ratios and adhering to the most stringent international regulatory requirements.

We are rated "A" Excellent by A.M. Best, the international insurance rating agency, and have maintain this rating since 1999. Our principle operating subsidiary Sagicor Life, is rated BBB+ by S&P, a rating that is only constrained by our country rating.

1999 – 2000					
Acquisition of Island Life in Jamaica and Nationwide Insurance Company in Trinidad and Tobago.					
The acquisition of shares in Life of Jamaica					
First AM Best Rating 'A' (Excellent)					
The acquisition of 23% interest in Life of Barbados					
		2001			
		Acquisition of Life of Jamaica and Allnation in the US			
				2002	
				Acquisition of Life of Barbados	
				Resolution for the demutualisation of Barbados Mutual Life Assurance Society was passed	
				Conversion from Barbados Mutual Life Assurance Society to Sagicor Life Inc	
				The establishment of the holding Company, Sagicor Financial Corporation, with 45,000 shareholders	
				The Initial Public Offering of Sagicor Shares, increasing shareholders to 49,000	
				2003 – 2004	
				First Sagicor Listing on the Barbados Stock Exchange	
				Sale of the Mutual Bank	
				Sagicor Listing on the Trinidad & Tobago Stock Exchange	

## Sagicor Financial Corporation

We operate in 20 countries including the Caribbean, Latin America and the US. Our recent entry into the US is part of our international expansion and we are very excited about the opportunities in that market. It is a market we are close to geographically, a market that culturally we understand. We are expanding in a business area that we know well, and where the middle tier companies are going through some of the same issues that the Caribbean experienced in the mid to late 1990s. We believe that there is value to be reaped from this market and we are well poised to capitalize on the opportunities.

Our listing on the London Stock Exchange must therefore be viewed within the context of this journey and is a significant part of our international transformation and we are naturally excited about it.

In conclusion, permit me to express my particular pride that this historic occurrence took place during my tenure as Chairman of the Board of the Sagicor Group. During my time with the Mutual, now Sagicor, dating back to 1965, the company has gone through many changes and has achieved many significant milestones, all of which can be described as strategic. However, I believe I can say without fear of contradiction that the changes which occurred during the last two decades have been the most significant in its history. I am proud to have been a part of this great Company and to have been given the opportunity to have played a role in what our Company has become. Along the way I have met several people who have given me their advice, guidance and general assistance, and to them I am most grateful.

I have no doubt that the Sagicor Group will continue to enjoy strong growth and deliver solid results. I wish to thank all who have contributed to the development of the company over the years and to this year of significant achievement through their dedication and commitment. I would also like to thank the Board, Management, Staff and Advisors of Sagicor for their contribution and support in the development of this Group. I would like to especially thank our Customers who continue to place confidence in Sagicor by doing business with us. I am confident that the future of Sagicor will continue to be bright and rewarding for all of its stakeholders.



J Arthur L Bethell  
Chairman

2005	2006	2007
Acquisition of majority interest in Pan Caribbean Financial Services	Successful US\$150 million Bond Offering on the US market	
Acquisition of Laurel Life and its wholly-owned subsidiary, American Founders Life Insurance Company in the US	Sagicor Life Inc assigned a Standard and Poor's (S&P) financial strength rating of "BBB+"	
Life of Jamaica acquires Cayman General Insurance	American Founders Life Insurance Company rebrands as Sagicor Life Insurance Company	Sagicor's Listing on the London Stock Exchange
Acquisition of 20% of FamGuard		
Acquisition of First Life Insurance portfolio		

## President & CEO's Report



**Dodridge D Miller**  
President and Chief Executive Officer

### MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

#### Overview

2006 was another successful year for the Sagicor Group which recorded net income of Bds \$173.2 million. Of this, net income allocated to shareholders was Bds \$135.3 million. The return on shareholders' equity was 19% and earnings per share totalled Bds 50.8 cents.

Revenue totalled Bds \$1,318.8 million, which is an increase of 13.9% over 2005. Benefits amounted to Bds \$686.1 million and expenses totalled Bds \$431.6 million.

Assets totalled Bds \$6,726.6 million and liabilities were Bds \$5,642.0 million as of December 31, 2006. Total equity stood at Bds \$1,084.6 million, exceeding Bds \$1,000 million for the first time.

In May 2006, Sagicor successfully raised US \$150.0 million on the US market through an issue of senior notes underwritten by Morgan Stanley & Co Incorporated. The notes carry a fixed interest rate of 7.5% and mature in May 2016.

The notes were issued at a price of 99.123% of par. In preparation for the issue, the Company sought a rating from Standard and Poor's, the internationally recognised rating agency. Sagicor Life Inc, as the principal operating company within the Group was given a BBB+ rating, which is equal to the rating of its sovereign domicile, Barbados. A rating of BBB was given for the issue of the notes.

This entry by Sagicor into an international capital market is testimony to the efforts by the management, staff and professional advisors involved in the exercise. It is testimony to the Company's goal of achieving an international footprint. The notes are now traded in the United States among institutional investors and on the Euro MTF Market, the alternative market of the Luxembourg Stock Exchange. At balance sheet date, the market value of these notes approximated US \$153.0 million.

With the issue of the notes, the debt to total equity ratio for 2006 increased to 29.6% as of December 31, 2006, up from 16.9% one year previously.

Having made five acquisitions in 2005, this year we have consolidated and integrated these recent additions to the Group. We have re-branded our US subsidiary as Sagicor Life Insurance Company, as an initial step to introducing the Sagicor brand in that market.

In the Caribbean, we have continued to expand our business and to bring greater efficiency to our operations. The 2005 additions have enhanced our product offerings in merchant banking, investment and fund management and in health, property and casualty insurance in the region. Sagicor now has significant operations in the English and Dutch speaking countries in the region. On December 1, 2006, we signed an agreement with Industrial Life (the successor company to National Life of Canada) to acquire their life insurance portfolio in the region. Once this acquisition is completed, it will significantly enhance our market position in the Dutch Caribbean.

We intend to build a market position in the U.S. and internationally which will be significant to the Sagicor Group. We will further develop our well established position in the Caribbean. In these endeavours, we will rely on our talented and dedicated human resources on the strong financial position of the Group.

## President & CEO's Report

### Economic Conditions

The global economy recorded strong real GDP growth of 5% in 2006. This rate has been one of the highest in 30 years despite rising oil prices, rising interest rates and severe conflict in the Middle East.

In the United States, growth in 2006 was 3.4%. The housing market started to soften in 2006, after many years of being a major stimulus to the economy. Growth in employment continues to drive spending in the economy. After regular interest rate increases since mid 2004, the Federal Reserve has maintained its funds rate at 5.25% for the latter part of 2006. While the US Treasury 10 year bond yield increased around 0.2% during the year, the yield stood below the funds rate at 4.7% at the end of 2006.

In Europe, growth in the euro zone in 2006 was 2.7%. The largest economy in the euro zone, Germany, recorded positive growth of 2.6%. In the United Kingdom, GDP growth was 2.7% in 2006.

In Asia, China's economy continues to expand rapidly. Economic growth was estimated at 10.5% for 2006 and was being propelled by investment and exports. India's economy continues to experience significant growth recording an estimated 8.3% for the year. Japan's economy has started to rebound after a period of stagnation, with real GDP growth estimated at 2.1% for 2006.

Fuelled by new demand in Asia, oil and other commodity prices have trended upwards with a resulting positive effect on commodity producing economies throughout the world.

### Barbados

The Barbados economy expanded an estimated 3.5% in 2006. The tourism sector is estimated to have grown at some 2.5% for the year, with long-stay tourists being the source of growth. The construction industry grew by some 7%, a consequence of the Cricket World Cup related projects and other ventures. Manufacturing output was flat.

Government's fiscal position has improved, with the deficit estimated at 1.7% of GDP. Inflation averaged at 7.6% for most of the year.

### Jamaica

Jamaica's economy improved in 2006. Most key indicators showed positive trends. Interest rates have continued their decline with treasury-bill yields declining by some 1.3% in 2006. The Jamaica dollar declined some 4% during the year. Net international reserves at the end of year approximated four months of imports. Inflation was 5.8%, the lowest in many years. Real GDP growth is estimated at 2.7% and tourist arrivals in 2006 increased by 15%.

Against this trend of positive improvements, public debt remains high and debt service utilises a significant percentage of government revenues.

### Trinidad and Tobago

2006 was a positive year for the Trinidad and Tobago economy. Real GDP growth was estimated at 12% for the year. Energy is the dominant sector in the economy and accounted for 42% of GDP in 2006. GDP growth was propelled by a full year's production emanating from new gas and methanol plants.

Consumer inflation also increased in 2006 and was 9.1% for the year. In response to Central Bank initiatives, interest rates have trended upwards in 2006. The government's fiscal position remained strong, achieving an overall surplus of 0.4% of GDP. The Trinidad and Tobago dollar remained stable during the year, and net international reserves were estimated to be equivalent to more than seven months of imports.

## Sagicor Financial Corporation

### Results of Operations

The results of operations for the years ended December 31, 2006 and 2005 are summarised in the following table.

	2006	2005
	Bds millions	Bds millions
Revenue	\$1,318.8	\$1,158.0
Benefits	(686.1)	(608.7)
Expenses	(431.7)	(354.9)
Net income from ordinary operations	201.0	194.4
Income taxes	(27.8)	(24.0)
Net income for the year	\$173.2	\$170.4

Sagicor has significant concentrations of business in Barbados, Jamaica, Trinidad and Tobago and the United States, where operations are primarily managed through subsidiaries or branches. The following table presents, for 2006 and 2005, the distribution by country of net income from ordinary operations.

	2006		2005	
	Bds millions	%	Bds millions	%
Barbados	\$39.1	19.5	\$6.8	3.5
Jamaica	103.8	51.6	92.3	47.4
Trinidad and Tobago	51.6	25.7	64.2	33.0
United States	13.9	6.9	(10.0)	(5.1)
Other Caribbean	32.1	16.0	37.6	19.4
Not allocated to segments	(39.5)	(19.7)	3.5	1.8
Total	\$201.0	100.0	\$194.4	100.0

Barbados operations have recorded income from ordinary operations of Bds \$39.1 million, well surpassing that in 2005. 2006 has benefited from growth in premium income, investment property gains and a more favourable change in actuarial liabilities. In 2005 there were notable investment impairment losses which did not recur in 2006.

Jamaica operations recorded income from ordinary operations of Bds \$103.8 million, an increase of Bds \$11.5 million over 2005. Operations in 2006 benefited positively from the impact of individual life new business. Group insurance, development banking and investment management also recorded better results in 2006.

In 2005, Trinidad operations benefited significantly from realised investment gains on equity securities as the Group sought to rebalance its Trinidad investment portfolio. This did not recur in 2006, which now reflects a more normalised level of income from ordinary activities.

The net loss of Bds \$10.0 million in 2005 from United States operations has been turned around to a net profit of Bds \$13.9 million in 2006. Our acquisition, Sagicor Life Insurance Company, has had a successful year in 2006.

Other Caribbean operations recorded income from ordinary activities of Bds \$32.1 million in 2006. Though this is less than the 2005 results, profits in 2006 are more evenly distributed among companies in this region. Our acquisition, Sagicor General (Cayman) Limited has had a successful year in 2006.

Operations which are not allocated to operating segments showed a loss of Bds \$39.5 million in 2006. In this category are finance costs which support operations in other segments. Finance costs have risen by some Bds \$14.4 million as a result of the additional debt financing on the balance sheet. Also the 2005 results benefited from one-off gains on business combinations and acquisitions of Bds \$25.1 million.



## President & CEO's Report

### Revenue

The following table summarises the composition of total revenue for 2006 and 2005.

	2006		2005	
	Bds millions	%	Bds millions	%
Net premium revenue	\$755.2	57.3	\$637.0	55.0
Net investment income	471.0	35.7	415.4	35.9
Share of operating income of associated companies	5.5	0.4	3.5	0.3
Fees and other revenue	87.1	6.6	77.0	6.6
Gains arising on business combinations and acquisitions	-	-	25.1	2.2
<b>Total</b>	<b>\$1,318.8</b>	<b>100.0</b>	<b>\$1,158.0</b>	<b>100.0</b>

Trends in revenue by component are discussed in the following sections.

#### Net Premium Revenue

The following table shows an analysis of net premium revenue for the years ended December 31, 2006 and 2005.

	2006		2005	
	Bds millions	%	Bds millions	%
Life insurance	\$463.2	49.4	\$392.3	52.4
Annuities	112.2	12.0	85.3	11.4
Health insurance	227.1	24.2	197.0	26.3
Property and casualty insurance	134.9	14.4	74.1	9.9
<b>Total premium revenue</b>	<b>937.4</b>	<b>100.0</b>	<b>748.7</b>	<b>100.0</b>
Reinsurance premiums	(182.2)		(111.7)	
<b>Net premium revenue</b>	<b>\$755.2</b>		<b>\$637.0</b>	

Total premium revenue was Bds \$937.4 million in 2006 as compared to Bds \$748.7 million in 2005. After deducting the cost of reinsurance premiums, net premium revenue totalled Bds \$755.2 million in 2006, an increase of 18.6% over 2005.

Premium revenue from life insurance remains the largest class of premium, recording 49.4% of total premium in 2006 (52.4% in 2005).

The comparison of 2006 premium revenue with that of 2005 reflects a combination of

- the impact of acquisitions made in 2005, for whom a full year's premium is not reflected in the 2005 figures, and
- intrinsic growth in the Group's continuing operations.

Premium revenue for 2005 includes revenue from Sagikor Life Insurance Company (USA) for three months only, and from Sagikor General (Cayman) Limited for one month only, since these subsidiaries were acquired on September 30 and November 30, 2005 respectively. Sagikor Life Insurance Company (USA) has premium revenues in life insurance and annuities. Sagikor General (Cayman) Limited has premium revenues in health, property and casualty insurance. Collectively, these two acquisitions have added some Bds \$112.9 million in premium revenues in 2006 over 2005, and Bds \$59.7 million in reinsurance premium costs in 2006 over 2005.

The Group's remaining operations recorded total premium revenue growth of Bds \$75.8 million, or 10.4% over 2005.



## Sagicor Financial Corporation

### Net Investment Income

	2006		2005	
	Bds millions	%	Bds millions	%
Interest income from debt securities	\$284.7	59.6	\$242.4	55.1
Interest income from loans and other securities	98.7	20.7	87.5	19.9
Net gains on financial investments and investment property	59.2	12.4	79.9	18.2
Other investment income	34.9	7.3	29.9	6.8
Total investment income	477.5	100.0	439.7	100.0
Investment expenses	(6.5)		(24.3)	
Net investment income	\$471.0		\$415.4	

Net investment income increased by 13.4% to Bds \$471.0 million in 2006.

Interest from debt securities comprises the largest component of investment income, representing 59.6% in 2006 (55.1% in 2005). Interest income from debt securities increased by Bds \$42.3 million in 2006, of which Sagicor Life Insurance Company (USA) accounted for Bds \$35.0 million. (Sagicor Life Insurance Company (USA) was consolidated for three months only for 2005, as compared to the full year for 2006).

Net gains on financial investments declined by Bds \$37.7 million, but were offset by increases gains on investment property totalling Bds \$16.9 million. In 2005, the Group recorded significant gains on its equity securities as it rebalanced the Trinidad investment portfolio. Investment expenses declined Bds \$17.8 million, largely as a result of a reduction in impairment charges on loans and securities.

### Other Revenue Items

In 2006, the share of operating income from associated companies includes returns from FamGuard Corporation. This associated company investment was made at the end of 2005 and did not generate any income in 2005.

Fees and other revenue increased by 13.1% in 2006 to Bds \$87.1 million.

Gains on business combinations and acquisitions were Bds \$25.1 million in 2005 (nil in 2006). These gains arose on the reduction in Sagicor's interest in Life of Jamaica, from 78% to 60%, and on the acquisition of a 37% interest in Pan Caribbean Financial Services.

### Benefits

Benefits comprise the returns provided to the holders of policy contracts and the interest return to clients and institutions who deposit funds with or advance special purpose loans to the Group. Benefits are accounted for either as policy benefits, or as change in actuarial liabilities (i.e. changes in amounts set aside for future policy benefits), or as interest expense. Benefits for the years ended December 31, 2006 and 2005 are summarised in the table below.

	2006		2005	
	Bds millions	%	Bds millions	%
Net policy benefits	\$509.5	74.3	\$388.2	63.8
Net change in actuarial liabilities	17.9	2.6	72.6	11.9
Interest expense	158.7	23.1	147.9	24.3
Total	\$686.1	100.0	\$608.7	100.0

## President & CEO's Report

Trends in policy benefits by component are discussed in the following sections.

### Net policy benefits

The following table shows an analysis of net policy benefits for the years ended December 31, 2006 and 2005.

	2006		2005	
	Bds millions	%	Bds millions	%
Life insurance benefits	\$258.8	41.6	\$219.8	50.8
Annuity benefits	164.8	26.5	58.7	13.6
Health insurance claims	165.6	26.6	134.1	31.0
Property and casualty insurance claims	32.7	5.3	20.0	4.6
Total policy benefits	621.9	100.0	432.6	100.0
Reinsured benefits	(112.4)		(44.4)	
Net policy benefits	\$509.5		388.2	

Total policy benefits amounted to Bds \$621.9 million in 2006 and Bds \$432.6 million in 2005. After deducting reinsurance recoveries, net policy benefits totalled Bds \$509.5 million in 2006, an increase of 31.2% over 2005.

The comparison of 2006 policy benefits with those of 2005 reflects a combination of:

- the impact of acquisitions made in 2005, for whom a full year's benefits are not reflected in the 2005 figures, and
- intrinsic growth in the Group's continuing operations.

Policy benefits for 2005 includes benefits from Sagicor Life Insurance Company (USA) for three months only, and from Sagicor General (Cayman) Limited for one month only, since these subsidiaries were acquired on September 30 and November 30, 2005 respectively. Sagicor Life Insurance Company (USA) incurs life insurance and annuity benefits and Sagicor General (Cayman) Limited incurs health, property and casualty insurance claims. Collectively, these two acquisitions have added some Bds \$143.6 million in policy benefits in 2006 over 2005, and Bds \$70.9 million in reinsurance recoveries in 2006 over 2005.

The Group's remaining operations experienced growth in total policy benefits of Bds \$45.7 million, or 11.6% over 2005.

### Change in actuarial liabilities

The change in actuarial liabilities records the amounts set aside for future benefits on insurance contracts. The quantum of actuarial liabilities is computed as of December 31 each year. The change in actuarial liabilities reflects the expected normal increase in liability of inforce policies, the effect of new policies issued during the year, and the impact of changes in actuarial assumptions and modelling.

The net change in actuarial liabilities decreased by Bds \$54.7 million to Bds \$17.9 million in 2006. The overall decrease is a reflection of the large maturing inforce block of policies of Sagicor Life Insurance Company (USA) and of the changes in actuarial assumptions and modelling, most notably for improvements in expense factors. These trends have offset other normal increases in actuarial liabilities.

### Interest expense

Interest expense is recognised on funds placed on deposit with the Group or on funds loaned to the Group for the purpose of generating operating assets. The interest expense totalled Bds \$158.7 million in 2006, an increase of Bds \$10.8 million over 2005.

## Sagicor Financial Corporation

### Expenses

The following table shows an analysis of expenses for the years ended December 31, 2006 and 2005.

	2006		2005	
	Bds millions	%	Bds millions	%
Administrative expenses	\$250.8	58.1	\$214.6	60.5
Commissions and related compensation	114.1	26.4	95.0	26.8
Premium taxes	13.3	3.1	15.3	4.3
Finance costs	18.8	4.4	4.4	1.2
Depreciation and amortisation	34.7	8.0	25.6	7.2
Total	\$431.7	100.0	\$354.9	100.0

Total expenses have increased by Bds \$76.8 million to Bds \$431.7 million in 2006.

Expenses for administration comprise the most significant part of overall expenses, amounting to 58.1% of total expenses in 2006 and 60.5% of total expenses in 2005. A significant proportion of administrative expenses comprise remuneration and benefits paid to employees.

Administrative expenses for 2005 include expenses from Sagicor Life Insurance Company (USA) for three months only, and from Sagicor General (Cayman) Limited for one month only, since these subsidiaries were acquired on September 30 and November 30, 2005 respectively. Collectively, these two acquisitions have added some Bds \$28.8 million in administrative expenses in 2006 when compared to 2005.

The Group's remaining operations experienced a 3.6% growth in administrative expenses over 2005.

Commissions and related compensation have increased by some Bds \$19.1 million in 2006, mirroring the trends recorded with premium revenues.

Finance costs have increased by some Bds \$14.4 million in 2006. This increase is attributable to the issue of senior notes by the Group which increased the level of debt financing.

### Income taxes

Sagicor is taxed in the countries in which its operations are carried out. Taxes are based on investment income or on net income in each country according to the tax regulations of that country. The income tax expense is composed of current taxes and deferred taxes. Income taxes increased by 15.8% to Bds \$27.8 million in 2006. The effective income tax rate on income from ordinary activities was 13.8% for 2006 (12.4% for 2005).

### Net Income

Group net income totalled Bds \$173.2 million for 2006 and Bds \$170.4 million for 2005.

Group net income is allocated to shareholders, to participating policies of Sagicor Life Inc, and to minority interests. The allocation for the years ended December 31, 2006 and 2005 is summarised below.

	2006	2005
	Bds millions	Bds millions
Shareholders	\$135.3	\$121.5
Participating policyholders	(0.6)	12.0
Minority interest	38.5	36.9
Total net income	\$173.2	\$170.4

## President & CEO's Report

Net income attributable to shareholders totalled Bds \$135.3 million for 2006, an increase of Bds \$13.8 million or 11.4% over 2005.

The net income attributed to participating policyholders is influenced by the levels of investment income, the mortality and lapse experience and by the level of expenses, all attributable to the policies in the participating funds. In 2005, the participating account reflected the recognition of new business profits which had been deferred from earlier years. In addition, changes in the mechanisms for valuing policies in the participating funds, and in the accounting for these funds have resulted in a restatement of the 2005 profits allocated to these participating policies.

The net income attributable to minority interest reflects the allocation of net income to the minority shareholders in subsidiaries which are not wholly owned by Sagikor.

### Assets

The Group's assets totalled Bds \$6,726.6 million as of December 31, 2006. This represents an increase of Bds \$329.8 million since December 31, 2005. The principal components of the Group's assets as of December 31, 2006 and 2005 are set out in the following table.

	2006	2005
	Bds millions	Bds millions
Financial investments and cash	\$5,225.0	\$4,851.7
Properties, plant and equipment	342.2	329.8
Intangible assets	225.4	240.2
Reinsurance assets	643.4	686.7
Other assets and receivables	290.6	288.4
Total assets	<u>\$6,726.6</u>	<u>\$6,396.8</u>

Asset components are discussed in the following sections.

### Financial investments and cash

	2006		2005	
	Bds millions	%	Bds millions	%
Debt securities	\$3,301.7	63.2	\$3,140.7	64.7
Equity securities	374.2	7.2	440.4	9.1
Mortgage loans	492.0	9.4	420.6	8.7
Policy loans	251.8	4.8	255.0	5.3
Finance loans and leases	245.9	4.7	235.1	4.8
Securities purchased under agreements to re-sell	44.6	0.8	69.0	1.4
Deposits	339.4	6.5	172.0	3.5
Cash	175.4	3.4	118.9	2.5
Total	<u>\$5,225.0</u>	<u>100.0</u>	<u>\$4,851.7</u>	<u>100.0</u>

Financial investments and cash totalled Bds \$5,225.0 million as of December 31, 2006, an increase of Bds \$373.3 million for the year. Financial investments and cash are held in various currencies, with balances in United States dollars comprising 47.0%, in Jamaica dollars 21.4%, in Barbados dollars 13.6%, in Trinidad dollars 9.5% and in other currencies 8.5%.

## Sagicor Financial Corporation

Debt securities comprise the largest class of financial assets, at \$3,301.7 million, or 63.2% of the total, as of December 31, 2006. Debt securities include government debt obligations, corporate debt securities and collateralised mortgage securities.

The effective interest income yield on financial investments for the years ended December 31, 2006 and 2005 is set out below.

	2006	2005
	%	%
Debt securities	9.4	11.6
Mortgage loans	8.2	7.7
Policy loans	8.3	9.7
Finance loans and leases	11.6	12.9
Securities purchased under agreements to re-sell	11.4	9.1
Deposits	4.8	5.2

Other asset classes

Investment property, owner-occupied property, plant and equipment totalled Bds \$342.2 million as of December 31, 2006. The property components totalled Bds \$281.9 million.

Intangible assets totalled Bds \$225.4 million as of December 31, 2006. Intangible assets largely comprise assets which are recognised on the acquisition of subsidiaries and insurance portfolios, with the largest items being goodwill and customer relationships.

Reinsurance assets arise when the Groups cedes insurance risks to reinsurers in order to limit the Group's exposure on claims. The asset represents the reinsurers' share of the risks. Total reinsurance assets as of December 31, 2006 totalled Bds \$643.4 million.

Assets under management

In addition to the assets in the Group balance sheet, the Group manages assets of pension funds, mutual funds and unit trusts for fee income. As of December 31, 2006, invested assets of these funds totalled Bds \$2,290.5 million.

### Liabilities

The Group's liabilities totalled Bds \$5,642.0 million as of December 31, 2006, an increase of Bds \$197.9 million since December 31, 2005. The principal components of the Group's liabilities as of December 31, 2006 and 2005 are set out in the following table.

	2006	2005
	Bds millions	Bds millions
Policy liabilities	\$3,494.3	\$3,500.6
Deposits and security liabilities	1,490.8	1,440.5
Senior notes and loans payable	321.1	160.7
Other liabilities and payables	335.8	342.3
Total liabilities	\$5,642.0	\$5,444.1

## President & CEO's Report

Liability components are discussed in the following sections.

### Policy Liabilities

	2006		2005	
	Bds millions	%	Bds millions	%
Actuarial liabilities – individual insurance	\$2,394.1	68.5	\$2,422.5	69.2
Actuarial liabilities – group insurance	353.1	10.1	368.7	10.5
Other insurance liabilities	305.4	8.7	283.2	8.1
Investment contract liabilities	441.7	12.7	426.2	12.2
<b>Total</b>	<b>\$3,494.3</b>	<b>100.0</b>	<b>\$3,500.6</b>	<b>100.0</b>

Policy liabilities totalled Bds \$3,494.3 million as of December 31, 2006. These policy liabilities are denominated in various currencies, with obligations in United States dollars representing 36.7%, in Jamaica dollars 12.7%, in Barbados dollars 26.3%, in Trinidad dollars 15.2% and in other currencies 9.1%.

Individual insurance actuarial liabilities represent the largest class of policy liabilities and comprise some 68.5% of balances as of December 31, 2006 (69.2% for 2005). These obligations are principally in respect of long-term life insurance and annuity contracts.

Investment contract liabilities arise from contracts which do not have an insurance element, and comprise mainly pension and savings deposits.

### Deposit and Security Liabilities

Deposit and security liabilities represent sources of funds for on-lending, leasing and portfolio investments. Balances as of December 31, 2006 and 2005 are set out in the table below.

	2006		2005	
	Bds millions	%	Bds millions	%
Other funding instruments	\$289.7	19.4	\$296.3	20.6
Deposits	246.3	16.5	227.5	15.8
Securities sold under agreements to repurchase	948.8	63.7	908.0	63.0
Bank overdrafts	6.0	0.4	8.7	0.6
<b>Total</b>	<b>\$1,490.8</b>	<b>100.0</b>	<b>\$1,440.5</b>	<b>100.0</b>

Deposit and security liabilities are denominated in various currencies, with obligations in United States dollars representing 55.6%, in Jamaica dollars 35.7%, in Barbados dollars 6.7%, in Trinidad dollars nil, and in other currencies 2.0%.

Other funding instruments comprise loans from financial institutions.

Securities sold under agreements to repurchase represent deposits made by customers and other financial institutions which are collateralised by debt securities held by the Group. These agreements are customarily short-term in nature, with most agreements maturing within three months of balance sheet date.

## Sagicor Financial Corporation

The effective interest rate paid on deposit and security liabilities for the years ended December 31, 2006 and 2005 is set out below.

	2006	2005
	%	%
Other funding instruments	6.1	5.6
Deposits	7.1	7.3
Securities sold under agreements to repurchase	9.3	10.0

### Senior Notes and Loans Payable

Senior notes and loans payable are obligations arising from funding received to be used for Group expansion and corporate purposes. These obligations are regarded as debt financing.

During 2006, the Group issued US \$150.0 million (Bds \$300.0 million) in Senior Notes in the United States market. Interest is fixed at 7.5% for the 10 year duration of the notes.

With the issue of the notes, the Group utilised Bds\$ 147.7 million of the proceeds to re-finance bank loans, thereby extending the overall maturity of its debt. The remaining proceeds are available for further corporate activity.

In addition to the senior notes outstanding, the Group had bank loans payable of Bds \$28.0 million at balance sheet date.

### Cash Flows

Cash flows are summarised into categories of operating activities, investing activities, or financing activities. Cash and cash equivalents comprise readily available cash balances, financial investments with original maturities of 90 days or less, less bank overdraft balances.

Summary movements in cash flows and cash and cash equivalents for the years ended December 31, 2006 and 2005 are set out in the following table.

	2006	2005
	Bds millions	Bds millions
Cash flows from operating activities	\$178.5	\$313.9
Cash flows used in investing activities	(26.5)	(261.6)
Cash flows from financing activities	112.1	109.6
Effects of exchange rate changes	(23.7)	(23.2)
Net increase, cash and cash equivalents	240.4	138.7
Cash and cash equivalents, beginning of year	274.3	135.6
Cash and cash equivalents, end of year	\$514.7	\$274.3

Financial investments included in cash equivalents totalled Bds \$357.6 million as of December 31, 2006. This represents an increase of Bds \$191.7 million over 2005's total, reflecting high liquidity within the Group at balance sheet date. This rise in liquid financial investments has also brought down the cash from operating activities that would otherwise have been generated.

Cash used in investing activities in 2005 included Bds \$214.9 million in acquisition related cash outflows. With no acquisitions in 2006, the cash used in investing activities largely comprised the purchase of office related assets and vehicles for leasing.



## President & CEO's Report

Cash generated from financing activities reflect the net additional debt financing received by the Group. From this amount are deducted the dividends paid to shareholders and minority interests.

### Equity and Capital Resources

#### Equity

Total equity of the Group comprises shareholders' equity, the participating policyholders' accounts of Sagikor Life Inc, and minority interests in subsidiaries not wholly owned by Sagikor.

As of December 31, 2006, total equity amounted to Bds \$1,084.6 million, an increase of Bds \$131.9 million since December 31, 2005. The components of equity as of December 31, 2006 and 2005 were as follows:

	2006	2005
	Bds millions	Bds millions
Shareholders' equity	\$827.7	\$730.3
Participating accounts	19.8	20.9
Minority interests	237.1	201.5
Total equity	<u>\$1,084.6</u>	<u>\$952.7</u>

#### Capital Resources

The principal capital resources of the Group comprise its shareholders' equity, its minority interest equity, and its debt financing. The resources totalled Bds \$1,385.9 million as of December 31, 2006, and Bds \$1,092.5 million as of December 31, 2005.

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

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

### Capital Adequacy

#### Sagikor Life Inc Group\*\*

Capital adequacy is managed at the operating company level. It is calculated by the Appointed Actuary and reviewed by executive management, the audit committee and the board of directors. In addition, The Group Appointed Actuary (who is independent of the Group) also reviews capital adequacy. The Group 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 our core measures of financial performance. The risk-based assessment measure which we have adopted is the Canadian Minimum Continuing Surplus and Capital Requirement (MCCSR) standard. It should be noted that many of the jurisdictions in which the Sagikor Life Inc Group operates have no capital adequacy requirements. The minimum standard recommended by the Canadian regulators for companies is an MCCSR of 150%. The MCCSR for the Sagikor Life Inc Group as of December 31, 2006 and 2005 is set out below.

	2006	2005
	MCCSR	MCCSR
Sagikor Life Inc	<u>263%</u>	<u>256%</u>

\*\* includes Life of Jamaica Limited, Sagikor Capital Life Insurance Company Limited and Nationwide Insurance Company Limited.

## Sagicor Financial Corporation

### Sagicor Life Insurance Company (USA)

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

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

Sagicor Life Insurance Company looks to maintain at least 250% of the Company Action Level, allowing it flexibility in its asset and product mix. The RBC ratios, defined to be "the % of the Company Action Level" as of December 31, 2006 and 2005 are set out in the table below.

	2006	2005
	RBC	RBC
Sagicor Life Insurance Company	360%	438%

### Pan Caribbean Financial Services Group

Under the Bank of Jamaica (BOJ) and the Financial Services Commission (FSC) regulatory framework, the securities and banking operations are required to maintain unconsolidated Capital Adequacy Ratios of at least 10% of their risk-weighted assets.

The FSC's early warning benchmark is 14% while the BOJ's trigger is 12%. Pan Caribbean Financial Services Limited (PCFS) is regulated by the FSC in respect of its securities operations. Pan Caribbean Merchant Bank Limited (PCMB) is regulated by the BOJ in respect of its banking operations. The Capital Adequacy Ratios as of December 31, 2006 and 2005 are set out in the table below.

	2006	2005
	Capital Adequacy Ratio	
PCFS	79%	62%
PCMB	23%	27%

### Risk Management

The Group's activities of issuing insurance contracts, of accepting funds from depositors and by investing insurance premium and deposit receipts in a variety of financial and other assets, exposes the Group to various insurance, financial and operational risks.

Before issuing any insurance contract, Sagicor considers the nature and amount of the insurance risk, and by the process of underwriting, determines if it will assume the insurance risk, and if so, at what rate of premium and if any conditions should be attached. Sagicor has in place many reinsurance agreements, which will or may allow the cession of some of the insurance risk. Sagicor has in place underwriting guidelines which are updated with company and industry experience.

## President & CEO's Report

Financial risks include credit, liquidity and market risks. Credit risk is the exposure that a counterparty, to whom funds have been loaned, is unable to pay amounts when due. Liquidity risk is the exposure that funds may be required when unavailable or that excess funds may accumulate with loss of opportunity to earn returns. Group companies monitor cash inflows and outflows. Through experience and monitoring, the Group is able to maintain sufficient liquid resources to meet current obligations. Market risks arise from changes in market conditions relating to interest rates, fair values or currency exchange rates. The Group mitigates these risks by a variety of policies.

Operational risks may arise in the conduct of business operations. The risks include technology failure, business interruption, error, fraud or money laundering. The Group mitigates these risks by having in place technology back-ups or alternative procedures; business interruption policies and plans; employee / management selection, training and performance procedures; internal audit processes; anti-money laundering procedures; and management review of financial and operating criteria.

An Enterprise Risk Management process is being introduced throughout the Group's operations. On completion, the Group will then have fully documented risk management policies and procedures which undergo constant monitoring.

### Financial Ratings

The Group has obtained financial ratings for certain subsidiaries. Current ratings are set out in the table below.

	A.M. Best Financial Strength Rating	Standard & Poor's Financial Strength Rating
Sagikor Life Inc	A (Excellent)	BBB+
Sagikor Capital Life Insurance Company Limited	A (Excellent)	
Life of Jamaica Limited	A (Excellent)	
Sagikor Life Insurance Company (USA)	B++ (Good)	
Sagikor General Insurance Inc	A- (Excellent)	

### CORPORATE SOCIAL RESPONSIBILITY

Sagikor's belief in corporate social responsibility is inherent in its vision – "To be a great company committed to improving the lives of the people in the communities in which it operates." Not only are we committed to the delivery of quality products and services, but also to initiatives that provide financial support and voluntary assistance, primarily in the areas of health, education, youth development and sports.

Over the past year, and indeed over several decades, we have provided significant support to the Chronic Disease Research Centre, a project of the School of Clinical Medicine and Research of the University of the West Indies. Our funding has been crucial in sustaining ongoing research, and seeding new projects to address the rapidly growing problem of life-style related chronic diseases such as hyper-tension, diabetes and ischemic heart disease.

Sagikor's collaboration with the Caribbean Food and Nutrition Institute, dedicated as they are to advancing nutrition knowledge and showcasing creative and innovative forms of food and nutrition promotion across the Caribbean, has been a fruitful and successful one. In 2006, schools from 18 countries participated in the programme. This level of participation serves to promote a heightened awareness for proper nutrition among the people of the region, and further embodies Sagikor's commitment to the improvement of their health.

We have continued to promote healthy living by assisting in the funding of the National Council on Substance Abuse's Life Education Centre, a mobile learning centre for Primary school children. This initiative helps children to make informed choices by teaching them the dangers of using hard drugs, as well as providing information on socially acceptable drugs like tobacco and alcohol. The centre's focus is on prevention and it uses hi-tech training equipment and interactive training techniques.

## Sagicor Financial Corporation

Sagicor also assists a number of youth development and sporting organisations in areas such as table tennis, basketball, swimming, chess and horseracing. However, it is in the area of cricket that we have concentrated our efforts. In collaboration with the University of the West Indies, Cave Hill Campus we have developed the Sagicor Cricket Operations Research Enterprise (SCORE), a cricket research and training facility that will implement academic and training programmes geared towards assisting cricketers at all levels throughout the region in pursuit of attaining excellence at their craft.

The Sagicor Cricket Operations Research Enterprise, was also designed to give tangible sustenance and visibility to the development of regional cricket, thereby nourishing one of the primary vehicles through which Caribbean people have demonstrated world-class excellence.

In addition, given the historical importance of the sport of cricket in the Caribbean, Sagicor has invested heavily in cricket research and development to ensure that Caribbean people can record, celebrate, analyze, learn and build on the single most unifying force in the region – Cricket.

Sagicor's corporate responsibility reaches beyond strategic management decisions, and is inherent in its corporate culture with staff-initiated community activities.

In 2006, employees donated an impressive US\$35,000 towards London's Run, a 13-mile race named after London Solomon, a courageous six-year-old who died from leukemia. Proceeds from this race benefited the Phoenix Children's Hospital Centre of Blood Disorders and Cancer. Employees also participated in the race's fundraising Breakfast, which assisted another child in accessing the medicines needed following a bone marrow transplant.

Individual employees are also whole-heartedly committed to the "Make a Difference" Project, which provides meals for homeless teenagers at the Home Base Youth Services. Employees also volunteer personal time to "Save the Family", a comprehensive program of transitional housing, case management and supportive services. This program also protects young children by providing for the entire family, and "Adopt a Classroom" programmes' employees contribute monies, clothes and toys to deserving children.

At Sagicor, in addition to our strong belief in the link between profitability and economic development, we are also highly cognizant of the importance of maintaining and improving societal values and attitudes that are conducive to quality living.

This commitment describes the essence of our vision for the foreseeable future. It is this commitment which will shape and inform our business strategies and operating plans as we strive to continue evolving as a great Caribbean company for the next decade and beyond. We firmly believe that we have a vital role to play in the future development of our region, and are acutely aware that we must deliver on this promise in order to do so.

### HUMAN RESOURCES

The Sagicor Group is committed to the creation and maintenance of a performance driven working environment which is characterized by innovation, continuous learning, opportunity for growth and development and fair and equitable treatment for all staff. We believe that this is essential to future growth and development of the Group.

The Human Resource strategy of the Group is therefore centered on the achievement of this important objective through the implementation of projects designed to ensure that the Group is adequately served over the long-term by employees who are well trained, highly motivated and operate within a performance driven environment. Some of the projects cover areas such as organizational structures, succession planning, resource alignment with business objectives, compensation and performance based incentive programs. Other projects review the process of recruitment, orientation and retention in order to ensure that Sagicor gets its fair share of a limited pool of critical skills.

At the beginning of 2006, the HR Committee approved an 18 month development plan which covers all of the key areas outlined above. Several HR projects are now in progress pursuant to this development plan. One of these projects covers the harmonization of organization structures, compensation structures and performance

## President & CEO's Report

incentive programs across the Group. In addition, in order to align the performance of management and staff with the objectives of the company, the project has introduced a performance evaluation program based on a "balanced score card" approach. This program was first introduced at the Parent Company level but is now being implemented across all Group companies. Another project focuses on succession planning and is designed to ensure organizational continuity, orderly and systematic knowledge transfers, and the availability of an adequate supply of quality resources to support the Group's business strategy.

During the year, a new on-line performance management system was introduced in Sagicor Life during the year and it is expected that this system will be introduced into all major Group companies within the next eighteen months. The Group also implemented a new enterprise compensation system for our sales representatives and Sagicor Advisors. This new compensation system recognizes the changing face of the financial services industry today – the new products and services being delivered and the quality of advice that customers require from an integrated financial institution. The new compensation system was implemented with the assistance of the Life Insurance Management and Research Association (LIMRA).

With regards to training and professional development, Sagicor continues to support training and professional development for all categories of staff. We continue to support employees pursuing educational programs and training offered through the Life Office Management Association (LOMA), the American Health Insurance Plans (AHIP), and the Academy of Life Underwriting (ALU). Employees and Advisors now have 24 hour access to training through the LOMA E-Learning facility. We also take a very active part in the future development of these programs with our Senior Executive Vice President Mr. Steve Stoute being a member of the LOMA Education Council. At a less formal level, management and supervisory staff continue to benefit from exposure to a number of conferences, workshops and seminars, covering areas such as performance management, finance and information technology.

In order to ensure that our employees deliver a high quality of service to our customers, we continue to expose our executives and staff to industry and compliance related training covering important areas such as money laundering and data protection and privacy. These programs are designed to ensure that management and staff adhere to a high standard of ethical behavior, comply with international regulatory best practice in the delivery of their products and services and comply with all legal and regulatory requirements for the protection of our customers.

We continue to recognize the outstanding performance of our employees and financial advisors with several Sagicor Advisors and Employee Recognition programs across the Group. Our family fun days have become significant events on our annual calendar, and we encourage our staff and advisors to participate in our Wellness Programs and healthy lifestyles initiatives.

We believe that these programs and initiatives which form part of our Human Resource development plan support our objective to encourage a performance base culture and the creation of an exciting, innovative and growth oriented working environment.

### CONCLUSION

The financial year 2006 was another successful one for the Sagicor Group of Companies. Net income for the year of \$173 million exceeded both the net income of the previous year and planned net income for 2006. During the year, the company made two strategic decisions which supported its international business strategy. The first was to develop an initial foot-print in the international capital markets with a successful bond issue in the US Bond Market. Through this initiative, the Company received further confirmation of its capital strength and consistent profitability when Sagicor Life Inc., its principal operating subsidiary, was given a financial strength rating of BBB+ by Standard and Poor's (S&P) and BBB issuer credit rating. The second strategic decision was to seek a listing on the London Stock Exchange (LSE). If Sagicor is to continue to grow and expand internationally, access to capital and exposure to capital markets, where fundamental share price discovery is possible, is critical to our overall success. A listing on the LSE was therefore an important part of our business strategy, and we are all delighted to have achieved this. Sagicor was admitted to the Official List of the London Stock Exchange on February 14th 2007, to become the first Caribbean company to have achieved this milestone.

While the two strategic events described earlier reinforced Sagicor's reputation as a financially, solid profitable company, with the operating capability to compete internationally, we at Sagicor have not been sitting on our laurels. During the year, we have taken further steps to enhance our governance systems and operating capabilities. We

## Sagicor Financial Corporation

have commenced the implementation of three initiatives, which are designed to ensure that Sagicor can enter the international market with the confidence that it can compete successfully.

The first initiative is a project to strengthen our Corporate Governance processes by the development and implementation of a Group-wide corporate governance framework, which meets international best practice, and enhances our governance practices across the Group of companies. The second project is an enterprise-wide risk management framework (ERM), designed to facilitate the early identification of financial and operating risk and to provide adequate opportunity to properly manage these risks. The third, and perhaps the most important initiative, is a comprehensive Human Resource Development plan. This plan covers all aspects of human resource management, with particular focus on ensuring that the Sagicor Group is adequately served by a well-trained, highly motivated Executive and Staff, who are committed to the proper execution of the long-term vision of the Sagicor Group. Successful execution of these projects will enhance our infrastructure as we continue to expand.

Finally, we are confident that with our solid financial condition and our operating capabilities, Sagicor is well placed to compete successfully in the international financial services market, and we are fully confident in our future.

I would like to thank our Customers, the Board of Directors, Management, Staff and Advisors for their contribution to what has been, indeed, another successful year for the Sagicor Group.



Dodridge D Miller  
President and Chief Executive Officer



## INDEPENDENT AUDITORS' REPORT

### To the Shareholders of Sagicor Financial Corporation

We have audited the accompanying consolidated financial statements of **Sagicor Financial Corporation** set out on pages 46 to 144 which comprise the consolidated balance sheet as of December 31, 2006 and the consolidated income statement, consolidated statement of changes in equity, and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the

.../2

Page 2

**Independent Auditors' Report .../cont'd.**

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 financial statements.

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

***Opinion***

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Sagikor Financial Corporation** as of December 31, 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers*

**PricewaterhouseCoopers  
Chartered Accountants**

April 4, 2007



**Eckler Ltd.**

*Consultants and Actuaries*

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## SAGICOR FINANCIAL CORPORATION

### APPOINTED ACTUARY'S 2006 REPORT TO THE SHAREHOLDERS AND POLICYHOLDERS

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

- Sagicor Life Inc (Barbados),
- Life of Jamaica Limited (Jamaica),
- Sagicor Capital Life Insurance Company Limited (Bahamas),
- Capital Life Insurance Company Bahamas Limited (Bahamas),
- Capital de Seguros, SA (Panama),
- Sagicor Allnation Insurance Company (Delaware, USA),
- Nationwide Insurance Company Limited (Trinidad & Tobago),
- Sagicor Life of the Cayman Islands Limited (Cayman Islands),
- Sagicor Life Insurance Company (Texas, USA), and
- Laurel Life Insurance Company (Texas, USA),

for the balance sheet, at 31<sup>st</sup> December 2006, and their change in the consolidated statement of operations, for the year then ended, for each organization and on a consolidated basis in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

The valuation of Sagicor and its life insurance subsidiaries was conducted by various actuaries using either the Policy Premium Method ("PPM") as an approximation to the Canadian Asset Liability Method ("CALM"), or using CALM directly, assuming best-estimate assumptions together with margins for adverse deviations in accordance with the Standards of Practice (Life) of the Canadian Institute of Actuaries. I have reviewed and accepted their valuation and have relied on them in order to issue this certificate.

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

**SYLVAIN GOULET, FCIA, FSA, MAAA**  
AFFILIATE MEMBER OF THE (BRITISH) INSTITUTE OF ACTUARIES  
APPOINTED ACTUARY FOR SAGICOR FINANCIAL CORPORATION  
4<sup>TH</sup> APRIL 2007



“MAKING MONEY IS EASY – KEEPING IT IS THE HARD PART.”




## CONSOLIDATED BALANCE SHEET

As of December 31, 2006

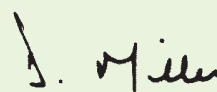
Amounts expressed in Barbados \$000

	Notes	2006	2005
<b>ASSETS</b>			
Investment property	7	181,156	181,586
Property, plant and equipment	8	161,055	148,248
Investment in associated companies	9	53,671	49,829
Intangible assets	10	225,416	240,187
Financial investments	11	5,049,644	4,732,847
Reinsurance assets	12	643,378	686,648
Income tax assets	13	36,665	35,711
Miscellaneous assets and receivables	14	200,202	202,888
Cash resources	15	175,367	118,863
Total assets		6,726,554	6,396,807
<b>LIABILITIES</b>			
Policy liabilities			
Actuarial liabilities	16	2,747,168	2,791,197
Other insurance liabilities	17	305,402	283,248
Investment contract liabilities	18	441,709	426,161
		3,494,279	3,500,606
Other liabilities			
Senior notes and loans payable	19	321,065	160,728
Deposit and security liabilities	20	1,490,783	1,440,445
Provisions	21	41,130	37,446
Income tax liabilities	22	37,355	30,958
Accounts payable and accrued liabilities	23	257,331	273,890
Total liabilities		5,641,943	5,444,073
<b>EQUITY</b>			
Share capital	24	460,470	458,451
Reserves	25	96,212	106,526
Retained earnings		271,017	165,329
Total shareholders' equity		827,699	730,306
Participating accounts	26	19,805	20,920
Minority interest in subsidiaries		237,107	201,508
Total equity		1,084,611	952,734
Total equity and liabilities		6,726,554	6,396,807

These financial statements have been approved for issue by the Board of Directors on April 4, 2007.



Director



Director

## CONSOLIDATED INCOME STATEMENT

Year ended December 31, 2006

Amounts expressed in Barbados \$000

	Notes	2006	2005
<b>REVENUE</b>			
Premium revenue	27	937,406	748,707
Reinsurance premium expense	27	(182,162)	(111,689)
Net premium revenue		755,244	637,018
Net investment income	28	471,032	415,415
Share of operating income of associated companies	9	5,455	3,473
Fees and other revenue	29	87,115	76,951
Gains arising on business combinations and acquisitions	38	-	25,115
Total revenue		1,318,846	1,157,972
<b>BENEFITS</b>			
Policy benefits and change in actuarial liabilities	30	586,780	498,986
Policy benefits and change in actuarial liabilities reinsured	30	(59,395)	(38,189)
Net policy benefits and change in actuarial liabilities		527,385	460,797
Interest expense	31	158,739	147,869
Total benefits		686,124	608,666
<b>EXPENSES</b>			
Administrative expenses		250,743	214,544
Commissions and related compensation		114,132	94,961
Premium taxes		13,240	15,308
Finance costs		18,839	4,426
Depreciation and amortisation		34,700	25,636
Total expenses		431,654	354,875
<b>INCOME FROM ORDINARY ACTIVITIES</b>		201,068	194,431
Income taxes	33	(27,818)	(24,046)
<b>NET INCOME FOR THE YEAR</b>		173,250	170,385
<b>NET INCOME ATTRIBUTABLE TO:</b>			
Shareholders		135,325	121,455
Participating policyholders		(606)	12,013
Minority interest		38,531	36,917
		173,250	170,385
<b>Net income attributable to shareholders - EPS</b>			
Basic earnings per common share	35	50.8 cents	46.0 cents
Fully diluted earnings per common share	35	50.8 cents	46.0 cents



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended December 31, 2006

Amounts expressed in Barbados \$000

	Year ended December 31, 2006					Total
	Share capital Note 24	Reserves Note 25	Retained earnings	Participating accounts Note 26	Minority interest	
Balance, beginning of year as restated (note 43)	458,451	106,526	165,329	20,920	201,508	952,734
Net gains/(losses) recognised directly in equity	-	(11,875)	(44)	2	7,920	(3,997)
Net income/(loss) for the year	-	-	135,325	(606)	38,531	173,250
Total recognised gains and income for the year	-	(11,875)	135,281	(604)	46,451	169,253
Issue of shares	5,652	-	-	-	4,123	9,775
Value of employee services rendered	-	2,944	-	-	-	2,944
Purchase of treasury shares	(3,633)	-	-	-	-	(3,633)
Dividends declared (note 35)	-	-	(31,980)	-	(14,482)	(46,462)
Other movements	-	(1,383)	2,387	(511)	(493)	-
	2,019	(10,314)	105,688	(1,115)	35,599	131,877
Balance, end of year	460,470	96,212	271,017	19,805	237,107	1,084,611
	Year ended December 31, 2005					Total
	Share capital Note 24	Reserves Note 25	Retained earnings	Participating accounts Note 26	Minority interest	
Balance, beginning of year as restated (note 43)	432,495	167,694	85,705	676	57,918	744,488
Net gains/(losses) recognised directly in equity	-	(63,499)	96	235	(23,469)	(86,637)
Net income for the year	-	-	121,455	12,013	36,917	170,385
Total recognised gains and income for the year	-	(63,499)	121,551	12,248	13,448	83,748
Issue of shares	25,956	-	-	-	88,200	114,156
Dividends declared (note 35)	-	-	(31,600)	-	(9,026)	(40,626)
Acquisition of subsidiary and insurance business	-	-	-	-	50,968	50,968
Other movements	-	2,331	(10,327)	7,996	-	-
	25,956	(61,168)	79,624	20,244	143,590	208,246
Balance, end of year	458,451	106,526	165,329	20,920	201,508	952,734

## CONSOLIDATED CASH FLOW STATEMENT

Year ended December 31, 2006

Amounts expressed in Barbados \$000

	Notes	2006	2005
Cash flows from operating activities			
Income from ordinary activities		201,068	194,431
Adjustments for non-cash items, interest and dividends	36	(211,201)	(177,242)
Interest and dividends received		384,321	296,905
Interest paid		(172,731)	(151,634)
Income taxes paid		(27,048)	(29,690)
Changes in operating assets	36	(121,042)	214,384
Changes in operating liabilities	36	125,137	(33,210)
Net cash from operating activities		178,504	313,944
Cash flows from investing activities			
Property, plant and equipment, net	36	(22,690)	(18,295)
Investment in associated companies, net		620	(22,232)
Intangible assets, net		(4,456)	(6,117)
Acquisition of subsidiaries and insurance businesses, net of cash and cash equivalents		-	(214,939)
Net cash used in investing activities		(26,526)	(261,583)
Cash flows from financing activities			
Purchase of treasury shares		(3,633)	-
Dividends paid to shareholders		(31,594)	(31,435)
Shares issued to minority interest		3,534	5,554
Dividends paid to minority interest		(14,538)	(8,542)
Senior notes and loans payable, net	36	158,299	143,994
Net cash from financing activities		112,068	109,571
Effects of exchange rate changes		(23,676)	(23,198)
Net increase in cash and cash equivalents		240,370	138,734
Cash and cash equivalents, beginning of year		274,342	135,608
Cash and cash equivalents, end of year	36	514,712	274,342

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## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

### 1. INCORPORATION AND PRINCIPAL ACTIVITIES

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

The principal activities of the Sagicor Group are as follows:

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

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

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

Subsidiary Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagicor Life Inc	Life and health insurance, annuities and pension administration services	Barbados	100%
Life of Jamaica Limited	Life and health insurance and annuities	Jamaica	60% <sup>(1)</sup>
Sagicor Life Insurance Company (formerly American Founders Life Insurance Company) <sup>(2)</sup>	Life insurance and annuities	Texas, USA	100%
Sagicor Capital Life Insurance Company Limited	Life and health insurance, annuities and pension administration services	The Bahamas	100%
Capital Life Insurance Company Bahamas Limited	Life insurance	The Bahamas	100%
Capital de Seguros, SA	Life and health insurance	Panama	100%
Nationwide Insurance Company Limited	Life insurance	Trinidad & Tobago	100%

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

## 1. INCORPORATION AND PRINCIPAL ACTIVITIES (continued)

Subsidiary Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagikor Life of the Cayman Islands Limited	Life insurance	The Cayman Islands	60% <sup>(1)</sup>
Laurel Life Insurance Company <sup>(2)</sup>	Life insurance	Texas, USA	100%
Sagikor Allnation Insurance Company	Health insurance	Delaware, USA	100%
Sagikor General Insurance Inc	Property and casualty insurance	Barbados	53%
Sagikor Re Insurance Limited	Property and casualty insurance	The Cayman Islands	60% <sup>(1)</sup>
Sagikor General Insurance (Cayman) Limited (formerly Cayman General Insurance Company Limited) <sup>(3)</sup>	Property, casualty and health insurance	The Cayman Islands	31%
LOJ Pooled Investment Funds Limited	Pension fund management	Jamaica	60% <sup>(1)</sup>
Employee Benefits Administrator Limited	Pension administration services	Jamaica	60% <sup>(4)</sup>
Pan Caribbean Financial Services Limited <sup>(5)</sup>	Development banking and investment management	Jamaica	65% <sup>(6)</sup>
Pan Caribbean Merchant Bank Limited <sup>(5)</sup>	Merchant banking	Jamaica	65% <sup>(6)</sup>
Pan Caribbean Asset Management Limited <sup>(5)</sup>	Investment management	Jamaica	65% <sup>(6)</sup>
Manufacturers Investments Limited <sup>(5)</sup>	Investment management	Jamaica	65% <sup>(6)</sup>
Sagikor Merchant Limited <sup>(7)</sup>	Investment management	Trinidad & Tobago	100%
Globe Finance Inc	Loan and lease financing, and deposit taking	Barbados	51%
The Mutual Finance Inc	Loan and lease financing, and deposit taking	St. Lucia	70%
Sagikor Asset Management Inc	Investment management	Barbados	100%
LOJ Property Management Limited	Property management	Jamaica	60% <sup>(1)</sup>
Sagikor Insurance Managers Limited (formerly Cayman National Insurance Managers Limited) <sup>(3)</sup>	Captive insurance management services	The Cayman Islands	31%
Sagikor International Management Services, Inc	Management and business development services	Florida, USA	100%
Sagikor Finance Limited <sup>(8)</sup>	Group financing vehicle	The Cayman Islands	100%
LOJ Holdings Limited	Insurance holding company	Jamaica	100%
Sagikor USA Inc	Insurance holding company	Delaware, USA	100%
The Mutual Financial Services Inc	Financial services holding company	Barbados	73%
Sagikor Funds Incorporated	Mutual fund holding company	Barbados	100%
LTE Limited <sup>(9)</sup>	Holding company	Barbados	100%

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

### 1. INCORPORATION AND PRINCIPAL ACTIVITIES (continued)

- (1) An equity interest of 78% until April 1, 2005.
- (2) Acquired September 30, 2005.
- (3) Acquired by Life of Jamaica Limited on November 30, 2005. Through control of Life of Jamaica Limited, the Group has a 51% voting interest in the subsidiary.
- (4) An equity interest of 39% until April 1, 2005.
- (5) Acquired January 7, 2005.
- (6) An equity interest of 38% from January 7, 2005 to May 5, 2005. Between May 6 and September 1, interests totalling 28% were acquired. Through control of Life of Jamaica Limited, the Group held a 49% voting interest from January 7 to May 5, which increased to 87% effective September 1.
- (7) Incorporated on August 11, 2005 and commenced trading October 13, 2005.
- (8) Incorporated March 30, 2006.
- (9) Incorporated as a special purpose vehicle to temporarily hold the Company's direct 34% interest in Pan Caribbean Financial Services Limited.

The associated companies of the Group are as follows:

Associated Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
RGM Limited	Property ownership and management	Trinidad & Tobago	33%
FamGuard Corporation Limited <sup>(10)</sup>	Investment holding company	Bahamas	20%
Family Guardian Insurance Company Limited <sup>(10)</sup>	Life and health insurance and annuities	Bahamas	20%
Family Guardian General Insurance Agency Limited <sup>(10)</sup>	General insurance brokerage	Bahamas	20%
BahamaHealth Insurance Brokers and Benefit Consultants Limited <sup>(10)</sup>	Insurance brokers and benefit consultants	Bahamas	20%

(10) Acquired December 28, 2005.

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



## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

*Amounts expressed in Barbados \$000*

### 2. ACCOUNTING POLICIES

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

#### 2.1 Basis of preparation

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

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

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

All amounts in these financial statements are shown in thousands of Barbados dollars, unless otherwise stated. Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

#### (a) Changes in IFRS

New and revised IFRSs and revised International Accounting Standards (IASs) are effective from the 2006 reporting year.

A new standard which is effective for accounting periods beginning on January 1, 2006 has been introduced and is as follows:

IFRS 6 Exploration for and Evaluation of Mineral Resources.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

*Amounts expressed in Barbados \$000*

### 2. ACCOUNTING POLICIES (continued)

#### 2.1 Basis of preparation (continued)

The standards which have amendments effective for accounting periods beginning January 1, 2006 are as follows:

- IFRS 1 First-time Adoption of International Financial Reporting Standards
- IFRS 4 Insurance Contracts
- IAS 21 The Effects of Changes in Foreign Exchange Rates
- IAS 39 Financial Instruments: Recognition and Measurement

None of the above changes have a significant effect on the presentation, disclosure or accounting in the Group's financial statements.

#### (b) Prior period adjustments

Prior period adjustments have been made in respect of intangible assets, policy liabilities, participating accounts and gains arising on business combinations. These changes are summarised in note 43.

#### 2.2 Basis of consolidation

##### (a) Subsidiaries

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

*Amounts expressed in Barbados \$000*

### 2. ACCOUNTING POLICIES (continued)

#### 2.2 Basis of consolidation (continued)

##### (b) Investment in associated companies

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

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

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

The Group recognises in equity its share of associated companies reserve movements.

##### (c) Joint Ventures

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

##### (d) Divestitures

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

##### (e) Pension and investment funds

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

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

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

*Amounts expressed in Barbados \$000*

### 2. ACCOUNTING POLICIES (continued)

#### 2.2 Basis of consolidation (continued)

##### (f) Employees share ownership plan (ESOP)

The Company has established an ESOP Trust which either acquires Company shares on the open market, or is allotted new shares by the Company. The Trust holds the shares on behalf of employees until the employees' retirement or termination from the Group. Until distribution to employees, shares held by the Trust are accounted for as treasury shares. Dividends accruing to the Trust are used to acquire additional Company shares on the open market.

#### 2.3 Foreign currency translation

##### (a) Functional and presentational currency

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

##### (b) Group Entities

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

### 2. ACCOUNTING POLICIES (continued)

#### 2.3 Foreign currency translation (continued)

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

	December 2006 closing rate	2006 average rate	December 2005 closing rate	2005 average rate
Bahamas dollar	0.50	0.50	0.50	0.50
Belize dollar	1.00	1.00	1.00	1.00
Cayman Islands dollar	0.4175	0.4175	0.4175	0.4175
Eastern Caribbean dollar	1.35	1.35	1.35	1.35
Jamaica dollar	33.4741	32.8257	32.1903	31.1218
Netherlands Antillean guilder	0.90	0.90	0.90	0.90
Trinidad & Tobago dollar	3.1473	3.1450	3.1493	3.1332
United States dollar	0.50	0.50	0.50	0.50

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

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

#### (c) Transactions and balances

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

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

Translation differences on non-monetary items such as equities held available for sale are included in the fair value reserve in equity.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

*Amounts expressed in Barbados \$000*

### 2. ACCOUNTING POLICIES (continued)

#### 2.4 Segment reporting

The Group's primary segments are geographic and the secondary segments are defined by business activity.

Geographical segments are determined by the location of the subsidiary or branch initiating the business. This segmentation is not materially different from the segmentation by location of the customers.

The Group's business segments reflect how the Group's operations are managed within geographical segments.

Certain balances can be clearly allocated to geographical segments, but not to business segments. These include certain associated company, income tax, and pension plan balances which relate to specific geographical segments, but are attributable to more than one business segment. In such instances, these balances are allocated to their geographic segments, but are not allocated by business segment.

Other balances not allocated to segments mainly comprise borrowings and finance costs related to Group expansion and other corporate activities.

#### 2.5 Investment property

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

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

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

Rental income is recognised on an accruals basis.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

### 2. ACCOUNTING POLICIES (continued)

#### 2.6 Property, plant and equipment

Property, plant and equipment are recorded initially at cost.

Owner-occupied property is re-valued at least every three years to its fair value as determined by independent valuers. Movements in fair value are taken to the fair value reserve in equity, unless there is a net depreciation in respect of an individual property, which is then recorded in the income statement. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset. On disposal of owner-occupied property, the amount included in the reserve is transferred to retained earnings. Owner-occupied property includes property held under partnership and joint venture arrangements with third parties. These are accounted for under the proportionate consolidation method.

Subsequent expenditure is capitalised when it will result in future economic benefits to the Group.

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

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

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

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

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



## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

### 2. ACCOUNTING POLICIES (continued)

#### 2.7 Intangible assets

##### (a) Goodwill

Goodwill (defined in note 2.2(a)) arising from an acquisition of a subsidiary or insurance business is allocated to appropriate cash generating units. A cash generating unit is not larger than a subsidiary's operations in a geographical segment or in a business segment. Goodwill arising from an investment in an associate is included in the carrying value of the investment in associated companies.

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

##### (b) Other intangible assets

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

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

On acquisition the useful life of the asset is estimated. If the estimated useful life is definite, then the cost of the asset is amortised over its life, and is tested for impairment when there is evidence of same. If the estimated useful life is indefinite, the asset is tested annually for impairment. The estimated useful lives of recognised intangible assets are as follows:

Asset	Estimated useful life
Customer relationships and contracts	4 – 20 years
Trade names	4 years, indefinite
Software	2 – 10 years

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

*Amounts expressed in Barbados \$000*

### 2. ACCOUNTING POLICIES (continued)

#### 2.8 Financial assets

##### (a) Classification

The Group classifies its financial assets into four categories:

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

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

Financial assets with fixed maturities and for which management has both the intent and ability to hold to maturity are classified as held to maturity.

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

Financial assets in the category at fair value through income include held for trading securities. An asset is classified as held for trading at inception if acquired principally for the purpose of selling in the short-term or if it forms part of a portfolio of financial assets in which there is evidence of short-term profit taking. Financial assets at fair value through income include investments held to back certain deposit administration and unit linked policy contracts where the full return on the asset accrues to the contract-holder.

Other financial assets are classified as available for sale.

##### (b) Recognition and measurement

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

### 2. ACCOUNTING POLICIES (continued)

#### 2.8 Financial assets (continued)

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

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

#### (c) Securities purchased under agreements to resell

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

#### (d) Finance leases

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

#### (e) Derivative financial instruments

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

### 2. ACCOUNTING POLICIES (continued)

#### 2.8 Financial assets (continued)

##### (f) Financial assets held in trust under modified coinsurance arrangements

These assets are held in trust for a reinsurer and are in respect of policy liabilities ceded to the reinsurer. The assets are included in the balance sheet along with a corresponding account payable to the reinsurer. No income is recorded from these assets in the income statement.

#### 2.9 Real estate developed or held for resale

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

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

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

#### 2.10 Impairment of assets

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

#### 2.11 Cash and cash equivalents

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

#### 2.12 Policy contracts

##### (a) Classification

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

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

Insurance contracts transfer insurance risk and may also transfer financial risk. Investment contracts transfer financial risk and no insurance risk. Financial risk includes credit risk, interest rate risk and fair value risk.

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

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

### 2. ACCOUNTING POLICIES (continued)

#### 2.12 Policy contracts (continued)

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

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

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

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

#### (b) Recognition and measurement

Policy contracts issued by the Group are summarised below.

##### (i) Property and casualty insurance contracts

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

Property insurance contracts provide coverage for the risk of property damage or of loss of property. For commercial policyholders insurance may include coverage for loss of earnings arising from the inability to use property which has been damaged or lost.

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

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

Claims and loss adjustment expenses are recorded as incurred. Claim reserves represent estimates of future payments of reported and unreported claims and related expenses with respect to insured events that have occurred up to balance sheet date. Reserving involves uncertainty and the use of informed estimates and judgements. The claim reserve is included in other insurance liabilities.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

*Amounts expressed in Barbados \$000*

### 2. ACCOUNTING POLICIES (continued)

#### 2.12 Policy contracts (continued)

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

Commissions and premium taxes payable are recognised on the same basis as premiums earned. At balance sheet date, commissions and premium taxes arising on unearned premiums are included in miscellaneous assets and receivables.

##### (ii) Health insurance contracts

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

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

Claims are recorded on settlement. Reserves are recorded as described in note 2.13.

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

*Amounts expressed in Barbados \$000*

### 2. ACCOUNTING POLICIES (continued)

#### 2.12 Policy contracts (continued)

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

Reserves for future policy liabilities are recorded as described in note 2.13.

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

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

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

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

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

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

Policy benefits are recognised on notification of death, receipt of a withdrawal request or on the annuity payment date. Reserves for future policy liabilities are recorded as described in note 2.13.

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

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



## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

*Amounts expressed in Barbados \$000*

### 2. ACCOUNTING POLICIES (continued)

#### 2.12 Policy contracts (continued)

##### (v) Reinsurance contracts assumed

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

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

##### (vi) Reinsurance contracts held

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

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

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

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

##### (vii) Deposit administration and other investment contracts

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

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

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

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

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

Other investment contracts are valued at amortised cost and are otherwise accounted in a manner similar to deposit administration contracts.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

### 2. ACCOUNTING POLICIES (continued)

#### 2.12 Policy contracts (continued)

##### (c) Embedded derivatives

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

The Group does not separately measure embedded derivatives that are closely related to the host insurance contract or that meet the definition of an insurance contract. Options to surrender an insurance contract for a fixed amount are also not measured separately. In these cases, the entire contract liability is measured as set out in note 2.13.

##### (d) Liability adequacy tests

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

#### 2.13 Actuarial liabilities

##### (a) Life insurance and annuity contracts

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

### 2. ACCOUNTING POLICIES (continued)

#### 2.13 Actuarial liabilities (continued)

##### (b) Health insurance contracts

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

#### 2.14 Financial liabilities

During the ordinary course of business, the Group issues investment contracts or otherwise assumes financial liabilities that expose the Group to financial risk. The recognition and measurement of the Group's principal types of financial liabilities are disclosed in note 2.12(b) (vii) and in the following paragraphs.

##### (a) Securities sold under agreements to repurchase

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

##### (b) Deposit liabilities

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

##### (c) Borrowings

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

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

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

*Amounts expressed in Barbados \$000*

### 2. ACCOUNTING POLICIES (continued)

#### 2.15 Provisions

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

#### 2.16 Interest income and expenses

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

#### 2.17 Fees and other revenue

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

#### 2.18 Employee benefits

##### (a) Pension benefits

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

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

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

For defined contribution plans, the Group pays contributions to the pension schemes on a mandatory or contractual basis. Once paid, the Group has no further payment obligations. The regular contributions constitute net periodic costs for the year in which they are due and as such are included in expenses in the income statement.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

### 2. ACCOUNTING POLICIES (continued)

#### 2.18 Employee benefits (continued)

##### (b) Other retirement benefits

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

##### (c) Profit sharing and bonus plans

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

##### (d) Equity compensation benefits

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

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

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

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

Where the equity instruments do not vest until the individual has completed a further period of service, the services received are accounted for in the income statement during the vesting period, with a corresponding increase in the share based payment reserves or in minority interest. Until the instrument vests, the number of instruments vesting is re-measured annually and the corresponding change in fair value is adjusted at the re-measurement date.

Amounts held in the share based payment reserve are transferred to share capital or minority interest either on the distribution of share grants or on the exercise of share options.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

### 2. ACCOUNTING POLICIES (continued)

#### 2.18 Employee benefits (continued)

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

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

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

The equity instruments granted consist either of grants of, or options to purchase, common shares of listed entities within the Group. Common shares granted are measured at the listed price prevailing on the grant date. Options granted are measured using standard option pricing valuation models, which incorporate factors and assumptions that knowledgeable, willing market participants would consider in setting the price of the equity instruments.

##### (e) Termination benefits

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

#### 2.19 Taxes

##### (a) Premium taxes

Insurers are subject to tax on premium revenues generated in certain jurisdictions. The principal rates of premium tax are as follows:

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

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

### 2. ACCOUNTING POLICIES (continued)

#### 2.19 Taxes (continued)

##### (b) Income taxes

The Group is subject to taxes on income in the jurisdictions in which business operations are conducted. Rates of taxation in the principal jurisdictions for income year 2006 are as follows:

	Life insurance and non-registered annuities	Registered annuities	Other lines of business
Barbados	5% of gross investment income	Nil	25% of net income
Jamaica	15% of investment income	Nil	33 1/3 % of net income
Trinidad and Tobago	15% of investment income	Nil	25% - 35% of net income
United States of America	35% of net income	35% of net income	35% of net income

##### (i) Current income taxes

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

##### (ii) Deferred income taxes

The Group uses the balance sheet liability method of accounting for deferred income tax. Deferred tax assets and liabilities resulting from temporary differences are computed at tax rates that are expected to apply to the period when the asset is realised or the liability settled. Deferred tax assets are only recognised when it is probable that taxable profits will be available against which the asset may be utilised. No provision is made for deferred taxes which could arise on the remittance of retained earnings from subsidiaries, unless there is a current intention to remit such earnings.

#### 2.20 Participating Accounts

##### (a) "Closed" participating fund

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



## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

*Amounts expressed in Barbados \$000*

### 2. ACCOUNTING POLICIES (continued)

#### 2.20 Participating Accounts (continued)

##### (b) "Open" participating fund

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

On February 1, 2005, Sagicor Life Inc amalgamated with Life of Barbados Limited, and participating policies of the latter were transferred to the open participating fund. Accordingly, the liabilities of these participating policies and matching assets were transferred to the open participating fund. The liabilities transferred included an ancillary fund comprising the provisions for adverse deviations on the transferred policies. Changes in the ancillary fund are not recorded in the participating account, but are borne by the general operations of Sagicor Life Inc. Additional assets to support the profit distribution to shareholders (see below) were also transferred into the fund.

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

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

##### (c) Financial statement presentation

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

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

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

*Amounts expressed in Barbados \$000*

### 2. ACCOUNTING POLICIES (continued)

#### 2.21 Treasury shares

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

#### 2.22 Dividend distributions

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

#### 2.23 Statutory reserves

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

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

#### 3.1 Impairment of financial assets

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

*Amounts expressed in Barbados \$000*

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

#### 3.2 Recognition and measurement of intangible assets

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

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

#### 3.3 Impairment of intangible assets

##### (a) Goodwill

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

The Group updates its business unit financial projections annually and applies discounted cash flow or earnings multiple models to these projections to determine if there is any impairment of goodwill.

##### (b) Other intangible assets

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

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

*Amounts expressed in Barbados \$000*

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

#### 3.4 Actuarial liabilities

##### (a) Canadian asset liability method (CALM)

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

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

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

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

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

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

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

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

The principal assumptions and margins used in the determination of actuarial liabilities are summarised in note 16.3. However, the liability resulting from the application of these assumptions can never be definitive as to the ultimate timing or the amount of benefits payable and is therefore subject to future re-assessment.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

*Amounts expressed in Barbados \$000*

### 4. RISK MANAGEMENT

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

#### 4.1 Credit risk

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

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

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

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

#### 4.2 Foreign exchange risk

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

*Amounts expressed in Barbados \$000*

### 4. RISK MANAGEMENT (continued)

#### 4.3 Interest rate risk

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

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

Guaranteed minimum returns exist within cash values of long term traditional insurance contracts, long term universal life insurance contracts, annuity options, deposit administration liabilities and policy funds on deposit. For other financial liabilities, returns are usually contractual. The Group is therefore exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase or decrease as a result of such changes. Interest rate changes may also result in losses if asset and liability cash flows are not closely matched with respect to timing and amount.

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

*Amounts expressed in Barbados \$000*

### 4. RISK MANAGEMENT (continued)

#### 4.4 Liquidity risk

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

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

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

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

#### 4.5 Fair values of financial assets and financial liabilities

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

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

The Group's financial assets and financial liabilities as disclosed in the balance sheet approximate their fair value, except as disclosed in notes 11, 19 and 20.

#### 4.6 Insurance risk - short term insurance contracts

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

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

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

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



## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

*Amounts expressed in Barbados \$000*

### 4. RISK MANAGEMENT (continued)

#### 4.7 Insurance risks - long-term insurance contracts

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

For long-term contracts 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.

Policy benefits payable under long-term contracts may be triggered

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

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

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

Insurers are also exposed to lapse and expense risk. At early durations, lapses and surrenders are likely to result in a loss to the insurer, as the acquisition costs associated with the policy contract would not have been recovered from product margins. Higher expenses in maintaining a policy contract may mean that the policy reserve may be inadequate to cover future policy maintenance expenses, thereby requiring the insurer to increase the associated policy reserve.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

### 4. RISK MANAGEMENT (continued)

#### 4.8 Concentrations of insurance risk

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

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

Total insurance coverage on insurance policies quantifies some of the risk exposures. Typically, claims arising in any one year are a very small proportion in relation to the total insurance coverage provided. The total sums insured at December 31, 2006, gross and net of reinsurance on life, property and casualty risks are summarised below.

	Gross amount insured		Net amount insured	
	2006	2005	2006	2005
Contracts issued to individuals – life insurance	30,579,784	27,270,155	21,288,570	20,988,717
Contracts issued to groups – life insurance	11,848,761	8,800,346	9,842,180	7,242,619
Property and casualty insurance	14,932,984	11,920,398	7,818,375	7,295,843

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

### 4. RISK MANAGEMENT (continued)

#### 4.9 Reinsurance risk

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

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

Type of insurance contract	Retention by insurers
Property and casualty insurance	
Property risks	<ul style="list-style-type: none"> <li>• maximum retention of \$20,000 for a single event;</li> <li>• maximum retention of \$10,000 for a catastrophic event;</li> <li>• quota share retention to maximum of 60% in respect of the treaty limits;</li> <li>• quota share retention is further reduced to a maximum of \$1,000 per event.</li> </ul>
Motor and liability risks	<ul style="list-style-type: none"> <li>• maximum retention of \$1,000 for a single event;</li> <li>• treaty limits apply.</li> </ul>
Miscellaneous accident risks	<ul style="list-style-type: none"> <li>• maximum retention of \$216 for a single event;</li> <li>• treaty limits apply.</li> </ul>
Engineering business risks	<ul style="list-style-type: none"> <li>• maximum retention of \$300</li> <li>• treaty limits apply for material damage and for liability claims.</li> </ul>
Marine risks	<ul style="list-style-type: none"> <li>• maximum retention of \$150 for a single event;</li> <li>• treaty limits apply.</li> </ul>
Property, motor, liability, and engineering risk	<ul style="list-style-type: none"> <li>• catastrophic excess of loss reinsurance cover is available per event for amounts in excess of treaty limits;</li> <li>• treaty limits apply to catastrophic excess of loss coverage.</li> </ul>
Health insurance contracts with individuals	Retention per individual to a maximum of \$800
Health insurance contracts with groups	Retention per individual to a maximum of \$400
Life insurance contracts with individuals	Retention per individual life to a maximum of \$700
Life insurance contracts with groups	Retention per individual life to a maximum of \$200
Life insurance and annuity blocks of contracts	0% to 37.5% retention on policy liabilities

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

*Amounts expressed in Barbados \$000*

### 4. RISK MANAGEMENT (continued)

#### 4.9 Reinsurance risk (continued)

Certain insurers of the Group have ceded to a re-insurer further amounts representing 50% of the retentions above \$10 for individual life contracts.

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

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

Reinsurance balances and the effects of reinsurance ceded on income are disclosed in the notes 12, 16, 17, 23, 27 and 30.

#### 4.10 Fiduciary activities

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

Total assets under administration are disclosed in note 41.

### 5. STATUTORY RESTRICTIONS ON ASSETS

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

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

To satisfy the above requirements, invested assets and cash totalling \$1,319 million (2005 - \$1,271 million) have been deposited with regulators or are held in trust to the order of regulators.

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

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

## 6. SEGMENTS

## 6.1 Geographical Segments

	Year ended December 31, 2006				
	Total assets	Total liabilities	Total revenue	Income from ordinary activities	Total cash flows
Barbados	1,156,090	1,079,964	252,431	39,092	47,760
Jamaica	2,114,599	1,611,756	560,323	103,814	52,108
Trinidad & Tobago	798,949	559,237	167,130	51,652	(27,079)
USA	1,680,068	1,538,795	106,310	13,887	(3,780)
Other Caribbean	821,188	519,464	232,576	32,101	(11,351)
Not allocated to segments	155,660	332,727	76	(39,478)	182,712
	<u>6,726,554</u>	<u>5,641,943</u>	<u>1,318,846</u>	<u>201,068</u>	<u>240,370</u>

	Year ended December 31, 2005				
	Total assets	Total liabilities	Total revenue	Income from ordinary activities	Total cash Flows
Barbados	1,159,784	1,029,101	218,652	6,835	(9,114)
Jamaica	1,990,820	1,561,793	513,850	92,270	71,340
Trinidad & Tobago	734,358	536,803	191,558	64,153	25,104
USA	1,782,293	1,646,972	46,012	(9,970)	5,588
Other Caribbean	729,148	493,711	160,892	37,647	54,998
Not allocated to segments	404	175,693	27,008	3,496	(9,182)
	<u>6,396,807</u>	<u>5,444,073</u>	<u>1,157,972</u>	<u>194,431</u>	<u>138,734</u>

Other balances by geographical segment are disclosed in notes 8, 9, 10, 16 and 41.

## 6.2 Business segments

	Total assets		Total revenue	
	2006	2005	2006	2005
Life insurance, health insurance and annuities from contracts issued to individuals	3,914,456	3,975,728	724,401	609,367
Life insurance, health insurance, annuities and pensions from contracts issued to groups	832,719	788,075	327,162	279,147
Property and casualty insurance	230,041	188,803	58,535	44,785
Banking, investment management and other financial services	1,549,887	1,416,207	207,098	197,665
Not allocated to segments (1)	199,451	27,994	1,650	27,008
	<u>6,726,554</u>	<u>6,396,807</u>	<u>1,318,846</u>	<u>1,157,972</u>

(1) Includes associated company, income tax and pension plan balances attributable to more than one business segment.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

## 7. INVESTMENT PROPERTY

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

	2006	2005
Balance, beginning of year	181,586	179,015
Additions at cost	3,043	8,873
Transfers to real estate developed for resale	(2,551)	(5,849)
Transfers to property, plant & equipment	(9,017)	-
Disposals	(8,977)	(336)
Appreciation in fair values	18,602	1,710
Effects of exchange rate changes	(1,530)	(1,827)
Balance, end of year	181,156	181,586

Investment property includes \$37,302 (2005 - \$43,552) which represents the Group's proportionate interest in joint ventures set out below.

Description of property	Percentage owned by the Group
Barbados:	
Land at Fort George Heights, Upton, St Michael	50%
Land at Plum Tree, St Thomas	50%
Trident House Properties, Lower Broad Street, Bridgetown	33%
United Nations House, Marine Gardens, Christ Church	25%
BET Building, Wildey, St Michael	10%
Trinidad & Tobago:	
Ernst & Young Building, Sweet Briar Road, Port-of-Spain	60%

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

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

	2006	2005
Cash, miscellaneous assets and receivables	2,084	4,830
Other funding instruments, accounts payable and accrued liabilities	886	553
Revenue	4,492	3,588
Expenses	47	221

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

## 8. PROPERTY, PLANT AND EQUIPMENT

	Year ended December 31, 2006				Total
	Owner-occupied properties	Furnishings & leasehold improvements	Office equipment & vehicles	Leased vehicles & equipment	
Net book value, beginning of year	91,263	10,036	27,224	19,725	148,248
Additions at cost	980	10,200	8,135	7,290	26,605
Transfers from investment property	9,017	-	-	-	9,017
Transfers to intangible assets	-	-	(2,270)	-	(2,270)
Disposals	(261)	(41)	(666)	(3,134)	(4,102)
Appreciation in fair values	1,579	-	-	-	1,579
Depreciation charge	(1,447)	(2,283)	(8,090)	(5,400)	(17,220)
Effects of exchange rate changes	(383)	(119)	(300)	-	(802)
Net book value, end of year	100,748	17,793	24,033	18,481	161,055

Represented by:

Cost or valuation	102,792	41,455	82,084	28,154	254,485
Accumulated depreciation	(2,044)	(23,662)	(58,051)	(9,673)	(93,430)
	100,748	17,793	24,033	18,481	161,055

	Year ended December 31, 2005				Total
	Owner-occupied properties	Furnishings & leasehold improvements	Office equipment & vehicles	Leased vehicles & equipment	
Net book value, beginning of year	88,270	6,939	20,264	16,089	131,562
Additions at cost	539	5,333	7,671	10,322	23,865
Assumed on acquisitions	-	2,113	7,497	-	9,610
Disposals	(819)	(2,349)	(461)	(2,094)	(5,723)
Appreciation in fair values	4,896	-	-	-	4,896
Depreciation charge	(1,380)	(1,886)	(7,162)	(4,592)	(15,020)
Effects of exchange rate changes	(243)	(114)	(585)	-	(942)
Net book value, end of year	91,263	10,036	27,224	19,725	148,248

Represented by:

Cost or valuation	91,980	31,629	77,261	28,318	229,188
Accumulated depreciation	(717)	(21,593)	(50,037)	(8,593)	(80,940)
	91,263	10,036	27,224	19,725	148,248



## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

## 8. PROPERTY, PLANT AND EQUIPMENT (continued)

Additions to and depreciation of property, plant and equipment by geographical segment are as follows:

	Additions		Depreciation	
	2006	2005	2006	2005
Barbados	16,591	16,998	9,993	9,163
Jamaica	1,770	3,819	3,170	2,872
Trinidad & Tobago	3,289	1,089	1,266	1,097
USA	1,258	260	718	342
Other Caribbean	3,628	1,695	2,062	1,546
Not allocated to segments	69	4	11	-
	<u>26,605</u>	<u>23,865</u>	<u>17,220</u>	<u>15,020</u>

Owner-occupied property includes \$2,972 which represents the Group's proportionate interest in joint ventures set out below.

Description of property	Percentage owned by the Group
Belize:	
Belize Insurance Centre, North Front Street, Belize City	50%
Grenada:	
The Mutual / Trans-Nemwil Office Complex, The Villa, St George's	50%

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

## 9. INVESTMENT IN ASSOCIATED COMPANIES

	2006	2005
Investment, beginning of year	49,829	24,276
Additions	1,327	25,280
Income from ordinary activities	5,455	3,473
Amortisation of intangible assets which were identified on acquisition	(987)	-
Income taxes	(16)	(16)
Dividends received	(1,948)	(3,102)
Effects of exchange rate changes	11	(82)
Investment, end of year	53,671	49,829

The investment in associated companies and the income from ordinary activities by geographical segment are as follows:

	Investment in associated companies		Income from ordinary activities	
	2006	2005	2006	2005
Barbados	249	253	(4)	40
Jamaica	81	85	-	68
Trinidad & Tobago	28,128	24,775	3,373	3,365
Other Caribbean	25,213	24,716	2,086	-
	53,671	49,829	5,455	3,473

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

	2006	2005
Total assets	586,047	447,823
Total liabilities	406,736	284,502
Total revenue	176,527	34,099
Net income for the year	21,951	10,321

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

## 10. INTANGIBLE ASSETS

(a) Analysis and changes for the year

	Year ended December 31, 2006				
	Goodwill	Customer relationships	Trade names	Software	Total
Net book value, beginning of year as restated	121,406	98,076	11,663	9,042	240,187
Transfer from property, plant and equipment	-	-	-	2,270	2,270
Additions at cost	-	-	-	4,456	4,456
Amortisation and other charges	(1,965)	(6,092)	(4,238)	(4,198)	(16,493)
Effects of exchange rate changes	(1,145)	(3,328)	(353)	(178)	(5,004)
Net book value, end of year	118,296	88,656	7,072	11,392	225,416
Represented by:					
Cost	120,261	99,274	14,777	22,031	256,343
Accumulated amortisation and charges	(1,965)	(10,618)	(7,705)	(10,639)	(30,927)
	118,296	88,656	7,072	11,392	225,416

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

## 10. INTANGIBLE ASSETS (continued)

	Year ended December 31, 2005				
	Goodwill	Customer relationships	Trade names	Software	Total
Net book value, beginning of year	100,124	-	-	3,223	103,347
Additions at cost	-	-	-	6,117	6,117
Assumed on acquisitions	-	-	-	1,207	1,207
Identified on acquisitions:					
PCFS (note 38.1)	5,814	63,798	15,212	-	84,824
EBA (note 38.2)	16,385	33,803	-	106	50,294
First Life (note 38.3)	3,856	-	-	-	3,856
Laurel Life (note 38.4)	1,965	724	-	-	2,689
Cayman General (note 38.5)	3,688	8,088	656	659	13,091
Disposals	(8,099)	-	-	-	(8,099)
Amortisation charge	-	(4,763)	(3,803)	(2,050)	(10,616)
Effects of exchange rate changes	(2,327)	(3,574)	(402)	(220)	(6,523)
Net book value, end of year	121,406	98,076	11,663	9,042	240,187
Represented by:					
Cost	121,406	102,884	15,340	14,318	253,948
Accumulated amortisation	-	(4,808)	(3,677)	(5,276)	(13,761)
	121,406	98,076	11,663	9,042	240,187
Net book value, as previously stated	120,350	106,892	13,049	10,214	250,505
Adjustment for disposal of goodwill (note 38)	(8,099)	-	-	-	(8,099)
Adjustment for valuation of intangible assets (note 38)	9,155	(8,816)	(1,386)	(1,172)	(2,219)
Net book value, as restated	121,406	98,076	11,663	9,042	240,187

(b) Geographical segment information

	Goodwill		Additions to intangible assets		Amortisation of intangible assets	
	2006	2005	2006	2005	2006	2005
Barbados	45,266	45,266	1,485	2,539	1,448	896
Jamaica	40,822	41,958	1,387	3,578	10,519	9,720
Trinidad & Tobago	9,831	9,840	-	-	5	-
USA	-	1,965	1,406	-	2,915	-
Other Caribbean	22,377	22,377	82	-	1,606	-
Not allocated to segments	-	-	96	-	-	-
	118,296	121,406	4,456	6,117	16,493	10,616

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

## 10. INTANGIBLE ASSETS (continued)

(c) Goodwill

Goodwill arising on past acquisitions is reviewed by cash generating unit (CGU). The recoverable amount of each CGU is determined either by its value in use or by its fair value less costs to sell.

A CGU's value in use is estimated using cash flow projections prepared by management. Detailed cash flow projections are prepared for three years and are extrapolated for subsequent years.

The fair value of a CGU is estimated by capitalising its expected earnings over time.

Cash flow discount factors, residual growth rates and earnings multiples utilised in the assessment of recoverable amounts were as follows:

	2006		
	Cash Flow discount factor	Cash flow residual Growth rate	Earnings multiples
Barbados	13.3%, 14.7%	4.5%	8.67
Jamaica	21.2%	7.0%	4.48, 5.30
Trinidad & Tobago	n/a	n/a	8.01
Other Caribbean	14.6%	3.5%	7.70, 8.54

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

## 11. FINANCIAL INVESTMENTS

## 11.1 Analysis of financial investments

	December 31, 2006		December 31, 2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Held to maturity securities:				
Debt securities	6,503	6,451	4,062	3,984
Available for sale securities:				
Debt securities	2,461,493	2,461,493	2,308,667	2,308,667
Equity securities	326,667	326,667	397,174	397,174
	2,788,160	2,788,160	2,705,841	2,705,841
Securities at fair value through income:				
Debt securities	175,437	175,437	150,884	150,884
Equity securities	47,549	47,549	43,261	43,261
	222,986	222,986	194,145	194,145
Loans and receivables:				
Debt securities	658,288	661,479	677,084	712,053
Mortgage loans	492,018	490,533	420,600	419,406
Policy loans	251,782	251,782	254,993	254,993
Finance loans and finance leases	245,880	245,880	235,133	235,133
Securities purchased under agreements to resell	44,640	44,640	69,029	69,029
Deposits	339,387	339,387	171,960	171,960
	2,031,995	2,033,701	1,828,799	1,862,574
Total financial investments	5,049,644	5,051,298	4,732,847	4,766,544
Debt securities comprise:				
	2006	2005		
Government debt securities	2,058,119	1,943,775		
Corporate debt securities	657,180	612,692		
Collateralised mortgage obligations	480,452	475,636		
Other securities	105,970	108,594		
	3,301,721	3,140,697		

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

## 11. FINANCIAL INVESTMENTS (continued)

## 11.1 Analysis of financial investments (continued)

Debt securities include \$46,900 (2005 - \$49,452) and policy loans include \$60,824 (2005 - \$62,930) in assets held in trust for a reinsurer. The Group earns no income on these assets.

Debt securities include \$14,893 (2005 - \$12,733) that contain options to convert to common shares of the issuer.

Corporate debt securities include:

(i) convertible loans totalling \$9,543 (2005 - \$1,548) issued to the Group by an associated company. These loans can be converted into equity or bonds issued by the associated company.

(ii) \$23,833 (2005 - \$25,598) in bonds issued by an associated company.

Equity securities include \$12,503 (2005 - \$12,526) in mutual funds managed by the Group.

## 11.2 Pledged assets

Debt securities include \$78,440 (2005 - \$82,330) held in trust supporting reinsurance liabilities assumed. The Group manages these investments and bears the investment risk.

Debt and equity securities include \$40,993 (2005 - \$55,749) as collateral for loans payable.

The collateral for other funding instruments from the Federal Home Loan Bank (FHLB), consists of an equity holding in the FHLB with market value of \$10,622 (2005 - \$12,026), and mortgages and mortgage backed securities having a total market value of \$247,792 (2005 - \$255,554).

Debt securities are pledged as collateral under repurchase agreements with customers and other financial institutions and for security relating to overdraft and other facilities with other financial institutions. As of December 31, 2006, these pledged assets totalled \$949,662 (2005 - \$904,302). Of these assets pledged as security \$378,151 (2005 - \$394,706) represent collateral for securities sold under agreements to repurchase in instances when the transferee has the right by contract or by custom to sell or re-pledge the collateral.

## 11.3 Significant concentrations

	2006	2005
Debt securities:		
Government of Jamaica	1,447,125	1,322,041
Federal government of USA and its agencies	585,506	576,354
Government of Barbados	164,796	208,154
Deposits:		
FirstCaribbean International Bank	164,049	9,211

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

## 11. FINANCIAL INVESTMENTS (continued)

## 11.4 Effective interest rates

	2006	2005
Debt securities	9.4%	11.6%
Mortgage loans	8.2%	7.7%
Policy loans	8.3%	9.7%
Finance loans and finance leases	11.6%	12.9%
Securities purchased under agreements to resell	11.4%	9.1%
Deposits	4.8%	5.2%

## 11.5 Maturity profiles

	December 31, 2006			Total
	Repayable within one year	Repayable between one and five years	Repayable after five years	
Debt securities	379,848	966,468	1,955,405	3,301,721
Mortgage loans	11,632	38,478	441,908	492,018
Finance loans and finance leases	93,398	89,593	62,889	245,880
Securities purchased under agreements to resell	44,640	-	-	44,640
Deposits	310,798	25,418	3,171	339,387
	840,316	1,119,957	2,463,373	4,423,646

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

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



## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

## 11. FINANCIAL INVESTMENTS (continued)

## 11.6 Returns accruing to the benefit of contract-holders

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

	2006	2005
Debt securities	130,301	125,899
Equity securities	44,089	35,520
Mortgage loans	87,317	82,504
Securities purchased under agreements to resell	4,903	6,706
	<u>266,610</u>	<u>250,629</u>

## 11.7 Allowances for impairment losses

	2006	2005
Mortgage loans	5,728	5,222
Debt securities	14,608	14,826
Finance loans and finance leases	4,947	5,710
	<u>25,283</u>	<u>25,758</u>

Interest of \$6,557 (2005 - \$3,645) has been accrued on impaired financial investments.

## 12. REINSURANCE ASSETS

	2006	2005
Reinsurers' share of:		
Actuarial liabilities (note 16.1)	552,941	605,995
Policy benefits in the course of settlement (note 17.2)	42,003	43,483
Provision for unearned premiums (note 17.3)	35,886	24,662
Other items	12,548	12,508
	<u>643,378</u>	<u>686,648</u>

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

The reinsurers' share of actuarial liabilities and claim recoveries from reinsurers include the following significant balances:

	2006	2005
Scottish Re (U.S.) Inc - rated B (Fair) by A.M. Best	337,442	366,900
Washington National Insurance Company - rated B++ (Good) by A.M. Best	<u>190,522</u>	<u>211,532</u>

The reinsurers' share of liabilities held by Scottish Re is secured by assets held in trust by a third party totalling \$296,745 and by the Group (see note 11.1).

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

## 13. INCOME TAX ASSETS

	2006	2005
Deferred income tax assets (note 34)	8,451	8,226
Income and withholding taxes recoverable	28,214	27,485
	<u>36,665</u>	<u>35,711</u>

## 14. MISCELLANEOUS ASSETS AND RECEIVABLES

	2006	2005
Pension plan assets (note 32.2)	2,008	2,195
Real estate developed or held for resale	25,802	23,498
Premiums in the course of collection	55,852	52,517
Amounts due from managed funds	6,028	10,722
Other accounts receivable	110,512	113,956
	<u>200,202</u>	<u>202,888</u>

Real estate developed for resale includes \$17,675 (2005 - \$8,611) which is expected to be realised after one year.

Real estate developed for resale includes \$6,323 (2005 - \$4,628) which represents the Group's proportionate interest in the joint ventures set out below.

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

## 15. CASH RESOURCES

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

	2006	2005
FirstCaribbean International Bank	<u>31,204</u>	<u>72,440</u>

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

## 16. ACTUARIAL LIABILITIES

## 16.1 Analysis of actuarial liabilities

	Gross liability		Reinsurers' share	
	2006	2005	2006	2005
(a) Life insurance, annuities and health insurance - <u>contracts issued to individuals:</u>				
Life - participating policies	559,078	537,231	6,554	6,302
Life and annuity - non-participating policies	1,635,984	1,689,997	441,662	483,188
Health	7,903	7,192	3,179	2,666
Unit linked funds	178,980	169,151	-	-
Reinsurance contracts held	12,114	18,910	-	-
	<u>2,394,059</u>	<u>2,422,481</u>	<u>451,395</u>	<u>492,156</u>
(b) Life insurance, annuities and health insurance - <u>contracts issued to groups:</u>				
Life	50,560	54,704	4,790	7,157
Annuities	266,933	282,565	95,858	106,428
Health	35,616	31,447	898	254
	<u>353,109</u>	<u>368,716</u>	<u>101,546</u>	<u>113,839</u>
Total actuarial liabilities	<u>2,747,168</u>	<u>2,791,197</u>	<u>552,941</u>	<u>605,995</u>

The following notes are in respect of the above:

- Life insurance includes coverage for disability and critical illness.
- Actuarial liabilities include \$305,419 (2005 - \$368,271) in assumed reinsurance.
- Liabilities for reinsurance contracts held occur because the reinsurance premium costs exceed the mortality costs assumed in determining the gross liability of the policy.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

## 16. ACTUARIAL LIABILITIES (continued)

## 16.2 Movement in actuarial liabilities

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

	Gross amount		Reinsurers' share	
	2006	2005	2006	2005
Balance, beginning of year as restated (note 43)	2,791,197	1,485,042	605,995	2,889
Transfers	1,804	-	-	-
Amounts assumed on acquisitions	-	1,254,825	-	609,373
Change in actuarial liabilities (note 30)	(35,135)	66,379	(53,062)	(6,267)
Effect of exchange rate changes	(10,698)	(15,049)	8	-
Balance, end of year	2,747,168	2,791,197	552,941	605,995

The change in gross liability by geographical segment is as follows:

	2006	2005
Barbados	8,170	28,834
Jamaica	25,321	8,660
Trinidad & Tobago	7,207	31,374
USA	(91,794)	(1,624)
Other Caribbean	15,961	(865)
	(35,135)	66,379

## 16.3 Assumptions

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

### 16. ACTUARIAL LIABILITIES (continued)

#### (b) Assumptions for mortality and morbidity

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

For the 2006 valuation, certain insurers conducted studies of their own recent mortality experience. Studies were conducted by combining data in some geographic segments to create a credible mortality table. The combined experience was measured against an industry standard (Canadian Institute of Actuaries (CIA) 1986 – 1992 tables) and the combined experience resulted in a modification of the probabilities of death by policy duration. Appropriate modification factors were selected and applied to underwritten and non-underwritten business respectively in the actuarial valuation. Annuitant mortality was determined by reference to CIA tables or to other established scales.

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

#### (i) Change in assumption and prior year adjustment

For the 2006 valuation, the AA reviewed the approach for determining the mortality assumption for the former Life of Barbados Limited insurance policies which were transferred into the opening participating fund on February 1, 2005 (the date of amalgamation of Sagicor Life Inc and Life of Barbados Limited). It was concluded that the use of a specific mortality assumption for these insurance policies provides a closer representation of best estimate than the use of a combined mortality assumption derived from a wider grouping of insurance policies. This conclusion is supported by actuarial practice and is consistent with the terms of the open participating fund as described in the Scheme of Amalgamation of Sagicor Life Inc and Life of Barbados Limited. Accordingly, revised mortality assumptions were adopted for these open participating policies and for the other policies in the wider grouping of insurance policies referred to above. These changes have resulted in a restatement of the actuarial liabilities from February 1, 2005, and are reflected in the restated amounts for the year ended December 31, 2005 as summarised in note 43.

#### (c) Assumptions for lapse

Lapses relate to the forced termination of policies due to non-payment of premium or to the voluntary termination of policies by policyholders.

Lapse studies were performed by certain insurers for the 2006 valuation, to determine the most recent experience of persistency. Appropriate rates of termination by policy duration were determined and applied in the actuarial valuation.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

## 16. ACTUARIAL LIABILITIES (continued)

(d) Assumptions for investment yields

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

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

	2006
Geographical segment	URR
Barbados	5.0%
Jamaica	7.0%
Trinidad & Tobago	5.0%
USA	4.0% - 4.75%
Other Caribbean	5.0%

(e) Assumptions for operating expenses and taxes

Policy acquisition and policy maintenance expense costs for long-term business of each insurer are measured and monitored using internal expense studies. Policy maintenance expense costs are reflected in the actuarial valuation after adjusting for expected inflation. Costs were updated for the 2006 valuation and were applied on a per policy basis.

## (i) Change in assumption and prior year adjustment

For the 2006 valuation, the AA reviewed the approach for determining the inflation assumption for the former Life of Barbados Limited insurance policies which were transferred into the opening participating fund on February 1, 2005 (the date of the amalgamation of Sagicor Life Inc and Life of Barbados Limited). The rate of inflation and the methodology for applying the inflation assumption were changed for consistency to those applied to the policies in the closed participating funds. These changes in rate and methodology have resulted in a restatement of actuarial liabilities of the open participating insurance policies from February 1, 2005, and is reflected in the restated amounts for the year ended December 31, 2005 as summarised in note 43.

(f) Asset defaults

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

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

## 16. ACTUARIAL LIABILITIES (continued)

(g) Margins for adverse deviations

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

Provisions for adverse deviations	2006	2005 Restated
Mortality and morbidity	46,479	50,337
Lapse	36,903	34,864
Investment yields and asset default	108,572	162,908
Operating expenses and taxes	20,976	25,627
	<u>212,930</u>	<u>273,736</u>

(h) Health insurance

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

(i) Movement in actuarial liabilities arising from changes in assumptions

The increase in actuarial liability for the year includes the effects arising from changes in assumptions.

Components of the net increase in actuarial liabilities have been estimated using Policy Premium Method equivalents. Because the process of changes in assumptions is applied to all affected insurance contracts, changes in assumptions and in actuarial modelling may have a significant effect in the period in which they are recorded.

The total effect of changes in assumptions and actuarial modelling are as follows.

	2006	2005
Decrease in actuarial liabilities	<u>(103,206)</u>	<u>(68,577)</u>

Significant specific changes in assumptions and actuarial modelling which represent more than 5% of actuarial liabilities at the beginning of the year are set out below.

	2006	2005
Increase in actuarial liabilities arising from the introduction of margins on equity securities and real estate supporting policy liabilities	<u>-</u>	<u>76,400</u>

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

*Amounts expressed in Barbados \$000*

### 16. ACTUARIAL LIABILITIES (continued)

#### 16.4 Sensitivity analysis

##### (a) Sensitivity arising from the valuation of actuarial liabilities

The valuation of actuarial liabilities is sensitive to:

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

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

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

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

- Operating expenses and taxes
- Lapse
- Mortality and morbidity



## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

### 16. ACTUARIAL LIABILITIES (continued)

#### (b) Dynamic capital adequacy testing (DCAT)

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

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

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

The purpose of the DCAT is

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

Full DCAT testing has not yet been completed for certain insurers. However, limited sensitivity tests have been completed in accordance with DCAT scenarios for the following insurers:

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

These insurers have net actuarial liabilities totalling \$1,619,331 or 74% of the Group total.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

*Amounts expressed in Barbados \$000*

### 16. ACTUARIAL LIABILITIES (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 increased. For business which produces higher valuation reserves with a decrease in lapse rates, the scenario lapse rates were reduced.
- The business was tested by applying a factor of 1.1 and 0.9 to the existing lapse rates. The 0.9 factor produced the higher valuation reserve and was included in the results.

Overall, this scenario produces adverse results.

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

(iii) Low interest rate. An assumed decrease in portfolio rate of 0.25% for 5 years (LOJ - 0.5% per year for 10 years) was tested in this scenario. Overall, this scenario produces adverse results.

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

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

(vi) Level new business. New business planned for 2007 was maintained for the 5 year period. Overall, this scenario has no effect on the 2006 liabilities.

(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 2006 liabilities.

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.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

## 16. ACTUARIAL LIABILITIES (continued)

The following table represents the estimated sensitivity of each of the above scenarios to net actuarial liabilities totalling \$1,619,331 at balance sheet date.

Scenario	2006
	(Increase)/decrease in net actuarial liability
(i) Worsening rate of lapse	(58,378)
(ii) High interest rate	328,484
(iii) Low interest rate	(159,171)
(iv) Worsening mortality / morbidity	(53,560)
(v) Higher expenses	(75,094)
(vi) Level new business	-
(vii) Double new business	-

## 17. OTHER INSURANCE LIABILITIES

## 17.1 Analysis of other insurance liabilities

	2006	2005
Dividends on deposit and other policy balances	121,750	116,685
Policy benefits in the course of settlement	113,080	109,596
Provision for unearned premiums	70,572	56,967
	305,402	283,248

## 17.2 Policy benefits in the course of settlement

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

Policy benefits in the course of settlement comprise:

	Gross liability		Reinsurers' share	
	2006	2005	2006	2005
Life insurance and annuity benefits	70,536	64,826	21,700	20,377
Health claims	2,019	1,140	2,630	851
Property and casualty claims	40,525	43,630	17,673	22,255
	113,080	109,596	42,003	43,483

Health claims include \$1,648 (2005 - \$315) in provisions for claims incurred but not yet reported. Property and casualty claims include \$8,209 (2005 - \$8,744) in provisions for claims incurred but not yet reported.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

## 17. OTHER INSURANCE LIABILITIES (continued)

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

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

	Gross amount		Reinsurers' share	
	2006	2005	2006	2005
Balance, beginning of year, as restated (note 43)	109,596	150,908	43,483	90,883
Amounts assumed on acquisitions	-	33,022	-	10,263
Policy benefits incurred (note 30)	621,915	432,607	112,457	44,456
Policy benefits paid	(616,677)	(505,028)	(113,206)	(101,238)
Effect of exchange rate changes	(1,754)	(1,913)	(731)	(881)
Balance, end of year	113,080	109,596	42,003	43,483

(c) Change in methodology and prior year adjustment

The method for computing the provision for claims incurred but not reported for property and casualty business was changed in 2006. The change provides a more comprehensive assessment of the provision. It was applied retroactively and resulted in increases in the gross liability of \$6,822 as of December 31, 2004 and of \$7,049 as of December 31, 2005. The reinsurers' share of the liability decreased by \$2,029 as of December 31, 2004 and by \$913 as of December 31, 2005. These restatements are summarised in note 43.

## 17.3 Provision for unearned premiums

(a) Analysis of provision for unearned premiums

The provision for unearned premiums arises from:

	Gross liability		Reinsurers' share	
	2006	2005	2006	2005
Property and casualty insurance	68,026	53,857	35,886	24,662
Health insurance	2,546	3,110	-	-
	70,572	56,967	35,886	24,662

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

## 17. OTHER INSURANCE LIABILITIES (continued)

(b) Movement in provision for unearned premiums

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

	Gross amount		Reinsurers' share	
	2006	2005	2006	2005
Balance, beginning of year, as restated (note 43)	56,967	35,636	24,662	6,950
Amounts assumed on acquisitions	-	21,131	-	15,003
Premiums written	190,533	99,869	107,841	38,207
Premium revenue	(176,914)	(97,931)	(96,636)	(35,325)
Effect of exchange rate changes	(14)	(1,738)	19	(173)
Balance, end of year	70,572	56,967	35,886	24,662

(c) Change in methodology and prior year adjustment

The method for computing the reinsurers' share of the provision for unearned premiums for property and casualty business was adjusted in 2006 to exclude the effects of calendar year reinsurance treaties. The adjustment was applied retroactively and resulted in decreases of \$6,449 as of December 31, 2004 and of \$8,627 as of December 31, 2005 in the reinsurers' share of the provision for unearned premiums. These restatements are summarised in note 43.

## 18. INVESTMENT CONTRACT LIABILITIES

	2006	2005
Deposit administration liabilities	352,388	340,615
Other investment contracts	89,321	85,546
	441,709	426,161

## 18.1 Deposit administration liabilities

The effective interest rate of deposit administration liabilities is as follows:

	2006	2005
Effective interest rate	7.8%	7.8%

Deposit administration liabilities represent pension fund balances on deposit which are long term in nature and which are generally expected to be settled after one year.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

## 18. INVESTMENT CONTRACT LIABILITIES (continued)

## 18.2 Other investment contract liabilities

The effective interest rate and contractual maturity profile of other investment contract liabilities are as follows:

	2006	2005
Effective interest rate	7.9%	8.9%
Contractual maturity profile:		
Repayable on demand or within one year	48,698	52,828
Repayable between one and five years	10,917	15,459
Repayable after five years	29,706	17,259
	<u>89,321</u>	<u>85,546</u>

## 19. SENIOR NOTES AND LOANS PAYABLE

	December 31, 2006		December 31, 2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
7.5% senior notes due 2016	293,030	305,955	-	-
Bank loans	28,035	28,035	160,728	160,728
	<u>321,065</u>	<u>333,990</u>	<u>160,728</u>	<u>160,728</u>

On May 12, 2006, Sagikor Finance Limited issued US\$ 150 million senior notes which are guaranteed by the Company and another subsidiary. The notes are repayable 10 years after issue and the rate of interest is fixed for the duration. The notes are traded and are listed on the Luxembourg Euro MTF Market.

Bank loans are secured either by portfolios of investment securities or by the holdings in subsidiaries.

The effective interest rate and contractual maturity profile of senior notes and loans payable are as follows:

	2006	2005
Effective interest rate	7.4%	4.9%
Contractual maturity profile:		
Repayable within one year	19,292	132,168
Repayable between one and five years	11,788	28,560
Repayable after five years	289,985	-
	<u>321,065</u>	<u>160,728</u>

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

## 20. DEPOSIT AND SECURITY LIABILITIES

	December 31, 2006		December 31, 2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Other funding instruments:				
Loans for mortgage financing	247,585	254,547	252,704	250,792
Loans for development financing	31,003	31,003	31,042	31,042
Loans from commercial banks	11,081	11,121	12,496	12,451
Deposits:				
Customer deposits	246,315	246,315	227,504	227,504
Securities:				
Securities sold under agreements to repurchase	948,836	948,836	907,987	907,987
Bank overdrafts	5,963	5,963	8,712	8,712
Total deposit and security liabilities	1,490,783	1,497,785	1,440,445	1,438,488

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

Un-disbursed facilities in respect of other funding instruments and bank overdrafts total approximately \$3,558 (2005 – \$6,054).

(a) Significant concentrations

	2006	2005
Other funding instruments:		
Federal Home Loan Bank (FHLB)	241,310	252,704

(b) Effective interest rates

	2006	2005
Other funding instruments	6.1%	5.6%
Deposits	7.1%	7.3%
Securities	9.3%	10.0%

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

## 20. DEPOSIT AND SECURITY LIABILITIES (continued)

(c) Contractual maturity profiles

	2006			Total
	Repayable within one year	Repayable between one and five years	Repayable after five years	
Other funding instruments	164,580	35,582	89,507	289,669
Deposits	156,550	70,100	19,665	246,315
Securities	943,689	703	4,444	948,836
Bank overdrafts	5,963	-	-	5,963
	1,270,782	106,385	113,616	1,490,783

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

## 21. PROVISIONS

	2006	2005
Pension plans and other retirement benefits (note 32.2)	35,925	34,080
Other	5,205	3,366
	41,130	37,446

## 22. INCOME TAX LIABILITIES

	2006	2005
Deferred income tax liabilities (note 34)	14,868	10,938
Income taxes payable	22,487	20,020
	37,355	30,958



## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

## 23. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2006	2005
Amounts due to policyholders	3,299	2,331
Amounts due to reinsurers	135,533	139,046
Amounts due to managed funds	7,217	11,956
Other accounts payable and accrued liabilities	111,282	120,557
	<u>257,331</u>	<u>273,890</u>

Amounts due to reinsurers include \$107,724 (2005 – \$112,382) due to a reinsurer in respect of assets held in trust by the Group (see note 11.1).

## 24. SHARE CAPITAL

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

	Year ended December 31, 2006		Year ended December 31, 2005	
	Number of shares '000	\$000	Number of shares '000	\$000
Issued and fully paid common shares:				
Balance, beginning of year	265,553	458,451	260,030	432,495
Allotments	1,432	5,652	5,523	25,956
Balance, end of year	<u>266,985</u>	<u>464,103</u>	<u>265,553</u>	<u>458,451</u>
Treasury shares:				
Shares acquired by ESOP trustees	(798)	(3,633)	-	-
Total share capital	<u>266,187</u>	<u>460,470</u>	<u>265,553</u>	<u>458,451</u>

The Company's shares are listed on the Barbados and Trinidad stock exchanges. On February 14, 2007, the Company's shares were listed on the London stock exchange.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

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## 25. RESERVES

	Year ended December 31, 2006					
	Fair value reserves					Total
	Available for sale assets	Owner occupied property	Currency translation reserve	Share based payment reserves	Statutory reserves	
Balance, beginning of year, as restated (note 43)	112,013	17,771	(32,878)	-	9,620	106,526
Unrealised gains arising on revaluation, net of taxes	9,378	1,290	-	-	-	10,668
Gains transferred to income on disposal and impairment	(9,799)	-	-	-	-	(9,799)
Retranslation of foreign operations	-	-	(12,744)	-	-	(12,744)
Net gains/(losses) recognised directly in equity	(421)	1,290	(12,744)	-	-	(11,875)
Value of employee services rendered	-	-	-	2,944	-	2,944
Net change for the year	39	-	-	-	(1,422)	(1,383)
	(382)	1,290	(12,744)	2,944	(1,422)	(10,314)
Balance, end of year	111,631	19,061	(45,622)	2,944	8,198	96,212

	Year ended December 31, 2005				
	Fair value reserves				Total
	Available for sale assets	Owner occupied property	Currency translation reserve	Statutory reserves	
Balance, beginning of year	172,920	12,971	(25,486)	7,289	167,694
Unrealised gains arising on revaluation, net of taxes	4,967	4,896	-	-	9,863
(Gains)/losses transferred to income on disposal and impairment	(65,874)	-	5,732 <sup>(1)</sup>	-	(60,142)
Gains transferred to retained earnings on disposal	-	(96)	-	-	(96)
Retranslation of foreign operations	-	-	(13,124)	-	(13,124)
Net gains/(losses) recognised directly in equity	(60,907)	4,800	(7,392)	-	(63,499)
Net change for the year	-	-	-	2,331	2,331
	(60,907)	4,800	(7,392)	2,331	(61,168)
Balance, end of year	112,013	17,771	(32,878)	9,620	106,526

<sup>(1)</sup> Restated amount (see notes 38 and 43).

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

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## 26. PARTICIPATING ACCOUNTS

The movements in the participating accounts during the year were as follows:

	Closed participating account		Open participating account	
	2006	2005	2006	2005
Balance, beginning of year:				
As previously stated	13,964	779	20,683	609
Prior year adjustments (see below)	(3,424)	(712)	(10,303)	-
As restated	10,540	67	10,380	609
Net unrealised gains arising on available for sale investment securities	2	235	-	-
Transfer from retained earnings to support the profit distribution to shareholders	-	-	-	13,994
Return of transfer to support profit distribution to shareholders	-	-	(511)	(498)
Return of seed capital to retained earnings	-	-	-	(5,500)
Net income/(loss) for the year	3,773	10,238	(4,379)	1,775
Balance, end of year	14,315	10,540	5,490	10,380

During 2006, management reviewed the mechanisms for valuing policies in the participating funds and for accounting for these funds.

In notes 16.3(b)(i) and 16.3(e)(i), valuation changes are described to insurance policies included in the participating funds. These changes have also given rise to a decrease of \$2,298 in 2005 of income attributable to the closed participating account and a decrease of \$8,865 in 2005 of income attributable to the open participating account.

The review also considered the method for allocating investment income derived from the assets backing the ancillary fund components of the two participating funds. In prior years this income was included in the income of the participating funds. Management has now determined that this income should be excluded from the income of the participating funds because it is the responsibility of the general operations of Sagicor Life Inc to support the ancillary funds in the two participating funds. This change is also consistent with the terms of the Demutualization Scheme, the Scheme of Amalgamation of Sagicor Life Inc and Life of Barbados Ltd, and with actuarial practice. Accordingly, the allocation of investment income for the ancillary funds has been restated from the establishment of the first ancillary fund. In 2005, the change gave rise to a decrease of \$620 in income attributable to the closed participating account and a decrease of \$3,134 in income attributable to the open participating account.

Other consequential changes have given rise to increases in 2005 income of \$206 and \$1,202 attributable to the closed and open participating accounts respectively. Prior year changes to the participating accounts are also summarised in note 43.

## NOTES TO THE FINANCIAL STATEMENTS

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Amounts expressed in Barbados \$000

## 26. PARTICIPATING ACCOUNTS (continued)

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

	Closed participating fund		Open participating fund	
	2006	2005	2006	2005
Assets	184,817	181,104	424,241	403,784
Liabilities	170,502	170,564	418,751	393,404
Revenues	21,857	20,589	70,299	68,045
Benefits	14,569	6,208	55,659	44,197
Expenses	3,137	3,573	17,337	20,615
Income taxes	378	570	1,682	1,458

## 27. PREMIUM REVENUE

	Gross revenue		Reinsurance expense	
	2006	2005	2006	2005
Life insurance	463,205	392,303	75,016	57,726
Annuities	112,183	85,302	730	122
Health insurance	227,095	197,039	11,324	8,452
Property and casualty insurance	134,923	74,063	95,092	45,389
	937,406	748,707	182,162	111,689

Gross revenue includes \$38,377 (2005 - \$24,640) in reinsurance assumed.

## 28. NET INVESTMENT INCOME

	2006	2005
Income:		
Interest income:		
Debt securities	284,681	242,360
Mortgage loans	35,843	28,071
Policy loans	15,346	14,184
Finance loans and finance leases	26,423	25,431
Securities purchased under agreements to resell	8,056	10,735
Deposits	12,790	8,619
Other balances	271	509
	383,410	329,909
Dividend income	12,551	12,432
Net gains on financial investments	40,530	78,189
Rental income from investment property	10,690	11,179
Net fair value gains on investment property	18,628	1,710
Foreign exchange translation and trading	5,739	4,461
Other investment income	6,018	1,825
	477,566	439,705

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

## 28. NET INVESTMENT INCOME (continued)

	2006	2005
Income (page 116)	477,566	439,705
Expenses		
Allowances for impairment losses	365	15,608
Direct operating expenses of investment property	2,610	2,430
Other direct investment expenses	3,559	6,252
	6,534	24,290
Net investment income	471,032	415,415

Interest from debt securities includes \$2,648 (2005 - \$2,881) from an associated company.

## 29. FEES AND OTHER REVENUE

	2006	2005
Fee income – assets under administration	23,393	19,792
Fee income – deposit administration and policy funds	5,749	5,762
Commission income on insurance and reinsurance contracts	22,680	16,687
Other fees and commission income	15,411	17,038
Other operating and miscellaneous income	19,882	17,672
	87,115	76,951

## 30. POLICY BENEFITS AND CHANGE IN ACTUARIAL LIABILITIES

	Gross amount		Reinsurers' share	
	2006	2005	2006	2005
Policy benefits:				
Life insurance benefits	258,844	219,788	47,873	27,242
Annuity benefits	164,820	58,676	45,338	2,634
Health insurance claims	165,606	134,128	6,705	8,782
Property & casualty insurance claims	32,645	20,015	12,541	5,798
Total policy benefits	621,915	432,607	112,457	44,456
Change in actuarial liabilities (note 16.2)	(35,135)	66,379	(53,062)	(6,267)
Total policy benefits and change in actuarial liabilities	586,780	498,986	59,395	38,189

Gross policy benefits include \$42,342 (2005 - \$23,085) arising from reinsurance assumed.

## 31. INTEREST EXPENSE

	2006	2005
Insurance contracts	5,319	6,107
Investment contracts	35,002	32,060
Other funding instruments	17,309	5,801
Deposits	16,163	14,598
Securities	82,793	87,418
Other Items	2,153	1,885
	158,739	147,869

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

### 32. EMPLOYEE BENEFITS

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

	2006	2005
Administrative staff salaries, directors' fees and other short-term benefits	111,539	91,272
Employer contributions to social security schemes	8,540	7,082
Equity compensation benefits	3,436	6,773
Employer contribution to defined contribution pension schemes	688	1,026
Costs – defined benefit pension schemes	4,978	4,672
Costs – other retirement benefits	1,756	1,403
	130,937	112,228

The total number of administrative staff at December 31 was 1,764 persons (2005 – 1,627 persons).

#### 32.1 Equity compensation benefits

##### (a) The Company

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

##### (i) LTI plan

Share options and restricted share grants have been granted to designated key management of the Group during the year.

Options are granted at the fair market price of the shares at the time that the option is granted. 25% of the options each vest on the first, second, third and fourth anniversaries of the grant date. Options are exercisable up to 10 years from the grant date.

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

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

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## 32. EMPLOYEE BENEFITS (continued)

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

	Share options		Restricted share grants	
	Number of options '000	Weighted average exercise price	Number of grants '000	Weighted average fair value
Balance, beginning of year	-	-	-	-
Granted during the year	932	B\$ 3.95	305	B\$ 3.95
Vested during the year	-	-	(91)	B\$ 3.95
Balance, end of year	932	B\$ 3.95	214	B\$ 3.95
Exercisable at the end of the year	-	-	-	-

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

	Share options
Share price at grant date	B\$3.95
Fair value of options at grant date	B\$1.38
Expected volatility	35.8%
Expected life	7.0 years
Expected dividend yield	3.0%
Risk-free interest rate	6.0%

Effective December 31, 2005 and during 2006, the Company authorised further compensation to designated key management which, at the option of the recipient, could be settled either in cash or in shares issued by the Company, or by a combination of cash and shares. During 2006, 1,342,000 common shares were issued to key management out of the compensation awarded. These shares were issued at the market price prevailing at the exercise dates for a total value of \$5,294.

## (ii) ESOP

During the year, the Company approved an award under the ESOP in respect of permanent administrative employees and sales agents of the Company and Sagicor Life Inc. The ESOP is administered by Trustees under a discretionary trust. The amount awarded is used by the Trustees to acquire company shares. Administrative employees and sales agents are required to serve a qualifying period of five years from the award date in order to qualify as a beneficiary. Shares are distributed to beneficiaries upon their retirement or termination of employment.

During the year, 798,000 common shares have been acquired by the Trustees in order to satisfy current and future awards.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

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## 32. EMPLOYEE BENEFITS (continued)

## (iii) Expense

The expense recorded in the income statement in respect of the LTI plan and ESOP totalled \$2,395.

(b) Life of Jamaica Limited (LOJ)

Effective May 1, 2003, LOJ instituted a share based plan for executives. 150,000,000 ordinary shares (or 5% of the authorised share capital at that date) have been set aside for the plan.

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

The movement in share options was as follows:

	2006		2005	
	Number of options '000	Weighted average exercise price	Number of options '000	Weighted average exercise price
Balance, beginning of year	19,045	J\$ 6.14	14,959	J\$ 5.13
Options granted	4,047	J\$ 8.00	4,086	J\$ 9.86
Balance, end of year	23,092	J\$ 8.81	19,045	J\$ 6.14
Exercisable at the end of the year	9,682	J\$ 7.39	3,739	J\$ 9.86

Further details of share options outstanding at December 31, 2006 are as follows:

	<u>Share options</u>
Fair value of options outstanding	J\$15,463,000
Weighted average share price at grant date	J\$ 2.70
Exercise price	J\$ 2.30 – 5.67
Standard deviation of expected share price returns	34.0%
Weighted average remaining contractual term	3 years
Risk-free interest rate	13.7%

The total expense recorded in the income statement in respect of the share option plan totalled \$179 (2005 – \$292).

LOJ has in place a share purchase plan which enables its administrative and sales staff to purchase shares at a discount. The proceeds from shares issued under this plan totalled \$3,245 (2005 - \$4,754).



## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

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## 32. EMPLOYEE BENEFITS (continued)

(c) Pan Caribbean Financial Services Limited (PCFS)

PCFS offers share options to employees who have completed the minimum eligibility period of employment. Options are conditional on the employee completing a minimum service period of one year. Options are forfeited if the employee leaves PCFS before the options vest. PCFS share options were granted as follows:

(i) 450,000 share options on February 7, 2002. These expired on December 31, 2006. The shares in respect of these options have been issued by PCFS and are held in an Employee Share Option Trust. The exercise price for these options is J\$4.55. The remaining 290,000 of these options were taken up during the year.

(ii) 17,220,000 share options on March 8, 2004. These options expire on December 31, 2007. The exercise price for these options is J\$10. The options were vested December 31, 2006. 7,500,000 of these options were vested and exercised in prior years. A further 5,168,000 vested options were exercised in 2006.

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

(iv) 1,200,000 share options on March 1, 2005. These options expire on February 28, 2009. The exercise price for the options is J\$36.50. The options vest over four years – 25% on each anniversary date of the grant. 600,000 of these options were forfeited and contracts for 450,000 were cancelled. 150,000 of the share options vested on March 1, 2006.

(v) 1,200,000 share options on March 1, 2006. These options expire on February 28, 2010. The exercise price for the options is J\$19.29. The options vest over four years – 25% on each anniversary date of the grant.

The movement in share options was as follows:

	2006		2005	
	Number of options '000	Weighted average exercise price	Number of options '000	Weighted average exercise price
Balance, beginning of year	11,210	J\$ 12.70	-	-
Assumed on acquisition	-	-	11,887	J\$ 9.80
Options granted	1,200	J\$ 19.29	1,200	J\$ 36.50
Options exercised	(5,458)	J\$ 9.71	(1,817)	J\$ 10.00
Options lapsed/forfeited	(1,050)	J\$ 36.50	(60)	J\$ 4.55
Balance, end of year	5,902	J\$ 12.56	11,210	J\$ 12.70
Exercisable at the end of the year	4,702	J\$ 10.85	7,510	J\$ 10.20

The weighted average share price at the date of exercise for options exercised during the year was J\$18.95.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

## 32. EMPLOYEE BENEFITS (continued)

Further details of share options outstanding at December 31, 2006 are as follows:

	Share options
Fair value of options outstanding	J\$ 32,400,000
Weighted average share price at grant date	J\$ 13.18
Exercise price	J\$ 10.00 - 36.50
Standard deviation of expected share price returns	30.0%
Weighted average remaining contractual term	2 years
Risk-free interest rate	13.7%

The total expense recorded in the income statement in respect of the share option plan totalled \$ 364 (2005 - \$ 656).

## 32.2 Employee retirement benefits

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

The amounts recognised in the balance sheet are determined as follows:

	Pension benefits		Other retirement benefits	
	2006	2005	2006	2005
Fair value of retirement plan assets	130,680	116,780	1,939	-
Present value of retirement obligations	(163,592)	(138,051)	(14,421)	(9,117)
	(32,912)	(21,271)	(12,482)	(9,117)
Unrecognised actuarial (gains)/losses	6,606	(4,326)	4,871	2,829
Amounts recognised in the balance sheet	(26,306)	(25,597)	(7,611)	(6,288)
Represented by:				
Asset balances	2,008	2,195	-	-
Liability balances	(28,314)	(27,792)	(7,611)	(6,288)
	(26,306)	(25,597)	(7,611)	(6,288)

Included in liability balances are interest bearing deposit administration fund balances totalling \$33,690 (2005 - \$31,422) representing employee pension plan funds on deposit with the Group.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

## 32. EMPLOYEE BENEFITS (continued)

The amounts recognised in the income statement are determined as follows:

	Pension benefits		Other retirement benefits	
	2006	2005	2006	2005
Current service cost	5,608	5,322	872	734
Interest cost	12,697	10,519	1,109	670
Net actuarial (gains)/losses recognised during the year	2,096	123	(6)	(1)
Past service cost	348	696	-	-
Expected return on retirement plan assets	(15,771)	(11,988)	(219)	-
Total cost	4,978	4,672	1,756	1,403

The actual return on retirement plan assets was \$14,488 (2005 – \$10,573).

The movement in the amounts recognised in the balance sheet is as follows:

	Pension benefits		Other retirement benefits	
	2006	2005	2006	2005
Amounts recognised, beginning of year	(25,597)	(24,531)	(6,288)	(5,149)
Amounts recognised on subsidiaries acquired	-	452	-	(110)
Total cost	(4,978)	(4,672)	(1,756)	(1,403)
Contributions made	4,210	3,043	160	154
Effects of exchange rate changes	59	111	273	220
Amounts recognised, end of year	(26,306)	(25,597)	(7,611)	(6,288)

The principal actuarial assumptions used were as follows:

	Pension benefits			Other retirement benefits
	Jamaica	Trinidad & Tobago	Barbados & other countries	Jamaica
Discount rate	12.0%	8.0%	6.0% - 8.0%	12.0%
Expected return on plan assets	14.0%	8.0%	6.0% - 8.0%	14.0%
Future salary increases	9.5%	6.5%	2.3% - 6.5%	9.5%
Future pension increases	3.5%	1.5%	2.0% - 2.5%	n/a
Portion of employees opting for early retirement	0.0%	0.0%	0.0%	n/a
Future changes in National Insurance Scheme Ceilings	0.0%	2.5%	2.5% - 3.5%	n/a
Long term increase in health costs	n/a	n/a	n/a	11.0%

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

## 33. INCOME TAXES

The income tax expense is comprised of:

	2006	2005
Current tax	27,566	17,514
Deferred tax	236	6,516
Share of tax of associated companies	16	16
	<u>27,818</u>	<u>24,046</u>

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

	2006	2005
Investment income subject to direct taxation	124,852	66,083
Income from ordinary activities subject to direct taxation	29,428	13,034
Total income subject to taxation	<u>154,280</u>	<u>79,117</u>

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

	2006	2005
Income subject to tax	<u>154,280</u>	<u>79,117</u>
Tax calculated at the applicable rates on income subject to tax	28,797	13,091
Adjustments to current tax for items not subject to tax or not allowed for tax	(8,597)	(3,813)
Other current tax adjustments	10	(1,353)
Adjustments for current tax of prior periods	1,963	(131)
Movement in unrecognised deferred tax asset	(203)	10,549
Deferred tax expense relating to the origination of temporary differences	1,325	(315)
Deferred tax (income) expense relating to changes in tax rates and the imposition of new taxes	(97)	695
Deferred tax income that arises from the reversal of a write down of a deferred tax asset	(1,958)	552
Tax on distribution of profits from policyholder funds	3,002	3,526
Other taxes	3,576	1,245
	<u>27,818</u>	<u>24,046</u>

## NOTES TO THE FINANCIAL STATEMENTS

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## 34. DEFERRED INCOME TAXES

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

	2006	2005
Deferred income tax assets:		
Pensions and other retirement benefits	1,411	1,332
Unused tax losses	7,436	7,693
Other items	(396)	(799)
Total (Note 13)	<u>8,451</u>	<u>8,226</u>
	2006	2005
Deferred income tax liabilities:		
Accelerated tax depreciation	3,344	2,192
Policy reserves taxable in the future	372	372
Pensions and other retirement benefits	134	75
Accrued interest	1,373	397
Unrealised gains on available for sale investments	6,999	5,884
Other items	2,646	2,018
Total (Note 22)	<u>14,868</u>	<u>10,938</u>

These balances include the following

	2006	2005
Deferred income tax assets to be settled after one year	<u>7,537</u>	<u>8,606</u>
Deferred income tax liabilities to be settled after one year	<u>11,836</u>	<u>7,516</u>

The Group has not recognised potential deferred income tax assets of \$44,847 (2005 – \$36,950) arising from unrecognised tax losses of \$148,389 (2005 - \$118,207).

Deferred income taxes have not been provided for income taxes that would be payable on the distribution of retained earnings of certain subsidiaries because there is no intention to distribute those earnings. Due to a recently announced change in income tax rules to eliminate tax on overseas dividends, no tax liability is expected to arise in the future.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

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## 35. EARNINGS AND DIVIDENDS PER COMMON SHARE

## 35.1 Earnings per common share

The basic earnings per common share is computed by dividing the net income for the year attributable to shareholders by the weighted average number of common shares in issue during the year, excluding treasury shares.

The computation of diluted earnings per common share recognises the dilutive impact of LTI share grants and share options and of ESOP shares grants.

	2006	2005 Restated	2005 Previously stated
Net income for the year attributable to shareholders	135,325	121,455	136,562
Weighted average number of shares in issue in thousands	266,514	263,937	263,937
LTI restricted share grants	70	-	-
ESOP shares	6	-	-
Adjusted weighted average number of shares in issue	266,590	263,937	263,937
Basic earnings per common share	50.8 cents	46.0 cents	51.7 cents
Fully diluted earnings per common share	50.8 cents	46.0 cents	51.7 cents

## 35.2 Dividends per common share

In respect of the financial year 2005, the Company declared dividends totalling 12 cents per common share. The interim dividend was 6 cents which was declared and paid in 2005. The final dividend was 6 cents which was declared and paid in 2006.

In respect of the financial year 2006, the Company declared dividends totalling 13 cents per common share. The interim dividend was 6 cents which was declared and paid in 2006. The final dividend was 7 cents which was declared on April 4, 2007.

## NOTES TO THE FINANCIAL STATEMENTS

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## 36. CASH FLOWS

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

OPERATING ACTIVITIES	2006	2005
Adjustments for non-cash items, interest and dividends		
Interest and dividend income	(395,961)	(342,341)
Net gains on financial investments and investment property	(59,158)	(79,899)
Gain on business combinations and acquisitions	-	(25,115)
Net increase in actuarial liabilities	17,927	72,646
Interest expense	177,578	153,140
Depreciation and amortisation	34,700	25,636
Other items	13,713	18,691
	<u>(211,201)</u>	<u>(177,242)</u>
Changes in operating assets	2006	2005
Investment property	5,999	(2,688)
Debt securities	(86,200)	(144,400)
Equity securities	56,168	78,181
Mortgage loans	(72,375)	(38,153)
Policy loans	(1,172)	(303)
Finance loans and finance leases	(16,908)	(53,623)
Securities purchased under agreements to resell	22,171	272,529
Deposits	(30,210)	42,623
Other assets and receivables	1,485	60,218
	<u>(121,042)</u>	<u>214,384</u>

## NOTES TO THE FINANCIAL STATEMENTS

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## 36. CASH FLOWS (continued)

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

	Investment property		Debt securities		Equity securities	
	2006	2005	2006	2005	2006	2005
Disbursements	(3,043)	(8,873)	(1,538,210)	(675,475)	(58,953)	(171,860)
Disposal proceeds	9,042	6,185	1,452,010	531,075	115,121	250,041
	5,999	(2,688)	(86,200)	(144,400)	56,168	78,181
Changes in operating liabilities					2006	2005
Insurance liabilities					10,897	(14,578)
Investment contract liabilities					19,866	18,438
Other funding instruments					(4,798)	(4,977)
Customer deposits					25,397	48,674
Securities sold under agreements to repurchase					77,158	6,740
Other liabilities and payables					(3,383)	(87,507)
					125,137	(33,210)
INVESTING ACTIVITIES					2006	2005
Property, plant and equipment						
Purchases					(26,605)	(23,865)
Disposal proceeds					3,915	5,570
					(22,690)	(18,295)
FINANCING ACTIVITIES					2006	2005
Senior notes and loans payable						
Proceeds					319,969	162,905
Repayments					(161,670)	(18,911)
					158,299	143,994
CASH AND CASH EQUIVALENTS					2006	2005
For the purposes of the cash flow statement, cash and cash equivalents comprise:						
Cash resources					163,078	117,105
Financial investments with an initial term to maturity of 90 days or less					357,597	165,949
Bank overdrafts					(5,963)	(8,712)
					514,712	274,342



## NOTES TO THE FINANCIAL STATEMENTS

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## 37. ASSETS AND LIABILITIES BY CURRENCY

	Balances denominated in					2006
	Barbados \$	Jamaica \$	Trinidad \$	US \$	Other currencies	Total
<b>ASSETS</b>						
Investment property	101,078	39,454	40,548	-	76	181,156
Property, plant and equipment	82,753	17,118	24,937	9,424	26,823	161,055
Investment in associated companies	249	81	28,128	-	25,213	53,671
Intangible assets	48,593	133,413	9,829	3,450	30,131	225,416
Financial investments	679,801	1,094,055	479,699	2,407,730	388,359	5,049,644
Reinsurance assets	12,474	2,115	14,130	570,428	44,231	643,378
Income tax assets	5,275	22,066	576	4,636	4,112	36,665
Miscellaneous assets and receivables	55,386	52,641	12,918	63,674	15,583	200,202
Cash resources	29,104	23,453	18,204	47,866	56,740	175,367
<b>Total assets</b>	<b>1,014,713</b>	<b>1,384,396</b>	<b>628,969</b>	<b>3,107,208</b>	<b>591,268</b>	<b>6,726,554</b>
<b>LIABILITIES</b>						
<b>Policy liabilities</b>						
Actuarial liabilities	686,837	273,032	369,292	1,198,142	219,865	2,747,168
Other insurance liabilities	121,845	64,338	29,701	41,201	48,317	305,402
Investment contract liabilities	110,159	104,720	131,599	43,452	51,779	441,709
	918,841	442,090	530,592	1,282,795	319,961	3,494,279
<b>Other liabilities</b>						
Senior notes and loans payable	-	-	88	320,977	-	321,065
Deposit and security liabilities	99,431	532,426	-	829,260	29,666	1,490,783
Provisions	12,892	11,248	7,393	609	8,988	41,130
Income tax liabilities	7,180	20,772	7,327	(12)	2,088	37,355
Accounts payable and accrued liabilities	28,888	45,248	15,158	131,281	36,756	257,331
<b>Total liabilities</b>	<b>1,067,232</b>	<b>1,051,784</b>	<b>560,558</b>	<b>2,564,910</b>	<b>397,459</b>	<b>5,641,943</b>
<b>Net position</b>	<b>(52,519)</b>	<b>332,612</b>	<b>68,411</b>	<b>542,298</b>	<b>193,809</b>	<b>1,084,611</b>

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

## 37. ASSETS AND LIABILITIES BY CURRENCY (continued)

	Balances denominated in					2005
	Barbados \$	Jamaica \$	Trinidad \$	US \$	Other currencies	Total
<b>ASSETS</b>						
Investment property	98,699	33,678	38,641	7,191	3,377	181,586
Property, plant and equipment	78,663	18,782	20,790	5,369	24,644	148,248
Investment in associated companies	253	85	24,775	-	24,716	49,829
Intangible assets	48,507	156,009	9,847	3,447	22,377	240,187
Financial investments	700,281	1,003,742	484,632	2,164,149	380,043	4,732,847
Reinsurance assets	6,501	4,247	10,004	623,564	42,332	686,648
Income tax assets	5,907	22,083	300	5,690	1,731	35,711
Miscellaneous assets and receivables	37,169	64,534	14,363	45,800	41,022	202,888
Cash resources	29,920	12,389	6,120	44,666	25,768	118,863
Total assets	1,005,900	1,315,549	609,472	2,899,876	566,010	6,396,807
<b>LIABILITIES</b>						
<b>Policy liabilities</b>						
Actuarial liabilities	671,532	263,537	355,924	1,304,632	195,572	2,791,197
Other insurance liabilities	105,132	19,102	28,801	58,912	71,301	283,248
Investment contract liabilities	106,349	127,471	121,318	22,392	48,631	426,161
	883,013	410,110	506,043	1,385,936	315,504	3,500,606
<b>Other liabilities</b>						
Senior notes and loans payable	-	-	-	160,728	-	160,728
Deposit and security liabilities	85,571	513,912	861	817,406	22,695	1,440,445
Provisions	12,851	8,938	5,851	1,226	8,580	37,446
Income tax liabilities	3,098	18,080	4,579	2,516	2,685	30,958
Accounts payable and accrued liabilities	25,549	52,076	7,916	191,898	(3,549)	273,890
Total liabilities	1,010,082	1,003,116	525,250	2,559,710	345,915	5,444,073
Net position	(4,182)	312,433	84,222	340,166	220,095	952,734

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

*Amounts expressed in Barbados \$000*

### 38. ACQUISITIONS

During 2005, the Group acquired control of:

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

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

As a consequence of part of the consideration for the PCFS and EBA acquisitions being shares issued by LOJ, the Group reduced its interest in LOJ from 78% to 60% and recorded a gain of \$12,938. The gain reflects differences in the values of shares issued to the minority interest shareholders and in their share of the net assets after the transaction. The goodwill and currency translation attributable to the 18% interest have also been charged against the gain and are reflected in these financial statements as a prior year adjustment of \$13,831 to revenue, \$8,099 to goodwill and \$5,732 to currency translation (see notes 10, 25 and 43).

The Group also acquired an interest in an associated company, FamGuard Corporation Limited (Family Guardian).

In 2005, the Group accounted for the above acquisitions provisionally. Adjustments have now been incorporated in these financial statements, resulting in a decrease of \$2,219 in the carrying amounts of goodwill and other intangible assets (see note 10). Finalised details of the above acquisitions are set out below.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

## 38. ACQUISITIONS (continued)

## 38.1 PCFS

(a) Details of acquisition

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

## 38. ACQUISITIONS (continued)

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

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

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

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

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

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

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

(b) Details of net income

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

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

## 38. ACQUISITIONS (continued)

## 38.2 EBA joint venture

(a) Details of acquisition

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

	Total fair value (restated)	Acquiree's carrying value
Net assets acquired:		
Property, plant and equipment	167	167
Intangible assets (note 10)	33,908	-
Financial investments	63,065	63,065
Reinsurance assets	338	338
Miscellaneous assets and receivables	9,297	9,297
Cash resources	4,713	4,713
Actuarial liabilities	(24,662)	(24,662)
Deposit administration liabilities	(25,458)	(25,458)
Other policy liabilities	(10,129)	(10,129)
Loans payable	(1,767)	(1,767)
Income tax liabilities	(234)	(234)
Accounts payable and accrued liabilities	(4,082)	(3,898)
Total net assets acquired	<u>45,156</u>	<u>11,432</u>
Purchase consideration and related costs		
Shares issued by the Company	11,419	
Shares to be issued by the Company	739	
Shares issued by LOJ	49,383	
Total purchase consideration	<u>61,541</u>	
Goodwill arising on acquisition (note 10)	<u>16,385</u>	

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

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

## 38. ACQUISITIONS (continued)

(b) Details of acquiree's net income

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

## 38.3 First Life individual life insurance business

(a) Details of acquisition

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

	<u>Total fair value (restated)</u>	<u>Acquiree's carrying value</u>
Net assets acquired:		
Financial investments	11,813	11,813
Reinsurance assets	40	40
Income tax assets	47	47
Miscellaneous assets and receivables	1,355	1,355
Cash resources	508	508
Actuarial liabilities	(9,045)	(9,045)
Other policy liabilities	(4,101)	(4,101)
Accounts payable and accrued liabilities	<u>(617)</u>	<u>(617)</u>
Total net assets acquired	<u>-</u>	<u>-</u>
Purchase consideration and related costs		
Cash	<u>3,856</u>	
Goodwill arising on acquisition (note 10)	<u>3,856</u>	

In Jamaica, it is common for shares of listed financial services entities to trade above their related book values. The individual life insurance business was acquired from a listed Jamaica company. The goodwill recognised in this transaction is therefore a reflection of market conditions and the further synergies which the acquisition brings to the Group.

(b) Details of acquiree's net income

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

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

## 38. ACQUISITIONS (continued)

## 38.4 Laurel Life

(a) Details of acquisition

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

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

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

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

(b) Details of acquiree's net income

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



## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

## 38. ACQUISITIONS (continued)

## 38.5 Cayman General

(a) Details of acquisition

On November 30, 2005, LOJ acquired a 51% interest in Cayman General. Cayman General is engaged in property, casualty, group health and group life insurance in the Cayman Islands. The fair values of the net assets acquired, the purchase consideration and the goodwill arising are set out below.

	Total fair value (restated)	Acquiree's carrying value
Net assets acquired:		
Property, plant and equipment	2,250	2,250
Intangible assets (note 10)	9,776	372
Financial investments	103	103
Reinsurance assets	33,489	33,489
Miscellaneous assets and receivables	16,254	16,254
Cash resources	23,291	23,291
Other policy liabilities	(28,266)	(28,266)
Accounts payable and accrued liabilities	(24,828)	(24,830)
Total net assets	<u>32,069</u>	<u>22,663</u>
Share of net assets acquired by the Group	16,355	
Purchase consideration and related costs		
Cash	<u>20,043</u>	
Goodwill arising on acquisition (note 10)	<u>3,688</u>	

(b) Details of acquiree's net income

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

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

## 38. ACQUISITIONS (continued)

## 38.6 Family Guardian

(a) Details of acquisition

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

	2005
	<u>(restated)</u>
Group's share of net assets acquired	20,916
Cash consideration	<u>24,838</u>
Goodwill arising on acquisition	<u>3,922</u>

The market value, as determined by the listed price of Family Guardian's shares, of the Group's shareholding amounted to \$24,200 as of December 31, 2005. At acquisition date, a strategic alliance with Family Guardian was formalised through which the Group anticipates benefits from future operational synergies.

(b) Details of net income and fair value

The Group has not recognised any net income or loss between the acquisition date and December 31, 2005.

## 39. COMMITMENTS

Effective December 1, 2006, Sagicor Capital Life Insurance Company Limited entered into a transfer and assumption agreement to acquire an insurance portfolio in the Netherlands Antilles and Aruba. The agreement is subject to regulatory approvals. The liabilities to be assumed are estimated at \$78,225 and the effective purchase price is estimated at \$5,336.

In the normal course of business, the Group has entered into commitments at balance sheet date for which no provision has been made in these financial statements. Such commitments include the following:

	2006	2005
Loan advances	94,745	44,824
Expenditure on real estate	5,980	19,229
Operating lease agreements and rental payments	11,778	8,543
Customer guarantees and letters of credit	<u>9,182</u>	<u>6,751</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.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

### 40. CONTINGENT LIABILITIES

#### (a) Legal proceedings

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

#### (b) Tax assessments

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

#### (c) Insurance contracts

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

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

A review of the Universal Life policies portfolio in Jamaica revealed that approximately 17,000 policies were affected by fund values which were insufficient to cover these costs through the life of the policies.

Once the problem was recognised, the company initiated discussion with the Regulators, the Financial Services Commission (FSC), as a result of which the affected policyholders were given the opportunity to reduce their existing coverage under the policies or to increase the premiums at their expense. More than 90% of these policyholders have already agreed to adjustments to their policies.

The Group estimates that less than 1% of the affected policyholders have filed complaints with the FSC, which carried out investigations and made a submission to the company. The FSC suggested a number of alternatives to remedy the problem.

The Group is in discussions with the FSC on the matter. The cost, if any, of resolving this issue cannot be quantified at this time.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

### 41. ASSETS UNDER ADMINISTRATION

In the ordinary course of business, the Group manages assets of pension funds, mutual funds, unit trusts and other assets which are not included in the group's balance sheets. The invested and cash assets under administration by geographical segment are as follows:

	2006	2005
Barbados	724,245	733,565
Jamaica	1,471,107	1,333,611
Trinidad & Tobago	20,104	17,600
Other Caribbean	75,023	69,878
	2,290,479	2,154,654

### 42. RELATED PARTY TRANSACTIONS

#### (a) Key management

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

	2006	2005
Compensation		
Salaries, directors' fees and other short-term benefits	24,344	17,196
Equity compensation benefits	2,724	6,773
Pension and other retirement benefits	1,110	401
	28,178	24,370

	Mortgage loans	Other loans	Total loans
Loans			
Balance, beginning of year	5,708	791	6,499
Advances	2,192	117	2,309
Repayments	(550)	(445)	(995)
Effects of exchange rate changes	-	(14)	(14)
Balance, end of year	7,350	449	7,799

The Company has not advanced any loans to key management. All loans have been advanced by Group subsidiaries. Mortgage loans bear interest at rates from 4% to 8%. Other loans bear interest at rates from 5% to 11%.

#### (b) Employee pension plans

Certain Group subsidiaries have employee pension plans which are administered by the Group as segregated pension plans. The assets of the segregated pension plans at December 31, 2006 amounted to \$132,997 (2005 - \$116,806) and are included in the assets under administration referred to in note 41.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

### 42. RELATED PARTY TRANSACTIONS (continued)

#### (c) First Jamaica Investment Limited (First Jamaica)

In 2005, The Group acquired a 37% shareholding in PCFS and the remaining 50% interest EBA (see note 38), from First Jamaica (formerly First Life Insurance Company Limited). As a result of these transactions which are set out in note 38, First Jamaica holds a 25% interest in LOJ and is a significant minority interest. Because of the size of this shareholding, First Jamaica is considered to be a related party. As of December 31, the Group has the following balances with First Jamaica:

	2006	2005
Financial investments	8,890	4,970
Accounts receivable	3,000	7,856
Accounts payable	6,362	6,138

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

## 43. RESTATEMENT AND RECLASSIFICATION

Adjustments to intangible assets, policy liabilities, participating accounts and gains arising on business combinations, have been applied retroactively as indicated in notes 10, 16.3, 17.2, 17.3, 26 and 38 respectively.

Reclassification has also been made to some prior year numbers to conform to the current year reporting.

The effect of these changes to the 2005 balance sheet, 2005 income statement and 2004 balance sheet is summarised in the following tables.

	December 31, 2005					Total
	Previously stated	Effect of changes to		Restatement & reclassification		
		Business combinations	Policy liabilities	Ancillary fund interest	Other	
Balance sheet						
Intangible assets	250,505	(10,318)	-	-	-	240,187
Reinsurance assets	696,188	-	(9,540)	-	-	686,648
Other items	5,470,500	-	-	-	(528)	5,469,972
Total assets	6,417,193	(10,318)	(9,540)	-	(528)	6,396,807
Actuarial liabilities	2,777,231	-	13,966	-	-	2,791,197
Other insurance liabilities	276,199	-	7,049	-	-	283,248
Other items	2,370,156	-	-	-	(528)	2,369,628
Total liabilities	5,423,586	-	21,015	-	(528)	5,444,073
Share capital	458,451	-	-	-	-	458,451
Reserves	100,794	5,732	-	-	-	106,526
Retained earnings	188,304	(13,969)	(12,978)	4,466	(494)	165,329
Total shareholders' equity	747,549	(8,237)	(12,978)	4,466	(494)	730,306
Participating accounts	34,647	-	(9,755)	(4,466)	494	20,920
Minority interest	211,411	(2,081)	(7,822)	-	-	201,508
Total equity	993,607	(10,318)	(30,555)	-	-	952,734

## NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2006

Amounts expressed in Barbados \$000

## 43. RESTATEMENT AND RECLASSIFICATION (continued)

	December 31, 2005				Total
	Previously stated	Effect of changes to		Restatement of ancillary fund interest	
		Business combinations	Policy liabilities		
Income statement					
Gains arising on business combinations and acquisitions	38,946	(13,831)	-	-	25,115
Other items	1,135,035	-	(2,178)	-	1,132,857
Total revenue	1,173,981	(13,831)	(2,178)	-	1,157,972
Net policy benefits and change in actuarial liabilities	447,720	-	13,077	-	460,797
Other items	502,606	138	-	-	502,744
Total benefits and expenses	950,326	138	13,077	-	963,541
Income from ordinary activities	223,655	(13,969)	(15,255)	-	194,431
Income taxes	(24,046)	-	-	-	(24,046)
Net income for the year	199,609	(13,969)	(15,255)	-	170,385
Net income attributable to:					
Shareholders	136,562	(13,969)	(4,892)	3,754	121,455
Participating policyholders	25,522	-	(9,755)	(3,754)	12,013
Minority interest	37,525	-	(608)	-	36,917
	199,609	(13,969)	(15,255)	-	170,385

## NOTES TO THE FINANCIAL STATEMENTS

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Amounts expressed in Barbados \$000

## 43. RESTATEMENT AND RECLASSIFICATION (continued)

	December 31, 2004			Total
	Previously stated	Effect of changes to policyliabilities	Restatement of ancillary fund interest	
Balance sheet				
Reinsurance assets	109,200	(8,478)	-	100,722
Other items	3,028,687	-	-	3,028,687
Total assets	3,137,887	(8,478)	-	3,129,409
Other insurance liabilities	272,240	6,822	-	279,062
Other items	2,105,859	-	-	2,105,859
Total liabilities	2,378,099	6,822	-	2,384,921
Share capital & reserves	600,189	-	-	600,189
Retained earnings	93,079	(8,086)	712	85,705
Total shareholders' equity	693,268	(8,086)	712	685,894
Participating accounts	1,388	-	(712)	676
Minority interest	65,132	(7,214)	-	57,918
Total equity	759,788	(15,300)	-	744,488



## Executive Management

### Mr Dodridge D Miller, FCCA, MBA, LLM

Mr Dodridge Miller was appointed President and Chief Executive Officer of The Mutual Group of Companies, now Sagicor, on July 1, 2002, having previously held the positions of Treasurer and Vice President, Finance and Investments, Deputy Chief Executive Officer and Chief Operating Officer.

Mr Miller joined the Group in 1989. He was elected a Director of The Mutual Group in 2001. He is the Chairman of the Group's main operating subsidiaries, Sagicor Life Inc, Life of Jamaica Limited and Sagicor Life Insurance Company.

Mr Miller is a Fellow of the Association of Chartered Certified Accountants (United Kingdom), and obtained his MBA from the University of Wales and Manchester Business School, United Kingdom. He holds an LLM in Corporate and Commercial Law from the University of the West Indies. He has more than 20 years' experience in the insurance and financial services industries.

### Mr Richard Byles, BSc, MSc

President and Chief Executive Officer, LOJ

Mr Richard Byles is the President and CEO of Life of Jamaica Ltd. Mr Byles is the Chairman of Pan Caribbean Financial Services Limited. During his tenure as CEO of the Pan Jam Group, Mr Byles was responsible for a number of mergers, acquisitions and other strategic business initiatives which have had a profound and positive impact on the performance of that Group.

Mr Byles is a graduate of the University of the West Indies. He holds a BSc in Economics and an MSc in National Development from the University of Bradford, England. He is Chairman of Red Stripe and the National Water Commission.

### Mrs Patricia Downes-Grant

President and Chief Executive Officer Sagicor Life Inc

Dr. Patricia Downes-Grant was appointed President and Chief Executive Officer on January 1, 2006, having served as Group Chief Operating Officer, since July 1, 2002. She joined Sagicor in 1991 and held several senior positions, including those of Vice President, (Investments), and Treasurer and Executive Vice President (Finance and Investments) before being appointed Chief Executive Officer.

She holds an MBA in Finance, an MA in Economics, and a Doctorate in Business Administration (Finance).

Prior to joining Sagicor, Dr. Downes-Grant was a Senior Manager in the Management, Consulting and Insolvency Division of Coopers & Lybrand (now PricewaterhouseCoopers). Dr. Downes-Grant has also had significant work experience in development banking. She is a former Chairman of the Barbados Stock Exchange and Barbados Central Securities Depository and a Director of several companies within Sagicor and the private sector of Barbados.

### Mr George Estock, BSc, MBA

President, Sagicor International Management Services Limited and President and CEO, Sagicor Allnation Insurance Company

In 1996, Mr George Estock joined the Barbados Mutual Life Assurance Society as President of the U.S.-based subsidiary, Sagicor International Management Services. He also holds the position of President and CEO of Sagicor Allnation Insurance Company. He has over 15 years' experience in the Life Insurance and Property & Casualty business.

Prior to joining Sagicor, Mr Estock spent several years with CIGNA; the U.S.-based multinational insurance carrier, working in their U.S. domestic personal lines and Property & Casualty Division, and was Director of Planning and Control of CIGNA's International Reinsurance Division. He was then appointed President of CIGNA Life and Health Operations for the United Kingdom and, on his return to the U.S., he served as Regional Vice President-Americas, for CIGNA's Life and Health Operations for Canada, the Caribbean, and Latin America.

Mr Estock has a Degree in Political Economics from the University of Delaware and a Masters in Business Administration from Wilmington College.

## Executive Management

**Mr J. Andrew Gallagher, FSA, FCIA**  
Chief Risk Officer

Mr Andrew Gallagher joined Sagicor in August 1997 as Resident Actuary. He holds a Bachelor of Mathematics degree from the University of Waterloo, and is both a Fellow of the Canadian Institute of Actuaries and a Fellow of the Society of Actuaries. Prior to joining Sagicor, Mr Gallagher worked with Eckler Partners in Toronto in their financial institutions practice. He has over 20 years of experience in the industry.

**Mr Keston Howell, BSc**  
Executive Vice-President, Merchant Banking

Mr Keston Howell joined Sagicor in July 2005, with responsibility for the establishment of Sagicor Merchant Bank as well as the overall banking strategy for the Group. He has worked in the banking industry for 17 years, the last seven of which were at the senior executive level. He brings to Sagicor considerable knowledge and experience in Corporate and Investment Banking. Mr Howell's responsibilities over the years have included day-to-day banking operations, building and fostering relationships with institutional investors in the English and Dutch-speaking Caribbean. Other key areas in which he has had responsibility are asset/liability management, and ensuring regulatory compliance with securities laws in various jurisdictions. Mr Howell holds a BSc (Hons) in Management Studies from the University of the West Indies.

**Ms. Maxine MacLure, BSc, MEd, MBA**  
President and CEO, Sagicor USA Inc.

Ms. Maxine MacLure was appointed President and CEO of Sagicor USA in 2004. In September 2005, she successfully completed the Group's acquisition of its first US life insurance subsidiary, American Founders Life (AFLIC) and oversaw its integration into the Sagicor Group. Ms. MacLure joined Sagicor in December 2001 as President and CEO of Life of Jamaica. She effectively managed that company through its merger with Island Life Insurance Company.

Prior to joining the Sagicor Group, Ms. MacLure was General Manager of Insurance for the Jamaican Government, and led a two-year joint insurance reform project sponsored by the Inter-American Development Bank and the Jamaican Government, where she participated in the resolution of the financial sector crisis. She also spent seven years as a Senior Government Financial Sector Regulator in Canada.

Ms. MacLure has an Masters degree in Education from Western Washington University in the United States, a BSc from the University of Manitoba, Canada, with a major in Mathematics, and an MBA from the Richard Ivey School of Business at the University of Western Ontario, Canada.

**Mr Philip N. W. Osborne BSc, FCA**  
Chief Financial Officer

Mr Osborne has held senior finance positions in life insurance for over 17 years, having joined Life of Barbados Limited (then a Barbados based life insurer) in 1989. Subsequently in 1996, he was appointed a Director of Life of Barbados and remained so through its acquisition by and its eventual amalgamation with Sagicor Life Inc. Mr Osborne was appointed Chief Financial Office for the Group in 2003. He is currently a director of three subsidiaries in the Sagicor Group and of Almond Resorts Inc., a publicly listed company in Barbados.

Mr Osborne is a U.K. trained chartered accountant and has worked in professional accounting firms in London and Barbados over a ten year period. He also holds a BSc in Mathematics with Computer Science from the University of London.

## Sagicor Financial Corporation

### **Ms. Sandra Osborne, S.C.M., BSc, LLB, FCIS**

Executive Vice President, General Counsel and Secretary

Ms. Sandra Osborne is an Attorney-at-Law and Chartered Secretary who joined Sagicor in 1989. She has almost 30 years' experience in the legal and corporate secretarial field, having previously practiced as a Crown Counsel and at the private Bar in civil practice in Barbados. Ms. Osborne holds a BSc (Hons) in Political Science and an LLB (Hons) from the University of the West Indies and a Certificate in Legal Education, Hugh Wooding Law School, Council of Legal Education, Trinidad. She is also a Fellow of the Institute of Chartered Secretaries and Administrators in Canada, and holds an Executive Development Program Certificate from Kellogg Graduate School of Management, Northwestern University, United States.

### **Mr Ravi Rambarran, BSc, MSc, FIA**

Executive Vice President, Strategy

Mr Ravi Rambarran's work experience includes Pensions Actuary of Life of Jamaica, Appointed Actuary of Global Life Bahamas and Global Life Cayman, Chief Financial & Investment Officer of LOJ, Managing Director of NCB Capital Markets and West Indian Trust Company, part-time Lecturer in Actuarial Science at the University of the West Indies and running his own actuarial practice. Prior to joining LOJ, Mr Rambarran was a Consulting Actuary with the Aon Group and the HSBC Group in the United Kingdom.

Mr Rambarran has a BSc (Hons) in Actuarial Science from City University, London, and an MSc in Financial Economics from the University of London. Mr Rambarran was awarded an Open Mathematics Scholarship by the Government of Trinidad and Tobago, and is also a Fellow of the Institute of Actuaries.

### **Mrs Melba Smith, BA**

Vice President, Corporate Communications

Mrs Melba Smith is a Communications professional with over 25 years' experience in business communication, public relations and management. Prior to joining Sagicor in 2002 as Vice President, Corporate Communications, Mrs Smith was the General Manager of the Caribbean Broadcasting Corporation, a position she held for 7 years. She was also a Board member of the Caribbean Broadcasting Union and became that Institution's first female President in 2000.

Mrs Smith, a graduate of the University of the West Indies, holds a BA (Hons), and a Post Graduate Diploma in Mass Communication, and is a member of the International Association of Business Communicators.

## Advisors and Bankers

### Appointed Actuary

Sylvain Goulet, FCIA, FSA, MAAA, Affiliate Member of the  
(British) Institute of Actuaries

### Auditors

PricewaterhouseCoopers, Chartered Accountants

### Legal Advisors

Allen & Overy LLP, New York, USA

Allen & Overy LLP, London, United Kingdom

Carrington & Sealy, Barbados

Patterson K H Cheltenham, QC, LLM, Barbados

Barry L V Gale, QC, LB (Hons), Barbados

Hobsons, Trinidad and Tobago

Shutts & Bowen LLP, Florida, USA

### Bankers

Butterfield Bank (Barbados) Limited

FirstCaribbean International Bank Limited

RBTT Bank Limited

The Bank of Nova Scotia

## Offices

### Parent Company

SAGICOR FINANCIAL CORPORATION  
Sagicor Corporate Centre  
Wildey, St Michael  
Barbados  
*Tel: (246) 467-7500*  
*Fax: (246) 436-8829*  
*Email: [info@sagicor.com](mailto:info@sagicor.com)*  
*Website: [www.sagicor.com](http://www.sagicor.com)*

### Insurance Subsidiaries

SAGICOR LIFE INC  
Sagicor Financial Centre  
Lower Collymore Rock  
St Michael, Barbados  
*Tel: (246) 467-7500*  
*Fax: (246) 436-8829*  
*Email: [info@sagicor.com](mailto:info@sagicor.com)*

### SAGICOR LIFE INC BRANCH OFFICES

Barbados  
1st Avenue, Belleville  
St Michael  
*Tel: (246) 467-7700*  
*Fax: (246) 429-4148*  
*Email: [info@sagicor.com](mailto:info@sagicor.com)*

Antigua  
Sagicor Financial Centre  
#9 Factory Road,  
St John's  
*Tel: (268) 480-5550*  
*Fax: (268) 480-5520*  
*Email: [bmlas\\_an@caribsurf.com](mailto:bmlas_an@caribsurf.com)*

Grenada  
The Mutual/Trans-Nemwil Office Complex  
The Villa, St George's  
*Tel: (473) 440-1223*  
*Fax: (473) 440-4169*  
*Email: [bmlas\\_gre@caribsurf.com](mailto:bmlas_gre@caribsurf.com)*

St Kitts  
Cnr Cayon and West Independence Square Sts  
Basseterre  
*Tel: (869) 465-9476*  
*Fax: (869) 465-6437*  
*Email: [bmlas\\_sk@caribsurf.com](mailto:bmlas_sk@caribsurf.com)*

St Lucia  
Sagicor Financial Centre  
Choc Estate, Castries  
*Tel: (758) 452-3169*  
*Fax: (758) 450-3787*  
*Email: [bmlas@candw.lc](mailto:bmlas@candw.lc)*

Trinidad and Tobago  
Sagicor Financial Centre  
16 Queen's Park West, Port of Spain  
*Tel: (868) 628-1636/7/8*  
*Fax: (868) 628-1639*  
*Email: [comments@sagicor.com](mailto:comments@sagicor.com)*

### SAGICOR LIFE INC AGENCIES

Anguilla  
Malliouhana Insurance Co Ltd  
Caribbean Commercial Centre  
The Valley  
*Tel: (264) 497-3712*  
*Fax: (264) 497-3710*

Dominica  
WillCher Services Inc  
44 Hillsborough Street  
Corner Hillsborough & Independence Street  
Roseau  
*Tel: (767) 440-2562*  
*Fax: (767) 440-2563*  
*Email: [bmlas@cwdom.dm](mailto:bmlas@cwdom.dm)*

Guyana  
Hand-in-Hand Mutual Life Assurance Company Limited  
Lots 1, 2 and 3, Avenue of the Republic  
Georgetown  
*Tel: (592) 251861*  
*Fax: (592) 251867*

Montserrat  
Administered by Antigua Branch

St Vincent  
Incorporated Agencies Limited  
Kenmars Building, Halifax Street  
Kingstown  
*Tel: (784) 456-1159*  
*Fax: (784) 456-2232*

## Offices

### SAGICOR ALLNATION INSURANCE COMPANY

1201 North Orange Street  
Suite 716  
Wilmington, Delaware  
19801-1186  
USA

*Tel: (302) 884-6770*

*Fax: (302) 884-6771*

*Website: [www.allnation.com](http://www.allnation.com)*

### CAPITAL de SEGUROS, SA

Ave Samuel Lewis y Calle Santa Rita  
Edificio Plaza Obarrio  
3er Piso Oficina 201  
Panama City, Panama

*Tel: (507) 223-1511*

*Fax: (507) 264-1949*

*Email: [capital1@sinfo.net](mailto:capital1@sinfo.net)*

### CAPITAL LIFE INSURANCE COMPANY BAHAMAS LIMITED

C/o Colina Insurance Company Limited  
56 Collins Avenue, P O Box 4937

Nassau, Bahamas

*Tel: (242) 393-9518*

*Fax: (242) 393-9523*

### SAGICOR CAPITAL LIFE INSURANCE COMPANY LIMITED

Registered Office

Grosvenor Close and Shirley Street

Nassau, Bahamas

### SAGICOR CAPITAL LIFE BRANCH OFFICES

#### Aruba

Fergusonstraat #106

AHMO Plaza Building, Suites 1 and 2

Oranjestad

*Tel: (297) 823967*

*Fax: (297) 826004*

*Email: [calico@setarnet.aw](mailto:calico@setarnet.aw)*

#### Belize

The Insurance Centre

212 North Front Street

Belize City

*Tel: (501) 223-3147*

*Fax: (501) 223-7390*

*Email: [capitalbe@btl.net](mailto:capitalbe@btl.net)*

#### Curaçao

Schottegatweg Oost #11

*Tel: (599) 9 736-8558*

*Fax: (599) 9 736-8575*

*Email: [capital.life@curinfo.an](mailto:capital.life@curinfo.an)*

### SAGICOR CAPITAL LIFE AGENCIES

#### Haiti

Cabinet d'Assurance Fritz de Catalogne

Angles Rues de Peuple et des Miracles

Port-au-Prince

*Tel: (509) 226695*

*Fax: (509) 230827*

*Email: [capital@compa.net](mailto:capital@compa.net)*

#### St Maarten

C/o Charlisa NV, Walter Nisbeth Road #99B

Phillipsburg

*Tel: (599) 542-2070*

*Fax: (599) 542-3079*

*Email: [capital@sintmaarten.net](mailto:capital@sintmaarten.net)*

#### LIFE OF JAMAICA LIMITED

28-48 Barbados Avenue

Kingston 5, Jamaica

*Tel: (876) 929-8920(-9)*

*Fax: (876) 960-1927*

*Website: [www.life-of-ja.com](http://www.life-of-ja.com)*

### NATIONWIDE INSURANCE COMPANY LIMITED

Sagicor Financial Centre

16 Queen's Park West

Port of Spain, Trinidad

*Tel: (868) 628-1636*

*Fax: (868) 628-1639*

*Email: [comments@sagicor.com](mailto:comments@sagicor.com)*

### SAGICOR LIFE INSURANCE COMPANY

4343 N. Scottsdale Road, Suite 300

Scottsdale, Arizona

85251

*Tel: 1-800-531-5067*

*Fax: (345) 949-8262*

*Email: [info@sagicor.com](mailto:info@sagicor.com)*

## Offices

### SAGICOR LIFE OF THE CAYMAN ISLANDS LIMITED

Global House, 198 North Church Street  
George Town, Grand Cayman  
Cayman Islands  
Tel: (345) 949-8211  
Fax: (345) 949-8262  
Email: [global@candw.ky](mailto:global@candw.ky)

### SAGICOR RE INSURANCE LIMITED

Global House, 198 North Church Street  
George Town, Grand Cayman  
Cayman Islands  
Tel: (345) 949-8211  
Fax: (345) 949-8262  
Email: [global@candw.ky](mailto:global@candw.ky)

### SAGICOR GENERAL INSURANCE (CAYMAN) LIMITED

Harbour Place  
Box 2171 GT  
George Town, Grand Cayman  
Cayman Islands  
Tel: (345) 949 7028  
Fax: (345) 949 7457

### SAGICOR GENERAL INSURANCE INC

Beckwith Place, Lower Broad Street  
Bridgetown, Barbados  
Tel: (246) 431-2800  
Fax: (246) 426-0752  
Email: [barbadosfire@caribsurf.com](mailto:barbadosfire@caribsurf.com)

### Banking and other Financial Services

### SAGICOR MERCHANT LIMITED

Sagicor Financial Centre  
16 Queen's Park West, Port of Spain  
Tel: (868) 628-1636/7/8  
Fax: (868) 628-1639

### PAN CARIBBEAN FINANCIAL SERVICES LIMITED

Pan Caribbean Building  
60 Knutsford Boulevard  
Kingston 5, Jamaica  
Tel: (876) 929-5583-4  
Fax: (876) 926-4385  
Website: [www.gopancaribbean.com](http://www.gopancaribbean.com)  
Email: [options@gopancaribbean.com](mailto:options@gopancaribbean.com)

### GLOBE FINANCE INC

6 Rendezvous Court, Rendezvous Main Road  
Christ Church, Barbados  
Tel: (246) 426-4755  
Fax: (246) 426-4772  
Website: [www.globefinanceinc.com](http://www.globefinanceinc.com)

### THE MUTUAL FINANCE INC

Sagicor Financial Centre  
Choc Estate, Castries, St Lucia  
Tel: (758) 452-4272  
Fax: (758) 452-4279

### SAGICOR FUNDS INCORPORATED

Sagicor Corporate Centre, Wildey  
St Michael, Barbados  
Tel: (246) 467-7500  
Fax: (246) 436-8829  
Email: [info@sagicor.com](mailto:info@sagicor.com)

### SAGICOR ASSET MANAGEMENT INC

Sagicor Corporate Centre  
Wildey, St Michael,  
Barbados  
Tel: (246) 467-7500  
Fax: (246) 426-1153  
Email: [info@sagicor.com](mailto:info@sagicor.com)

### Other Subsidiaries/Associated Companies

### SAGICOR INTERNATIONAL MANAGEMENT SERVICES, INC

1511 North West Shore Blvd, Suite 820  
Tampa, Florida 33607-4543,  
USA  
Tel: (813) 287-1602  
Fax: (813) 287-7420  
Website: [www.globalsure.com](http://www.globalsure.com)

### FAMGUARD CORPORATION LIMITED

East Bay & Shirley Street  
PO Box SS-6232  
Nassau, NP  
Bahamas  
Tel: (242) 396 4000  
Fax: (242) 393 1100  
Website: [www.famguardbahamas.com](http://www.famguardbahamas.com)

Sagicor Financial Corporation

NOTICE OF ANNUAL MEETING

NOTICE is hereby given that the Fourth Annual Meeting of Shareholders of Sagicor Financial Corporation ("the Company") will be held at Hilton Barbados, Needham's Point, St Michael, Barbados, Tuesday June 26, 2007 at 5.30 pm to transact the following business:-

1. To receive and consider the Statement of Accounts and the Balance Sheet for the year ended December 31, 2006 and the Auditors' Report thereon.
2. To elect Directors.
3. To re-appoint the incumbent Auditors for the ensuing year and to authorize Directors to fix their remuneration.
4. To consider and if thought advisable adopt the following resolution:

*WHEREAS it is considered expedient and in the best interests of the Company to amend Bylaw No. 1 of the Company ("the Bylaws"):*

*BE IT RESOLVED that the following amendments to the Bylaws made by the Directors on March 16, 2007 be and are hereby confirmed without amendment:*

- (a) the repeal of Bylaw 3.6 and the consequential renumbering of Bylaws 3.7 to 3.17 as Bylaws 3.6 to 3.16;*
- (b) the insertion in place of Bylaw 9 of a new Bylaw 9 as set out in Schedule 1 to this Notice which is incorporated by reference herein;*
- (c) the repeal of Bylaw 12.3 and the consequential renumbering of Bylaws 12.4 to 12.8 as Bylaws 12.3 to 12.7.*

5. To consider and if thought advisable adopt the following resolution:

*BE IT RESOLVED that Directors' remuneration be and is hereby fixed at the following amounts with effect from January 1, 2007:*

- (a) US \$45,000 per annum for the Non-Executive Chairman of the Board*
- (b) US \$40,000 per annum for a Non-Executive Director*
- (c) US \$7,000 per annum for the Non-Executive Chairman of a Board Committee*
- (d) US \$5,000 per annum for a Non-Executive Director serving on a Board Committee.*

6. To transact such other business as may properly come before the Meeting.

By Order of the Board of Directors



Sandra Osborne  
Corporate Secretary

June 1, 2007



## Sagicor Financial Corporation

### PROXIES:

Shareholders who are unable to attend the Meeting in person may complete and return the enclosed form of proxy to either:

- the Corporate Secretary, Sagicor Financial Corporation, Sagicor Corporate Centre, Wildey, St Michael, Barbados, or
- the Corporate Secretary, Sagicor Financial Corporation, c/o Sagicor Life Inc, Sagicor Financial Centre, 16 Queen's Park West, Port of Spain, Trinidad, or
- the Branch Registrar, Computershare Investor Services (Channel Islands) Limited, Ordinance House, 31 Pier Road, St Helier, Jersey, Channel Islands,

at least 48 hours before the appointed time of the Meeting or adjourned Meeting.

### DOCUMENTS INCLUDED IN SCHEDULES TO NOTICE OF MEETING:

- 1 The new Bylaw 9 is set out in Schedule 1 to the Notice of the Meeting.
- 2 Repealed Bylaws 3.6, 9 and 12.3 are set out in Schedule 2 to the Notice of the Meeting.
- 3 The complete Bylaws as amended on March 16, 2007 are set out in Schedule 3 to the Notice of the Meeting.

### DOCUMENTS AVAILABLE FOR INSPECTION:

- 1 Copies of the original Bylaws enacted December 6, 2002 and the Bylaws as amended on March 16, 2007 are available for inspection on the Company's website [www.sagicor.com](http://www.sagicor.com) and at the following offices:
  - Sagicor Financial Corporation, Sagicor Corporate Centre, Wildey, St Michael, Barbados
  - Sagicor Life Inc's Branch Offices/Agencies:
    - o Sagicor Financial Centre, 16 Queen's Park West, Port of Spain, Trinidad
    - o Malliouhana Insurance Co Ltd, Caribbean Commercial Centre, The Valley, Anguilla
    - o Sagicor Financial Centre, 9 Factory Road, St John's, Antigua
    - o Willcher Services Inc, 44 Hillborough Street, Corner Hillsborough & Independent Street, Roseau, Dominica
    - o The Mutual/Trans-Nemwil Office Complex, The Villa, St George's, Grenada
    - o Corner Cayon and West independence Square Streets, Basseterre, St Kitts
    - o Sagicor Financial Centre, Choc Estate, Castries, St Lucia
    - o Incorporated Agencies Limited, Kenmars Building, Halifax Street, Kingstown, St Vincent
  - Life of Jamaica Limited, 28-48 Barbados Avenue, Kingston 5, Jamaica
  - Barbados Central Securities Depository Inc, First Floor, Hincks Street, Bridgetown, Barbados
  - Computershare Investor Services (Channel Islands) Limited, Ordinance House, 31 Pier Road, St Helier, Jersey, Channel Islands
- 2 There are no service contracts granted by the Company, or its subsidiaries, to any Director of the Company.

# Sagicor Financial Corporation

## SCHEDULE 1 TO NOTICE OF MEETING

### (New Bylaw 9)

#### 9 – Securities

- 9.1 Allotment – Subject to the Act, the articles and any unanimous shareholder agreement, the directors may from time to time allot, issue and grant options to purchase any part of the authorized and unissued shares of the Company at such times and to such persons or class of persons and for such consideration and on such terms and conditions as the directors shall determine provided that no share shall be issued until it is fully paid as prescribed by the Act.
- 9.2 Commissions – The directors may from time to time authorise the Company to pay a commission to any person in consideration of his purchasing or agreeing to purchase shares of the Company, whether from the Company or from any other person, or procuring or agreeing to procure purchasers for any such shares.
- 9.3 Registers – Securities registers issued by the Company shall be kept at the registered office of the Company or such other place within or outside Barbados as may from time to time be designated by the directors.
- 9.4 Registration and Deposit of Securities – Without prejudice to the Company's discretion to keep its securities registers in such format as it deems fit, the Company may register or deposit securities issued by it with the BCSDI under the provisions of the Securities Act. The Company may also register or deposit its securities in such other depositories as it deems fit and may issue and transfer all or any part of such securities referred to in this Bylaw by book entries.
- 9.5 Security Certificates – Any issue or transfer of securities may be automatically credited to accounts maintained for security holders in the register of security holders of the Company and the form of security certificate shall be in the form of a security holding statement, depositary receipt or such other document showing details of a holder's interest in the capital of the Company as may be approved by the directors.
- 9.6 Effect of Later Security Holding Statement – The issue of a security holding statement bearing a later date cancels and replaces any security holding statement in favour of the same person bearing an earlier date.
- 9.7 Joint Security Holders – If two or more persons are registered as joint holders of any securities the Company shall not be bound to issue more than one certificate in respect thereof and delivery of such certificate to one of such persons shall be sufficient delivery to all of them. Any one of such persons may give effectual receipts for the certificate issued in respect thereof or for any dividend, bonus, return of capital or other money payable or warrant issuable in respect of such securities.
- 9.8 Deceased Security Holders – In the event of death of a holder or of one of the joint holders of any securities the Company shall not be required to make any entry in the securities register in respect thereof or to make payment of any dividends thereon except upon production of all such documents as may be required by law and upon compliance with the reasonable requirements of the Company and its transfer agents.
- 9.9 Transfers of Securities – Subject to the provisions of the Act and the articles, the directors may from time to time prescribe the form of transfer constituting a valid instrument of transfer of the securities in the capital of the Company and may authorise the same for registration as a valid transfer of the number of securities specified therein.
- 9.10 Transfer Agents and Registrars – The directors may from time to time appoint a registrar to maintain the securities register and a transfer agent to maintain the register of transfers and may also appoint one or more branch registrars to maintain branch securities registers and one or more branch transfer agents to maintain branch registers of transfers but one person may be appointed both registrar and transfer agent. The directors may at any time terminate any such appointment.

## Sagicor Financial Corporation

### 9.11 Disclosure of Interests

- 9.11.1 The Company may by notice in writing require any security holder within such reasonable time as is specified in the notice to indicate in writing the capacity in which he holds any shares in the capital of the Company, and if he holds them otherwise than as a beneficial owner, to indicate in writing so far as it lies within his knowledge, the person who has an interest in them (either by name and address or by other particulars sufficient to enable that person to be identified) and the nature of that person's interest.
- 9.11.2 Where the Company is informed in pursuance of a notice given to any person under by-law 9.11.1, that any other person has an interest in any shares in the capital of the Company, the Company may by notice in writing require that other person within such reasonable time as specified in the notice to indicate in writing the capacity in which he holds that interest, and if he holds it otherwise than as a beneficial owner, to indicate in writing so far as it lies within his knowledge, the person who has an interest in it (either by name and address or by other particulars sufficient to enable him to be identified) and the nature of that person's interest.
- 9.11.3 The Company may by notice in writing require any member of the Company to indicate in writing, within such reasonable time as is specified in the notice, whether any of the voting rights carried by any shares comprised in the capital of the Company held by him are the subject of an agreement or arrangement under which another person is entitled to control his exercise of those rights and, if so, to give, so far as it lies within his knowledge, written particulars of the agreement or arrangement and the parties to it.
- 9.11.4 Where the Company is informed, in pursuance of a notice given to any person under by-law 9.11.3 or this by-law, that any other person is a party to such agreement or arrangement as is mentioned in by-law 9.11.3, the Company may by notice in writing require that other person within such reasonable time as is specified in the notice to give, so far as it lies within his knowledge, written particulars of the agreement or arrangement and the parties to it.

### SCHEDULE 2 TO NOTICE OF MEETING

(Repealed Bylaw 3.6)

- 3.6 Nationality and Residence – A majority of the directors must at all times be citizens or permanent residents of and ordinarily resident in Barbados. At least one director must be a citizen of and ordinarily resident in Jamaica; at least one director must be a citizen of and ordinarily resident in Trinidad and Tobago and at least one director must be a citizen of and ordinarily resident in any country in the Eastern Caribbean.

(Repealed Bylaw 9)

### 9 – Shares

- 9.1 Allotment – Subject to the Act, the articles and any unanimous shareholder agreement, the directors may from time to time allot, issue and grant options to purchase any part of the authorized and unissued shares of the Company at such times and to such persons or class of persons and for such consideration and on such terms and conditions as the directors shall determine provided that no share shall be issued until it is fully paid as prescribed by the Act.
- 9.2 Commissions – The directors may from time to time authorise the Company to pay a commission to any person in consideration of his purchasing or agreeing to purchase shares of the Company, whether from the Company or from any other person, or procuring or agreeing to procure purchasers for any such shares.
- 9.3 Registers – Registers of shares, securities and debentures (“securities”) issued by the Company shall be kept at the registered office of the Company or such other place within Barbados as may from time to time be designated by the directors.
- 9.4 Registration of Securities – Without prejudice to the Company's discretion to keep its registers of securities in such format as it deems fit, the Company may register securities issued by it with the BCSDI under the provisions of the Securities Act and may issue and transfer such securities by book entries.

## Sagicor Financial Corporation

- 9.5 Share Certificates – Any issue of shares may be automatically credited to accounts maintained for shareholders in the register of shareholders of the Company and the form of share certificate shall be in the form of a shareholding statement showing details of transactions each time the shareholder acquires or disposes of shares during the period covered by the statement, or in the form of such a statement sent annually or semi-annually to shareholders.
- 9.6 Effect of Later Shareholding Statement – The issue by BCSDI of a shareholding statement bearing a later date cancels and replaces any shareholding statement in favour of the same person bearing an earlier date.
- 9.7 Joint Shareholders – If two or more persons are registered as joint holders of any shares the Company shall not be bound to issue more than one shareholding statement in respect thereof and delivery of such statement to one of such persons shall be sufficient delivery to all of them. Any one of such persons may give effectual receipts for the shareholding statement issued in respect thereof or for any dividend, bonus, return of capital or other money payable or warrant issuable in respect of such shares.
- 9.8 Deceased Shareholders – In the event of death of a holder or of one of the joint holders of any shares or debentures the Company shall not be required to make any entry in the securities register in respect thereof or to make payment of any dividends thereon except upon production of all such documents as may be required by law and upon compliance with the reasonable requirements of the Company and its transfer agents.
- 9.9 Issue and Transfer of Shares – No shares may be issued or transferred without the person in whose name the shares are to be registered furnishing a declaration, if required, as to:
- (a) the identity of the beneficial owner of the shares;
  - (b) whether the shareholder is an affiliate or associate of any other shareholder or beneficial owner of the shares; and
  - (c) such other information or further facts that the directors consider relevant.
- 9.10 Registration of Transfers – Subject to the provisions of the Act and the articles, no transfer of shares shall be registered in a securities register except upon presentation of a transfer in the form prescribed by the directors and endorsed thereon or delivered therewith duly signed or executed by the registered holder and the transferee or by their respective attorney or successor duly appointed, together with such reasonable assurance or evidence of signature, identification and authority to transfer as the directors may from time to time prescribe, and upon payment of all applicable taxes and any fees prescribed by the directors, and upon compliance with such restrictions on transfer as are stipulated or authorized by the articles.
- 9.11 Transfer Agents and Registrars – The directors may from time to time appoint a registrar to maintain the securities register and a transfer agent to maintain the register of transfers and may also appoint one or more branch registrars to maintain branch securities registers and one or more branch transfer agents to maintain branch registers of transfers but one person may be appointed both registrar and transfer agent. The directors may at any time terminate any such appointment; provided however that the failure of any registrar or transfer agent to observe the provisions of by-law 9.10 shall in no way constitute a waiver of the provisions of that by-law by the Company.

(Repealed Bylaw 12.3)

- 12.3 Recorded Address – Any shareholder whose address is not in a country that is a member of Caricom (“Caricom country”) shall provide the Company with a recorded address for service and the payment of dividends within a Caricom country. If such shareholder fails to do so within six months of being entered on the register of shares or of acquiring an address outside of a Caricom country, the Company shall not be obliged to send any notice or dividends to such shareholder until the shareholder provides the Company with a recorded address within a Caricom country. The secretary may change or cause to be changed the recorded address of any shareholder, director, officer, auditor or member of a committee of the directors in accordance with any information believed by him to be reliable.

Sagicor Financial Corporation

SCHEDULE 3 TO NOTICE OF MEETING

THE COMPANIES ACT CHAPTER 308

BY-LAW NO. 1

of

SAGICOR FINANCIAL CORPORATION

Enacted December 6, 2002  
Amended March 16, 2007

Sagicor Financial Corporation

BY-LAW NO. 1

A by-law relating generally to the conduct of the affairs of

SAGICOR FINANCIAL CORPORATION

(herein called "the Company")

BE IT ENACTED and it is hereby enacted as a general by-law of the Company as follows:-

1 – Interpretation

- 1.1 Definitions and Interpretations – In this by-law, and all other by-laws of the Company, unless the context otherwise specifies or requires:
- (a) "Act" means the Companies Act Chapter 308 as from time to time amended and every statute substituted therefor and, in the case of such substitutions, any references in the by-laws of the Company to provisions of the Act shall be read as references to the substituted provisions therefor in the new statute;
  - (b) "BCSDI" means the Barbados Central Securities Depository Inc or its successor;
  - (c) "by-laws" means any by-law of the Company from time to time in force;
  - (d) "dollars" or "\$" means Barbados currency and in respect of any other currency a conversion thereto as at the relevant date;
  - (e) "non-business day" means Saturday, Sunday or a day that is a public holiday in Barbados;
  - (f) "number of directors" means the number of directors provided for in the articles or, where a minimum and maximum number of directors is provided for in the articles, the number of directors determined by a special resolution or resolution passed pursuant to section 59 of the Act;
  - (g) "recorded address" means the latest address of a person as shown in the records of the Company;
  - (h) "Regulations" means any regulations made under the Act and every regulation substituted therefor and, in the case of such substitution, any references in the by-laws of the Company to provisions of the Regulations shall be read as references to the substituted provisions therefor in the new regulations;
  - (i) "Securities Act" means the Securities Act, 2001-13 as from time to time amended and every statute substituted therefor and, in the case of such substitutions, any references in the by-laws of the Company to provisions of the Securities Act shall be read as references to the substituted provisions therefor in the new statute;
  - (j) all terms contained in the by-laws and defined in the Act or the Regulations shall have the meanings given to such terms in the Act or the Regulations;
  - (k) the singular includes the plural and the plural includes the singular; the masculine gender includes the feminine and neuter genders; the word "person" includes bodies corporate, companies, partnerships, syndicates, trusts and any association of persons; and the word "individual" means a natural person;
  - (l) the headings used in the by-laws are inserted for reference only and are not to be considered or taken into account in construing the terms or provisions thereof or to be deemed in any way to clarify, modify or explain the effect of any such terms or provisions.

# Sagicor Financial Corporation

## 2 – Business of the Company

- 2.1 Registered Office – The registered office of the Company shall be in Barbados at such address as the directors may fix from time to time by resolution.
- 2.2 Head Office – The head office of the Company shall be in Barbados at such address as the directors may fix from time to time by resolution. The Company may also maintain other offices at such other places both within and outside Barbados as the directors may from time to time determine.
- 2.3 Seal – The common seal of the Company shall be such as the directors may by resolution from time to time adopt.
- 2.4 Execution of Instruments – Deeds, debentures, mortgages, transfers, assignments, contracts, obligations, certificates, documents and other instruments executed under seal may be signed on behalf of the Company by any two directors or by a director together with the secretary or the assistant secretary. In addition, the directors may from time to time direct the manner in which any particular instrument or class of instruments may or shall be signed. The directors shall have power from time to time by resolution to appoint any officer or person on behalf of the Company either to sign contracts, documents and instruments in writing generally or to sign specific contracts, documents or instruments in writing.
- 2.5 Signatures – The signature of a Chairman, a Vice-Chairman, a Managing Director, a President, a Vice-President, the Secretary, Assistant Secretary or any director of the Company or any officer or person appointed pursuant to by-law 2.4 hereof by resolution of the directors, may be printed, engraved, lithographed or otherwise mechanically reproduced upon any contract, document or instrument in writing, certificate, bond, debenture or other security of the Company executed or issued by or on behalf of the Company. Any document or instrument in writing on which the signature of any such officer or person is so reproduced shall be deemed to have been manually signed by such officer or person whose signature is so reproduced and shall be as valid to all intents and purposes as if such document or instrument in writing is delivered or issued.
- 2.6 Financial Year – The financial year of the Company shall terminate on such day in each year as the directors may from time to time by resolution determine.

## 3 – Directors

- 3.1 Number – The number of directors or the minimum and maximum number of directors of the Company is set out in the articles of the Company.
- 3.2 Powers – Subject to any unanimous shareholder agreement, the directors shall manage the business and affairs of the Company and may exercise all such powers and do all such acts and things as may be exercised or done by the Company and are not by the Act, the articles, the by-laws, any special resolution of the Company, a unanimous shareholder agreement or by statute expressly directed or required to be done in some other manner.
- 3.3 Borrowing Powers – The directors may from time to time:
- (a) borrow money upon the credit of the Company;
  - (b) issue, re-issue, sell, or pledge debentures of the Company;
  - (c) subject to section 53 of the Act, give a guarantee on behalf of the Company to secure performance of an obligation of any person;
  - (d) mortgage, charge, pledge or otherwise create a security interest in all or any property of the Company owned or subsequently acquired to secure any obligation of the Company;

## Sagicor Financial Corporation

- (e) by resolution delegate to any officer of the Company all or any of the powers conferred on the directors by this by-law to the full extent thereof or such lesser extent as the directors may in any such resolution provide. The powers conferred by this by-law shall be in supplement to and not in substitution for any powers to borrow money for the purposes of the Company possessed by its directors or officers independently of a borrowing by-law.
- 3.4 Qualification – No person shall be qualified to hold the office of director if:
- (a) subject to by-law 3.10, he is less than 25 or more than 70 years of age;
  - (b) he is found to be of unsound mind;
  - (c) he has the status of a bankrupt, is insolvent or compounds with his creditors;
  - (d) being a corporation, it enters into liquidation; or
  - (e) he holds less than 1,000 Series A common shares in the Company.
- 3.5 Corporate Director – A person who is a director of the Company but who is not an individual shall, by such procedure as may be appropriate for the management of the affairs of such person, appoint an individual to act as such person's representative as a director of the Company with power to exercise all of the powers of a director of the Company but the person appointing any such individual shall remain fully liable as a director of the Company notwithstanding such appointment. A duly certified copy of the resolution or document whereby any such appointment is made shall be filed with the Company before any such individual acts as representative as aforesaid. Any person appointing an individual under the provisions of this paragraph may from time to time revoke the appointment of such individual and appoint another in his place.
- 3.6 Executive Directors – Not more than two directors, including the president or managing director of the Company, may be officers or employees of the Company or its affiliates.
- 3.7 Eligibility for Election – Except as otherwise provided by the by-laws, no person shall be eligible for election as a director at any meeting of shareholders unless:
- (a) nominated by the board, or
  - (b) not more than 60 days after the end of the financial year, written notice, signed by persons holding in aggregate not less than 5% of the issued and outstanding shares in the capital of the Company, has been given to the Company of the intention to propose a person for election together with a letter of consent signed by that person confirming his willingness to be appointed and to serve as a director if elected, provided however that no person as defined in the articles and the by-laws may nominate more than one director for election under this paragraph.
- 3.8 Rotation of Directors – Unless otherwise provided in the by-laws, at the annual general meeting held each year at least one third or the number nearest thereto of the directors shall be required to retire. A director shall not be required to retire unless he has been in office for three years except for the directors retiring at the first and second annual general meetings who shall be required to retire after one year and two years in office respectively. The retiring directors shall be eligible for re-election if qualified and shall be those who have been longest in office. As between two or more who have been in office an equal length of time, the directors or director to retire shall in default of agreement between them be determined by lot. The length of time a director has been in office shall be computed from the date of commencement of his last unbroken service as a director.
- 3.9 Compulsory Retirement – A director shall retire from office at the annual general meeting following the attainment of age 70 and shall not be eligible for re-election. Any director who is age 70 at the date of incorporation of the Company shall retire from office at the annual general meeting following the attainment of age 72 and shall not be eligible for re-election.



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- 3.10 Tenure of Office – Unless his tenure is sooner determined a director shall hold office from the close of the meeting at which he is elected or appointed until the close of the third annual general meeting of shareholders next following or until his successor is elected or appointed, whichever shall first occur.
- 3.11 Removal of Directors – Subject to the provisions of the Act the shareholders may by resolution passed at an annual or special meeting remove any director from office and the vacancy created by such removal may be filled at the same meeting failing which it may be filled by the directors.
- 3.12 Vacation of Office – A director shall cease to be a director when:
- (a) he dies;
  - (b) he is removed from office by the shareholders;
  - (c) he ceases to be qualified for election as a director;
  - (d) his written resignation is sent or delivered to the Company or if a time is specified in such resignation at the time so specified, whichever is later; or
  - (e) if he is an officer of the Company, his appointment as an officer is revoked, his services are terminated by the directors or he resigns his office.
- 3.13 Vacancies – Subject to the Act, a quorum of the board may fill a vacancy in the board except a vacancy resulting from an increase in the number of directors or in the maximum number of directors or from a failure of the shareholders to elect the number of directors. In the absence of a quorum of the board, or if the vacancy has arisen from a failure of the shareholders to elect the number of directors, the directors shall forthwith call a special meeting of shareholders to fill the vacancy. If the directors fail to call such meeting or if there are no such directors then in office the secretary or any shareholder may call the meeting.
- 3.14 Remuneration and Expenses – Subject to the articles or any unanimous shareholder agreement, the directors shall be paid such remuneration for their services as the shareholders may from time to time determine. Such remuneration may be in addition to the salary paid any officer or employee of the Company who is also a director. The directors shall also be entitled to be reimbursed for travelling and other expenses properly incurred by them in attending meetings of the directors or any committee thereof. The directors may also award special remuneration to any director undertaking any special services on the Company's behalf other than the routine work ordinarily required of a director and any such special remuneration shall be disclosed at the next meeting of shareholders immediately following the award and to such regulatory authorities as may be required. Nothing herein contained shall preclude any director from serving the Company in any other capacity and receiving remuneration therefor. If any director or officer of the Company is employed by or performs services for the Company otherwise than as a director or officer or is a member of a firm or a shareholder, director or officer of a body corporate which is employed by or performs services for the Company, the fact of his being a shareholder, director or officer of the Company shall not disentitle such director or officer or such firm or body corporate, as the case may be, from receiving proper remuneration for such services.
- 3.15 Conflict of Interest – A director or officer who is a party to, or who is a director or officer of or has a material interest in any person who is a party to, a material contract or proposed material contract with the Company shall disclose the nature and extent of his interest at the time and in the manner provided by the Act. Any such contract or proposed contract shall be referred to the directors or shareholders for approval even if such contract is one that in the ordinary course of the Company's business would not require approval by the directors or shareholders. A director interested in a contract so referred to shall not vote on any resolution to approve the same except as provided by the Act. Disclosure of such contract or proposed contract shall however be made at the next meeting of shareholders immediately following the disclosure and to such regulatory authorities as may be required.
- 3.16 Submission of Contracts or Transactions to Shareholders for Approval – The directors in their discretion may submit any contract, act or transaction for approval or ratification at any annual meeting of the shareholders or at any special meeting of the shareholders called for the purpose of considering the same and subject to the

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provisions of section 89 of the Act any such contract, act or transaction that is approved or ratified or confirmed by a resolution passed by a majority of the votes cast at any such meeting (unless any different or additional requirement is imposed by the Act or by the Company's articles or any other by-law) shall be as valid and as binding upon the Company and upon all the shareholders as though it had been approved, ratified or confirmed by every shareholder of the Company.

### 4 – Meetings of Directors

- 4.1 Place of Meetings – Meetings of the directors and of any committee of directors may be held at any place within or outside Barbados.
- 4.2 Calling of Meetings – Meetings of the directors shall be convened at any time as the chairman, vice-chairman or any two directors may determine or by the Secretary when so directed or authorized.
- 4.3 Notice of Meetings – Notice of the time and place of each meeting of the directors shall be given in the manner provided in by-law 12.1 to each director not less than 48 hours before the time when the meeting is to be held. Subject to section 76(1) of the Act, the notice of a meeting of directors need not specify the purpose of or the business to be transacted at the meeting. It shall not be necessary to give notice of a meeting of the directors to a newly elected or appointed director for a meeting held immediately following the election of directors by the shareholders or the appointment to fill a vacancy among the directors.
- 4.4 Quorum – The quorum for the transaction of business at any meeting of the directors shall consist of a majority of the number of directors and, notwithstanding any vacancy among the directors, a quorum may exercise all the powers of the directors. No business may be transacted at a meeting of directors unless a quorum is present.
- 4.5 Meetings by Telephone – If all the directors consent, a director may participate in a meeting of the directors or of a committee of the directors by means of such telephone or other communication facilities as permit all persons participating in the meeting to hear each other and a director participating in such a meeting by such means is deemed to be present at the meeting. Any such consent shall be effective whether given before or after the meeting to which it relates and may be given with respect to all meetings of the directors and of committees of the directors held while a director holds office.
- 4.6 Adjourned Meetings – Notice of an adjourned meeting of the directors is not required if the time and place of the adjourned meeting is announced at the original meeting.
- 4.7 Regular Meetings – The directors may appoint a day or days in any month or months for regular meetings of the directors at a place and hour to be named. A copy of any resolution of the directors fixing the place and time of such regular meetings shall be sent to each director forthwith after being passed but no other notice shall be required for any such regular meeting except where the Act requires the purpose thereof or the business to be transacted thereat to be specified.
- 4.8 Chairman – The chairman of any meeting of the directors shall be the chairman and in his absence the vice-chairman. If no such officer is present the directors present shall choose one of their number to be chairman.
- 4.9 Votes to Govern – At all meetings of the directors every question shall be decided by a majority of the votes cast on the question. In case of an equality of votes the chairman of the meeting shall, in addition to his original vote, have a second or casting vote.
- 4.10 Resolution in lieu of Meeting – Notwithstanding any of the foregoing provisions of this by-law a resolution in writing signed by all the directors entitled to vote on that resolution at a meeting of the directors or any committee of the directors is as valid as if it had been passed at a meeting of the directors or any committee of the directors.

### 5 – Committees

- 5.1 Committee of Directors – The directors may appoint a committee of directors, however designated, and delegate to such committee any of the powers of the directors except those which, under the Act, a committee of directors has no authority to exercise.

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- 5.2 Transaction of Business – The powers of a committee of directors may be exercised by a meeting at which a quorum is present or by resolution in writing signed by all the members of such committee who would have been entitled to vote on that resolution at a meeting of the committee. Meetings of such committee may be held at any place within or outside Barbados.
- 5.3 Procedure – Unless otherwise determined by the directors each committee shall have the power to fix its quorum at not less than a majority of its members, to elect its chairman and to regulate its procedure.
- 5.4 Audit and Governance Committees – Notwithstanding by-law 5.1 the directors shall elect annually from among their number an audit committee and a governance committee, each comprising not less than three directors. No employee of the Company or its affiliates shall be a member of either committee but may be invited to attend meetings. A member of any such committee shall serve during the pleasure of the directors and in any event only so long as he is a director.
- 5.5 Audit Committee – The audit committee shall have power to fix its quorum at not less than a majority of its members and to determine its own rules of procedure subject to any regulations imposed by the board of directors from time to time. The auditor of the Company is entitled to receive notice of every meeting of the audit committee and at the expense of the Company to attend and be heard at the meeting. If so requested by a member of the audit committee, the auditor shall attend every meeting of the committee held during his term of office. Any member of the audit committee may call a meeting of the committee.

### 6 – Officers

- 6.1 Appointment – The directors shall as often as may be required appoint a secretary and may as often as may be required appoint a chairman and vice-chairman of the board both of whom shall be directors and, subject to any unanimous shareholder agreement, a president or managing director, and one or more vice-presidents (to which title may be added words indicating seniority or function), and such other officers as the directors may determine, including one or more assistants to any of the officers so appointed.
- 6.2 Duties – If appointed, the chairman and vice-chairman shall, subject to the provisions of the Act, the articles or any unanimous shareholder agreement, have such other powers and duties as the directors may specify and during the absence or disability of the chairman his duties shall be performed and his powers exercised by the vice-chairman. The directors may from time to time specify the duties of and, in accordance with this by-law and subject to the provisions of the Act, delegate to such officers powers to manage the business and affairs of the Company.

### 7 – For the Protection of Directors and Officers

- 7.1 Limitation of Liability – No director or officer shall be liable for:
- (a) the acts, receipts, neglects or defaults of any other director or officer or employee or for joining in any receipt or other act for conformity;
  - (b) any loss, damage or expense happening to the Company through the insufficiency or deficiency of title to any property acquired for or on behalf of the Company;
  - (c) the insufficiency or deficiency of any security in or upon which any of the moneys of the Company shall be invested;
  - (d) any loss or damage arising from the bankruptcy, insolvency or tortuous acts of any person with whom any of the moneys, securities or effects of the Company shall be deposited;
  - (e) any loss occasioned by any error of judgement or oversight on his part or for any other loss, damage or misfortune whatever which shall happen in the execution of the duties of his office or in relation thereto;

unless the same are occasioned by his own wilful neglect or default or happens through his failure to exercise the powers and to discharge the duties of his office honestly and in good faith with a view to the best interests of the Company. Except

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as provided by law, the directors for the time being of the Company shall not be under any duty or responsibility in respect of any contract, act or transaction whether or not made, done or entered into in the name of the Company, except such as is submitted to or authorized or approved by the directors. Nothing herein shall relieve any director or officer from the duty to act in accordance with the Act and the Regulations or from liability for any breach thereof.

- 7.2 Indemnity – Subject to the limitations contained in the Act the Company shall indemnify a director or officer, a former director or officer or a person who acts or acted at the Company's request as a director or officer of a body corporate of which the Company is or was a shareholder or creditor (or a person who undertakes or has undertaken any liability on behalf of the Company or any such body corporate) and his heirs and legal representatives against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgement, reasonably incurred by him in respect of any civil, criminal or administrative action or proceeding to which he is made a party by reason of being or having been a director or officer of the Company or such body corporate if:
- (a) he acted honestly and in good faith with a view to the best interests of the Company; and
  - (b) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty he had reasonable grounds for believing that his conduct was lawful.
- 7.3 Insurance – Subject to the limitations contained in the Act the Company may purchase and maintain such insurance for the benefit of its directors and officers, as the directors may from time to time determine.

### 8 – Meetings of Shareholders

- 8.1 Annual Meetings – Subject to the provisions of section 105 of the Act, the annual meeting of the shareholders shall be held not later than six months after the end of the financial year of the Company on such day in each year and at such time as the directors may by resolution determine at any place within Barbados or, if all the shareholders entitled to vote at such meeting so agree, outside Barbados.
- 8.2 Special Meetings – Special meetings of the shareholders may be convened by order of the directors at any date and time and at any place within Barbados or, if all the shareholders entitled to vote at such meeting so agree, outside Barbados. Whenever and as soon as there is not a quorum of directors in office it shall be the duty of the secretary to call a special meeting of shareholders to elect directors to fill the vacancies, provided that if such lack of quorum shall occur within a month before the regular time for the annual meeting the secretary may call the annual meeting instead of a special meeting.
- 8.3 Special Meetings on Requisition of Shareholders – The directors shall, on the requisition of the holders of not less than 5% of the issued shares of the Company that carry a right to vote at the meeting requisitioned, forthwith convene a meeting of shareholders, and in the case of such requisition the following provisions shall have effect:
- (a) The requisition must state the purposes of the meeting and must be signed by the requisitionists and deposited at the registered office of the Company and may consist of several documents in like form, each signed by one or more of the requisitionists.
  - (b) If the directors do not, within 21 days from the date of the requisition being so deposited, proceed to convene a meeting, the requisitionists or any of them may themselves convene the meeting but any meeting so convened shall not be held after three months from the date of such deposit.
  - (c) Unless subsection (3) of section 129 of the Act applies the directors shall be deemed not to have duly convened the meeting if they do not give such notice as is required by the Act within 21 days from the deposit of the requisition.
  - (d) Any meeting convened under this by-law by the requisitionists shall be called as nearly as possible in the manner in which meetings are to be called pursuant to the by-laws and Divisions E and F of Part I of the Act.
  - (e) A requisition by joint holders of shares must be signed by all such holders.

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- 8.4 Notice of Meetings – Notice of the time and place of each meeting of shareholders shall be given in the manner provided in by-law 12.1 not less than 21 nor more than 50 days before the date of the meeting to each director, to the auditor and to each shareholder who at the close of business on the record date, if any, is entered in the securities register as the holder of one or more shares carrying the right to vote at the meeting. Notice of a meeting of shareholders at which special business is to be transacted shall state the nature of such business in sufficient detail to permit the shareholder to form a reasoned judgement thereon and shall state the text of any special resolution to be submitted to the meeting.
- 8.5 List of Shareholders Entitled to Notice – For every meeting of shareholders the Company shall prepare a list of shareholders entitled to receive notice of the meeting, arranged in alphabetical order and showing the number of shares entitled to vote at the meeting held by each shareholder. The list shall be available for examination by any such shareholder during usual business hours at the registered office of the Company or at the place where the securities register is kept.
- 8.6 Record Date for Notice – The directors may fix in advance a record date, preceding the date of any meeting of shareholders by not more than 50 days and not less than 21 days, for the determination of the shareholders entitled to notice of the meeting provided that notice of any such record date is given not less than seven days before such record date by newspaper advertisement in the manner provided in the Act. If no record date is so fixed the record date for the determination of the shareholders entitled to notice of the meeting shall be the close of business on the day immediately preceding the day on which the notice is given or, where no such notice is given, the day on which the meeting is held.
- 8.7 Chairman, Secretary and Scrutineers – The chairman of any meeting of shareholders shall be the chairman and in his absence the vice-chairman. If no such officer is present within 15 minutes from the time fixed for holding the meeting the persons present and entitled to vote shall choose one of the directors present to be chairman. If the secretary of the Company is absent the chairman shall appoint some person, who need not be a shareholder, to act as secretary of the meeting. If desired, one or more scrutineers, who need not be shareholders, may be appointed by resolution of the directors or by the chairman with the consent of the meeting.
- 8.8 Persons Entitled to be Present – The only persons entitled to be present at a meeting of the shareholders shall be those entitled to vote thereat, the directors and auditors of the Company and others who, although not entitled to vote, are entitled or required under any provision of the Act or the articles or by-laws to be present at the meeting. Any other person may be admitted only on the invitation of the chairman of the meeting or with the consent of the meeting.
- 8.9 Quorum – Subject to by-law 8.21, a quorum for the transaction of business at any meeting of shareholders shall be 100 shareholders present in person or by proxy. If a quorum is present at the opening of any meeting of shareholders, the shareholders present or represented may proceed with the business of the meeting notwithstanding that a quorum is not present throughout the meeting. If a quorum is not present within 30 minutes of the time appointed for a meeting of shareholders, the meeting stands adjourned to the same day two weeks thereafter at the same time and place and if at the adjourned meeting a quorum is not present within 30 minutes of the appointed time the shareholders present constitute a quorum.
- 8.10 Right to Vote – Subject to the provisions of the Act as to authorized representatives of any other body corporate, at any meeting of shareholders in respect of which the Company has prepared the list referred to in by-law 8.5, every person who is named in such list shall be entitled to vote the shares shown thereon opposite his name except where the Company has fixed a record date in respect of such meeting pursuant to by-law 8.6 to the extent that such person has transferred any of his shares after such record date and the transferee, upon producing properly endorsed certificates evidencing such shares or otherwise establishing that he owns such shares, demands not later than ten days before the meeting that his name be included to vote the transferred shares at the meeting. In the absence of a list prepared as aforesaid in respect of a meeting of shareholders every person shall be entitled to vote at the meeting who at the time is entered in the securities register as the holder of one or more shares carrying the right to vote at such meeting.
- 8.11 Proxies – Every shareholder entitled to vote at a meeting of shareholders may appoint a proxyholder or one or more alternate proxyholders, who need not be shareholders, to attend and act at the meeting in the manner and

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to the extent authorized and with the authority conferred by the proxy. A proxy shall be in writing executed by the shareholder or his attorney and shall conform to the requirements of the Act.

8.12 Time for Deposit of Proxies – The directors may specify in a notice calling a meeting of shareholders a place and a time, preceding the time of such meeting by not more than 48 hours exclusive of non-business days, before which time proxies to be used at such meeting must be deposited. A proxy shall be acted upon only if, prior to the time so specified, it shall have been deposited with the Company or an agent thereof specified in such notice or, if no such time is specified in such notice, unless it has been received by the secretary of the Company or by the chairman of the meeting or any adjournment thereof prior to the time of voting.

8.13 Form of Proxy – Subject to the provisions of Part V of the Regulations, a proxy may be in the following form:

*I, ....., the undersigned, being a shareholder of the Company, hereby appoint. .... of. .... or failing him. .... of. ...., as my proxy to attend and act for me and on my behalf at the. .... meeting of the shareholders of the Company to be held on the. .... day of. ...., and at any adjournment thereof in the same manner, to the same extent and with the same powers as if the undersigned were present at the meeting or such adjournment.*

*Dated this. .... day of. ....*

*.....  
Signature of Shareholder*

8.14 Bodies Corporate and Associations – A body corporate or association which is a shareholder may by resolution authorize an individual to represent it and vote for it at meetings of shareholders.

8.15 Joint Shareholders – If two or more persons hold shares jointly any one of them present in person or represented by proxy at a meeting of shareholders may, in the absence of the other, vote the shares; but if two or more of those persons are present in person or represented by proxy and vote they shall vote as one on the shares jointly held by them.

8.16 Votes to Govern – At any meeting of shareholders every question shall, unless otherwise required by the articles or by-laws or by law, be determined by the majority of the votes cast on the question. In case of an equality of votes either upon a show of hands or upon a poll the chairman of the meeting shall be entitled to a second or casting vote.

8.17 Show of Hands – Subject to the provisions of the Act, any question at a meeting of shareholders shall be decided by a show of hands unless a ballot thereon is required or demanded as hereinafter provided. Upon a show of hands every person who is present and entitled to vote shall have one vote. Whenever a vote by show of hands shall have been taken upon a question, unless a ballot thereon is so required or demanded, a declaration by the chairman of the meeting that the vote upon the question has been carried or carried by a particular majority or not carried and an entry to that effect in the minutes of the meeting shall be prima facie evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against any resolution or other proceeding in respect of the said question and the result of the vote so taken shall be the decision of the shareholders upon the said question.

8.18 Ballots – On any question proposed for consideration at a meeting of shareholders and, whether or not a show of hands has been taken thereon, any shareholder or proxyholder entitled to vote at the meeting may require or demand a ballot. A ballot so required or demanded shall be taken in such manner and at such time as the chairman shall direct. A requirement or demand for a ballot may be withdrawn at any time prior to the close or adjournment of the meeting at which the ballot was required or demanded. If a ballot is taken each person present shall be entitled, in respect of the shares which he is entitled to vote at the meeting upon the question, to that number of votes provided by the Act or the articles, and the result of the ballot so taken shall be the decision of the shareholders upon the said question.



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- 8.19 Adjournments – Without prejudice to the right of the chairman to adjourn a meeting of shareholders for reasons of disorder, the chairman of any meeting may, with the consent of the meeting, adjourn the same from time to time to a fixed time and place. If the meeting is adjourned for less than 30 days it shall not be necessary to give notice of the adjourned meeting other than by announcement at the earliest meeting that is adjourned. If a meeting of shareholders is adjourned by one or more adjournments for an aggregate of 30 days or more notice of the adjourned meeting shall be given as for an original meeting.
- 8.20 Resolution in Writing – Notwithstanding any of the foregoing provisions of this by-law, a resolution in writing signed by all of the shareholders entitled to vote on that resolution at a meeting of shareholders is, subject to section 128 of the Act, as valid as if it had been passed at a meeting of the shareholders.
- 8.21 Only One Shareholder – Where the Company has only one shareholder or only one holder of any class or series of shares the shareholder present in person or by proxy constitutes a meeting.

### 9 – Securities

- 9.1 Allotment – Subject to the Act, the articles and any unanimous shareholder agreement, the directors may from time to time allot, issue and grant options to purchase any part of the authorized and unissued shares of the Company at such times and to such persons or class of persons and for such consideration and on such terms and conditions as the directors shall determine provided that no share shall be issued until it is fully paid as prescribed by the Act.
- 9.2 Commissions – The directors may from time to time authorise the Company to pay a commission to any person in consideration of his purchasing or agreeing to purchase shares of the Company, whether from the Company or from any other person, or procuring or agreeing to procure purchasers for any such shares.
- 9.3 Registers – Securities registers issued by the Company shall be kept at the registered office of the Company or such other place within or outside Barbados as may from time to time be designated by the directors.
- 9.4 Registration and Deposit of Securities – Without prejudice to the Company's discretion to keep its securities registers in such format as it deems fit, the Company may register or deposit securities issued by it with the BCSDI under the provisions of the Securities Act. The Company may also register or deposit its securities in such other depositories as it deems fit and may issue and transfer all or any part of such securities referred to in this Bylaw by book entries.
- 9.5 Security Certificates – Any issue or transfer of securities may be automatically credited to accounts maintained for security holders in the register of security holders of the Company and the form of security certificate shall be in the form of a security holding statement, depositary receipt or such other document showing details of a holder's interest in the capital of the Company as may be approved by the directors.
- 9.6 Effect of Later Security Holding Statement – The issue of a security holding statement bearing a later date cancels and replaces any security holding statement in favour of the same person bearing an earlier date.
- 9.7 Joint Security Holders – If two or more persons are registered as joint holders of any securities the Company shall not be bound to issue more than one certificate in respect thereof and delivery of such certificate to one of such persons shall be sufficient delivery to all of them. Any one of such persons may give effectual receipts for the certificate issued in respect thereof or for any dividend, bonus, return of capital or other money payable or warrant issuable in respect of such securities.
- 9.8 Deceased Security Holders – In the event of death of a holder or of one of the joint holders of any securities the Company shall not be required to make any entry in the securities register in respect thereof or to make payment of any dividends thereon except upon production of all such documents as may be required by law and upon compliance with the reasonable requirements of the Company and its transfer agents.
- 9.9 Transfers of Securities – Subject to the provisions of the Act and the articles, the directors may from time to time prescribe the form of transfer constituting a valid instrument of transfer of the securities in the capital of the

## Sagicor Financial Corporation

Company and may authorise the same for registration as a valid transfer of the number of securities specified therein.

- 9.10 Transfer Agents and Registrars – The directors may from time to time appoint a registrar to maintain the securities register and a transfer agent to maintain the register of transfers and may also appoint one or more branch registrars to maintain branch securities registers and one or more branch transfer agents to maintain branch registers of transfers but one person may be appointed both registrar and transfer agent. The directors may at any time terminate any such appointment.

### 9.11 – Disclosure of Interests

- 9.11.1 The Company may by notice in writing require any security holder within such reasonable time as is specified in the notice to indicate in writing the capacity in which he holds any shares in the capital of the Company, and if he holds them otherwise than as a beneficial owner, to indicate in writing so far as it lies within his knowledge, the person who has an interest in them (either by name and address or by other particulars sufficient to enable that person to be identified) and the nature of that person's interest.
- 9.11.2 Where the Company is informed in pursuance of a notice given to any person under by-law 9.11.1, that any other person has an interest in any shares in the capital of the Company, the Company may by notice in writing require that other person within such reasonable time as specified in the notice to indicate in writing the capacity in which he holds that interest, and if he holds it otherwise than as a beneficial owner, to indicate in writing so far as it lies within his knowledge, the person who has an interest in it (either by name and address or by other particulars sufficient to enable him to be identified) and the nature of that person's interest.
- 9.11.3 The Company may by notice in writing require any member of the Company to indicate in writing, within such reasonable time as is specified in the notice, whether any of the voting rights carried by any shares comprised in the capital of the Company held by him are the subject of an agreement or arrangement under which another person is entitled to control his exercise of those rights and, if so, to give, so far as it lies within his knowledge, written particulars of the agreement or arrangement and the parties to it.
- 9.11.4 Where the Company is informed, in pursuance of a notice given to any person under by-law 9.11.3 or this by-law, that any other person is a party to such agreement or arrangement as is mentioned in by-law 9.11.3, the Company may by notice in writing require that other person within such reasonable time as is specified in the notice to give, so far as it lies within his knowledge, written particulars of the agreement or arrangement and the parties to it.

### 10 – Dividends and Rights

- 10.1 Dividends – Subject to the provisions of the Act and the articles, the directors may from time to time declare and the Company may pay dividends on the issued and outstanding shares in the capital of the Company to shareholders according to their respective rights and interests in the Company. Dividends may be paid in money or property or by issuing fully paid shares of the Company.
- 10.2 Payment of Dividends – A dividend payable in cash shall be paid either:
- (a) by cheque drawn on the Company's bankers or one of them to the order of each registered holder of shares of the class or series in respect of which it has been declared and mailed by prepaid ordinary mail to such registered holder at his recorded address unless such holder otherwise directs; in the case of joint holders the cheque shall, unless such joint holders otherwise direct, be made payable to the first named joint holder on the register and mailed to the recorded address of the joint holders; or
  - (b) electronically to each registered holder of shares of the class or series in respect of which it has been declared and by deposit into a bank account designated by such registered holder for the payment of dividends unless such holder otherwise directs; in the case of joint holders payment by deposit shall, unless such joint holders otherwise direct, be made to the order of the first named joint shareholder on the register.



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- 10.3 Good Receipt – The mailing of such cheque, unless the same is not paid on due presentation, or the electronic payment as aforesaid shall satisfy and discharge the liability for the dividend to the extent of the sum represented thereby plus the amount of any tax which the Company is required to and does withhold.
- 10.4 Non-Receipt of Dividend – In the event of non-receipt of any dividend by the person to whom it is sent as aforesaid the Company shall effect payment to such person for a like amount on such terms as to indemnity, reimbursement of expenses and evidence of non-receipt and of title as the directors may from time to time prescribe, whether generally or in any particular case.
- 10.5 Record Date for Dividends and Rights – The directors may fix in advance a date, preceding by not more than 50 days the date for the payment of any dividend or the date for the issue of any warrant or other evidence of right to subscribe for securities of the Company, as a record date for the determination of the persons entitled to receive payment of such dividend or to exercise the right to subscribe for such securities provided that notice of any such record date is given not less than 14 days before such record date by newspaper advertisement in the manner provided in the Act. Where no record date is fixed in advance as aforesaid the record date for the determination of the persons entitled to receive payment of any dividend or to exercise the right to subscribe for securities of the Company shall be at the close of business on the day on which the resolution relating to such dividend or right to subscribe is passed by the directors.
- 10.6 Unclaimed Dividends – Any dividend unclaimed after a period of six years from the date on which the same has been declared to be payable shall be forfeited and shall revert to the Company.

### 11 – Information Available to Shareholders

- 11.1 Shareholder Information – Except as provided by the Act, no shareholder shall be entitled to any information respecting any details or conduct of the Company's business which in the opinion of the directors it would be inexpedient in the interests of the Company to communicate to the public but the directors may, from time to time, subject to the rights conferred by the Act, determine whether and to what extent and at what time and place and under what conditions or regulations the documents, books and registers and accounting records of the Company or any of them may be open to the inspection of shareholders and no shareholder shall have any right to inspect any document or book or register or accounting record of the Company except as conferred by statute or authorized by the directors or by special resolution of the shareholders.

### 12 – Notices

- 12.1 Method of Giving Notice – Any notice (which term includes any communication or document) to be given (which term includes sent, delivered or served) pursuant to the Act, the Regulations, the articles, the by-laws or otherwise to a shareholder, debenture holder, director, officer, auditor or member of a committee of the directors shall be sufficiently given if:
- (a) delivered personally to the person to whom it is to be given;
  - (b) delivered to his recorded address;
  - (c) mailed to him at his recorded address by prepaid ordinary or air mail;
  - (d) sent to him at his recorded address by any means of prepaid transmitted or recorded communication; or
  - (e) in the case of a director, sent by facsimile or other means of electronic transmission.

A certificate of an officer of the Company in office at the time of the making of the certificate or any transfer agent of shares or debentures of any class of the Company as to the facts in relation to the delivery or sending of any notice shall be conclusive evidence of those facts.

- 12.2 Computation of Time – In computing the date when notice must be given under any provision requiring a specified number of days or other period of notice of any meeting or other event the date of giving the notice and the date of the meeting or other event shall not be counted and:

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- (a) where the notice is delivered personally to the person to whom it is addressed or delivered to his recorded address service shall be deemed to have been effected at the time of delivery of such notice;
  - (b) where the notice is sent by post service of the notice shall be deemed to be effected on the day of posting;
  - (c) where the notice is sent by facsimile or other means of electronic transmission service is deemed to be effected on the date on which the notice was sent.
- 12.3 Notice to Joint Shareholders – If two or more persons are registered as joint holders of any shares or debentures any notice shall be addressed to the first named of such joint holders and notice to such persons shall be sufficient notice to all of them.
- 12.4 Undelivered Notices – If any notice given to a shareholder or debenture holder pursuant to by-law 12.1 is returned on three consecutive occasions because he cannot be found the Company shall not be required to give any further notices to such shareholder or debenture holder until he informs the Company in writing of his new address.
- 12.5 Omissions and Errors – The accidental omission to give any notice to any shareholder, director, officer, auditor or member of a committee of the directors or the non-receipt of any notice by any such person or any error or irregularity in any notice not affecting the substance thereof shall not invalidate any resolution passed or action or proceedings taken at any meeting held pursuant to such notice or otherwise founded thereon.
- 12.6 Persons Entitled by Death or Operation of Law – Every person who, by operation of law, transfer, death of a shareholder or any other means whatsoever, shall become entitled to any shares shall be bound by every notice in respect of such shares which shall have been duly given to the shareholder from whom he derives his title to such shares prior to his name and address being entered on the securities register (whether such notice was given before or after the happening of the event upon which he became so entitled) and prior to his furnishing the Company the proof of authority or evidence of his entitlement prescribed by the Act.
- 12.7 Waiver of Notice – Notice may be waived or the time for the notice may be waived or abridged at any time by any person entitled thereto. Any such waiver or abridgement shall be in writing except a waiver of notice of a meeting of directors which may be given in any manner. The attendance of such person at a meeting shall constitute a waiver of notice of the meeting unless he attends for the express purpose of objecting to the transacting of any business on the grounds that the meeting is not lawfully called.

This By-law was made by resolution of the Directors on December 6, 2002 and confirmed by resolution of the Shareholders on June 30, 2004, and amended by resolution of the Directors made on March 16, 2007.

  
Chairman

  
Secretary

# Sagicor Financial Corporation

## MANAGEMENT PROXY CIRCULAR

SAGICOR FINANCIAL CORPORATION  
Company No 21849

Management is required by the Companies Act Chapter 308 of the Laws of Barbados (hereinafter called "the Act") to send with the Notice convening the Meeting forms of proxy. By complying with the Act, Management is deemed to be soliciting proxies within the meaning of the Act.

This Management Proxy Circular accompanies the Notice of the Fourth Annual Meeting of Shareholders of Sagicor Financial Corporation ("the Company") to be held on June 26, 2007 at 5:30 pm ("the Meeting") and is furnished in connection with the solicitation of proxies by the Management of the Company for use at the Meeting, or any adjournments thereof. The solicitation will primarily be by mail. The cost of the solicitation will be borne by the Company.

## APPOINTMENT AND REVOCATION OF PROXY

A form of proxy is enclosed and, if it is not your intention to be present at the Meeting, you are asked to sign, date and return the proxy. Proxies to be exercised at the Meeting must be deposited not later than 5:30 pm on June 24, 2007.

Any Shareholder having given a proxy has the right to revoke it by depositing an instrument in writing executed by the Shareholder or his/her attorney authorized in writing, or if the Shareholder is a company, under its corporate seal or by any officer or attorney thereof duly authorized, at any time up to and including the last business day preceding the day of the Meeting or any adjournment thereof with:

- the Corporate Secretary at the registered office of the Company at Sagicor Corporate Centre, Wildey, St Michael, Barbados, or
- the Corporate Secretary, Sagicor Financial Corporation, c/o Sagicor Life Inc, Sagicor Financial Centre, 16 Queen's Park West, Port of Spain, Trinidad, or
- the Branch Registrar, Computershare Investor Services (Channel Islands) Limited, Ordinance House, 31 Pier Road, St Helier, Jersey, Channel Islands.

The persons named in the enclosed form of proxy are Directors of the Company. If you wish to appoint some other person or company to represent you at the Meeting you may do so by inserting the name of your appointee, who need not be a Shareholder, in the blank space provided on the proxy form.

## RECORD DATE AND VOTING OF SHARES

The Directors of the Company have fixed May 10, 2007 as the record date for determining the Shareholders entitled to receive Notice of the Meeting and have given notice thereof by advertisement as required by the Act. Only the holders of common shares of the Company of record at the close of business on that day will be entitled to receive Notice of the Meeting.

Common Shareholders are voting on:

- (i) the election of Directors
- (ii) the re-appointment of the incumbent Auditors and Directors' authorization to fix their remuneration,
- (iii) the confirmation without amendment of amendments made to Bylaw No 1 of the Company on March 16, 2007,
- (iv) the fixing of Directors' fees.

Only the holders of common shares of the Company will be entitled to vote at the Meeting. On a show of hands, each Shareholder has one vote. On a poll, each holder of a common share is entitled to one vote for each share held. As at May 10, 2007, there are 266,985,336 common shares of the Company outstanding.

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### PRESENTATION OF FINANCIAL STATEMENTS AND AUDITORS' REPORT

The Financial Statements of the Company for the year ended December 31, 2006 and the Auditors' Report thereon are included in the 2006 Annual Report.

### ELECTION OF DIRECTORS

The Board of Directors consists of twelve members. The number of Directors to be elected at the Meeting is three. Mr David Walter Allan, Mr Terrence Anthony Martins and Mr Dodridge Denton Miller will retire at the end of the Meeting and will be seeking re-election. Following are the names of the qualified persons proposed as nominees for election as Directors of the Company, and for whom it is intended that votes will be cast pursuant to the form of proxy hereby enclosed:

- Mr DAVID WALTER ALLAN
- Mr TERRENCE ANTHONY MARTINS
- Mr DODRIDGE DENTON MILLER

Mr David Allan, aged 69, is a Barbadian and a former President and Chief Executive Officer of The Mutual Group, now Sagicor, a position he held for 23 years. He joined the Group in 1956 and was elected director of The Mutual, now Sagicor Life Inc, in 1986. He also serves as a director of Life of Jamaica Limited and Sagicor Life Inc and is a director of Barbados registered exempt insurance companies. Mr Allan, with more than 50 years' experience in the life insurance industry, is a former West Indies cricketer. He is a member of the Audit Committee of the Board.

Mr Terrence Martins, aged 64, is the non-executive Vice Chairman who is a citizen and resident of Trinidad and Tobago. He has brought a wealth of knowledge to Sagicor, with over 40 years of experience within the financial services industry both in the Caribbean and the United Kingdom. His areas of expertise include banking, finance, administration, corporate governance, and risk management. Mr Martins has previously held the position of Group Chief Executive Officer of RBTT Financial Holdings Limited. He is currently the Chairman of Caribbean Information and Credit Rating Services Ltd (CariCRIS), a Caribbean rating agency. He previously held several directorships within the RBTT Financial Holdings Group, in and outside of Trinidad and Tobago and is also a former member of the Integrity Commission of Trinidad and Tobago. In addition to being Vice Chairman of the Board, Mr Martins chairs the Corporate Governance Committee and is a member of the Human Resource Committee.

Mr Dodridge Miller, FCCA, MBA, LL.M, is 49 years of age. He was appointed President and Chief Executive Officer of The Mutual Group of Companies, now Sagicor, on July 1, 2002, having previously held the positions of Treasurer and Vice President, Finance and Investments, Deputy Chief Executive Officer and Chief Operating Officer. Mr Miller, a Barbadian, joined the Group in 1989. He was elected a director of The Mutual Group, in 2001. He is the Chairman of the Group's main operating subsidiaries, Sagicor Life Inc, Life of Jamaica Limited and Sagicor Life Insurance Company. Mr Miller is a Fellow of the Association of Chartered Certified Accountants (UK), and obtained his MBA from the University of Wales and Manchester Business School, United Kingdom, and holds an LL.M in Corporate and Commercial Law from the University of the West Indies. He has more than 20 years' experience in the insurance and financial services industries.

Messrs Allan, Martins and Miller each brings a wealth of experience to the Board of Directors. They continue to be effective and demonstrate commitment to the role of Director, including commitment of time for board and committee meetings. The Management of the Company does not contemplate that any of the persons named above will, for any reason, become unable to serve as a Director.

The Directors recommend that Shareholders vote FOR the election of the above-named Nominees.

### RE-APPOINTMENT OF INCUMBENT AUDITORS

PricewaterhouseCoopers, Chartered Accountants, of The Financial Centre, Bishops Court Hill, St Michael, Barbados, are the incumbent Auditors of the Company. It is proposed to re-appoint PricewaterhouseCoopers as Auditors of the Company to hold office until the next Annual Meeting of Shareholders.

The Directors recommend that Shareholders vote FOR the re-appointment of PricewaterhouseCoopers and the authorization of Directors to fix the Auditors' remuneration.

## Sagicor Financial Corporation

### AMENDMENT TO BYLAW NO. 1 (“THE BYLAWS”)

The Sagicor Group has been successfully executing a business strategy to be the leading insurance company within the Caribbean and to use this strong market position to expand internationally. During the past 15 years, the Sagicor Group has doubled its size approximately every 5 years, when measured in terms of total assets. We intend to continue our growth and expansion in order to maintain our position in the top tier of major regional financial institutions, a position we believe is critical to Sagicor’s long-term viability.

Our business strategy comprises four key components:

1. Further expanding the scale of our operations by participating in the consolidation of the financial services industry in the Caribbean, while continuing to streamline existing and acquired operations to extract synergies, and deliver a high quality of service to our customers.
2. Expanding into new product markets to offer a wider range of financial products and services.
3. Expanding into new geographic markets which offer the Sagicor Group attractive opportunities to profitably grow and expand its business operations.
4. Rigorous financial management to ensure optimization of the use of capital and the delivery of competitive returns to Shareholders.

Through the careful implementation of this strategy, Management has built a strong financial Group and has delivered exceptional returns to Shareholders.

An important aspect of this strategy is the strengthening of our Corporate Governance framework. In this connection, a review of the Bylaws was conducted. These Bylaws relate generally to the conduct of the affairs of the Company and were enacted on incorporation of the Company on December 6, 2002 and confirmed by Shareholders at the first annual meeting held on June 30, 2004. Pursuant to their power under Section 61(1) of the Act, Directors unanimously amended the By-laws on March 16, 2007. The amendments took immediate effect and remain in effect until the amendments are confirmed, amended or rejected by Shareholders pursuant to Section 61(2) of the Act. Under Section 61(2) of the Act, Directors are required to submit any amendment or repeal of a Bylaw made under Section 61(1) to the Shareholders at the next meeting of Shareholders after such amendment or repeal for confirmation, amendment or rejection.

#### *Bylaw 3.6 - Nationality and Residence*

Bylaw 3.6 provided for certain nationality qualifications for Directors. A majority of the Board had to be citizens or permanent residents of and ordinarily resident in Barbados and at least one director had to be a citizen of and ordinarily resident in Jamaica, Trinidad and Tobago and any country in the Eastern Caribbean respectively.

As the Company pursues the strategy outlined above it is necessary to select Directors from a suitable pool of regional and international candidates with the requisite knowledge and experience, and to include on the Board persons who reflect the geographic and business diversity of the Group and who can make meaningful contributions to our growth and development into a global financial services Group. Accordingly, Bylaw 3.6 has been repealed.

The full text of the Bylaw 3.6 (which has been repealed) is set out in Schedule 2 to the Notice of the Meeting.

#### *Bylaw 9 – Shares; Bylaw 12.3 - Recorded Address*

An integral part of our strategy also involves listing on an international stock exchange in order to gain access to capital in more established markets to pursue our strategy of expansion, create a footprint in an international capital market and enhance our ability to compete in a global environment. Accordingly, on February 14, 2007, all of the issued common shares of the Company were admitted to trading on the main market for listed securities of the London Stock Exchange.

The Directors consider it expedient to make amendments to Bylaw 9 and repeal Bylaw 12.3 in order to facilitate the listing of the Company’s shares on the London Stock Exchange. The amendments to Bylaw 9 and the repeal of Bylaw 12.3 are intended principally to:

- (a) permit the setting up of a branch register outside Barbados
- (b) permit the deposit of Sagicor shares in depositaries other than the Barbados Central Securities Depository
- (c) remove any references applicable to share restrictions

## Sagicor Financial Corporation

- (d) permit Directors to prescribe the form of share transfer constituting a valid transfer (which may vary from jurisdiction to jurisdiction), and
- (e) recognize both the regional and international origin of our Shareholders.

The full text of the original Bylaw 9 (which has been repealed and replaced) is set out in Schedule 2 to the Notice of the Meeting.

The full text of the new Bylaw 9 is set out in Schedule 1 to the Notice of the Meeting.

The full text of the Bylaw 12.3 (which has been repealed) is set out in Schedule 2 to the Notice of the Meeting.

### *Recommendation*

In order to facilitate the current business strategy of the Company, the Board of Directors recommends that Shareholders confirm without amendment the Bylaws as amended on March 16, 2007, specifically:

- (a) the repeal of Bylaw 3.6;
- (b) the repeal and replacement of Bylaw 9 as set out in Schedule 1 to the Notice of the Meeting; and
- (c) the repeal of Bylaw 12.3.

## FIXING OF DIRECTORS' REMUNERATION

### *Directors' Compensation Project*

In implementing the international business strategy of the Group, the Board of Directors has commissioned several strategic initiatives designed to enhance the operating capability of the Group. One of these initiatives includes a review of the management structure to ensure that it is aligned with the business strategy, is appropriately staffed and provides adequate resources for the future. Another initiative involves the total review of the Corporate Governance architecture to ensure that it reflects international best practice and provides the level of governance required for a company of its size, diversity and geographical reach.

The Board reviewed Directors' remuneration as part of the strengthening of the Corporate Governance framework. International best practice suggests that in order to attract Directors with the requisite knowledge and experience who can make meaningful contributions to the growth and development of a global financial services organization, Directors' remuneration should be sufficient to attract, retain and motivate Directors of the quality required to ensure the Company is managed successfully, and should reflect the time, commitment, accountability, risk, impact of decisions and responsibilities of the role, having regard to relevant market comparability.

Directors' fees were first fixed in 2004 at US \$20,000 per annum for the Chairman and US \$12,500 per annum for Directors. Over the last three years as the Company continues to grow and expand, the time, commitment and responsibilities required of their role as Directors has increased. Accordingly in 2006, the Corporate Governance Committee commissioned the independent firm of Ernst and Young of Atlanta ("the Consultants") to review director compensation. The objectives of the exercise were to:

- (i) Review competitive market practices for director total compensation, including best global practices and trends.
- (ii) Review all components of total compensation for the Non-Executive Chairman and Non-Executive Directors in terms of annual retainer, board meeting fees, committee meeting fees, board chair and committee chair fees, equity compensation, and other relevant Items.
- (iii) Recommend a competitive level and structure of Board compensation for the Company and its main operating subsidiaries.

### *Project Methodology*

In order to achieve the above mentioned objectives, the Consultants adopted the following methodology:

- (i) Board compensation data was gathered from comparable organizations in the Caribbean region and the United States. Caribbean data was sourced from a custom survey conducted by Economic Resources Limited and US data was sourced from the following multiple, nationally recognized published surveys:



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- Investor Responsibility Research Center, Board Practices/Board Pay
  - National Association of Corporate Directors, Director Compensation Report
  - The Conference Board, Directors’ Compensation and Board Practices
  - Buck Consultants, Board of Directors Compensation and Governance Practices Survey
  - Korn/Ferry International, Annual Board of Directors Study.
- (ii) Data comparability was matched along the size of the Sagicor Financial Group in terms of revenue, premium income and type of organization (financial services).

### *International Best Practices and Trends*

Best practices and trends in the United Kingdom, Europe and the United States were reviewed in areas such as board, director and chief executive officer performance evaluations, succession planning, time spent by directors on company business, frequency of Board meetings, terms of office of non-executive directors, the number of executives serving on boards, and the growing importance of governance committees as the third most prevalent committee behind audit and human resource committees.

The following best practices and trends on the operation of boards and director compensation emerged from the review:

- (a) the trend towards eliminating or reducing separate board and committee meeting fees and providing higher retainer fees with some companies, in some cases, cutting retainer compensation for unsatisfactory meeting attendance;
- (b) the significant increase in cash compensation for audit, investment and human resource/compensation chairs and committee members, compared to other board committees, based on the fact that these committees are meeting more frequently and for longer periods of time;
- (c) on average boards met between 10 to 12 times per year and committees met 3 to 6 times per year;
- (d) the average board had 4 to 6 committees;
- (e) non-executive directors served on an average of 2 committees;
- (f) total direct compensation for non-executive directors generally included two main components:
  - (i) total cash compensation comprised a combination of annual retainer for service, fees for attending full-board meetings, and fees for serving as either chairman or member of a committee and fees for attending committee meetings, and
  - (ii) total equity compensation comprised an initial allocation upon election to serve and annual equity grants.

### *Recommendations*

Total cash compensation currently paid to the Chairman and Directors of the Company was then compared to US market data using the 50th percentile and Caribbean market data using the 90th percentile.

On the basis of the approach set out above, the Consultants made the following recommendations:

- (i) Cash compensation should reflect accountability, risk, impact of decisions and market comparability.
- (ii) Annual retainers for Board and Committee service should be paid with no separate meeting fees.
- (iii) Increased retainers should be paid for Board and Committee Chairs.
- (iv) No director compensation should be paid to Executives serving on subsidiary boards.
- (v) No equity compensation should be paid at this time and transition to equity compensation should be considered as the organization evolved and would include target ownership and pay-for-performance.
- (vi) No other benefit or perquisite programs should be paid at this time.
- (vii) Board and individual Director performance evaluations should be implemented and a tool and process should be developed to evaluate effectively overall Board performance and individual contribution.
- (viii) Cash retainers to compensate Non-Executive Board and Committee Chairs and Members should be recommended for approval by Shareholders as follows:

Board/Committee	Non-Executive Chair	Non-Executive Member
Board	US \$45,000 per annum	US \$40,000 per annum
Board Committees	US \$7,000 per annum	US \$5,000 per annum

## Sagikor Financial Corporation

The Corporate Governance Committee considered and accepted the above recommendations which were approved by the Board on November 8, 2006. The Board of Directors considers that the above recommendations for Director Compensation are consistent with comparable companies in the region, reflect international best practice and trends and are reasonable and appropriate for the Company having regard to the number of board and committee meetings held, the time required to read and otherwise prepare for meetings, commitment, accountability, risk, impact of decisions and market comparability.

The Board of Directors therefore recommends Directors' remuneration be fixed as set out above.

### EXERCISE OF DISCRETION BY PROXIES

Shares represented by any proxy given on the enclosed form of proxy to the persons named in the proxy will be voted or withheld from voting on any ballot in accordance with the instructions contained therein.

In the absence of shareholder instructions, COMMON SHARES represented by proxies received will be voted FOR:

- (a) The election as Directors of Mr David Walter Allan, Mr Terrence Anthony Martins and Mr Dodridge Denton Miller.
- (b) The re-appointment of the incumbent Auditors, PricewaterhouseCoopers, and the authorization of Directors to fix their remuneration.
- (c) Confirmation without amendment of the Bylaws amended on March 16, 2007 as set out in the Notice of the Meeting.
- (d) The fixing of Directors' remuneration as set out in the Notice of the Meeting.

The enclosed form of proxy confers discretionary authority upon the persons named with respect to amendments to or variations in matters identified in the Notice of Meeting or other matters that may properly come before the Meeting. The Management of the Company knows of no matter to come before the Meeting other than the matters referred to in the Notice of Meeting. If any other matters which are not now known to Management should properly come before the Meeting, the persons named in the accompanying form of proxy will vote on such matters in accordance with their best judgement.

Unless otherwise noted, a simple majority of the votes cast at the Meeting, whether by proxy or otherwise, will constitute approval of any matter submitted to a vote.

The contents of this Management Proxy Circular and the sending thereof to the holders of the common shares of the Company have been approved by the Directors of the Company.

No Directors' statement is submitted pursuant to Section 71(2) of the Act.

No Auditors' statement is submitted pursuant to Section 163(1) of the Act.

Dated June 1, 2007.



Sandra Osborne  
Corporate Secretary



# SHAREHOLDER PROXY

## FOURTH ANNUAL MEETING OF SHAREHOLDERS

The undersigned shareholder(s) of SAGICOR FINANCIAL CORPORATION hereby appoint(s) J Arthur L Bethell, Chairman, or failing him, Dodridge D Miller, President and Chief Executive Officer and Director, or instead of either of them:

.....  
(PLEASE PRINT NAME OF PROXY ON THIS LINE ONLY IF YOU WISH TO APPOINT A PROXY OTHER THAN THE CHAIRMAN OR PRESIDENT)

of .....  
(PLEASE PRINT PROXY'S ADDRESS HERE)

as my/our proxy to attend, vote and otherwise act for and on behalf of the undersigned in respect of all matters that may properly come before the FOURTH ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON JUNE 26, 2007 and any adjournments thereof.

The Directors and Management recommend Shareholders vote FOR items numbered 1, 2, 3 and 4 below:

1 Election as Directors of the Nominees listed below:

	Vote FOR	WITHHOLD from Voting
DAVID WALTER ALLAN	<input type="checkbox"/>	<input type="checkbox"/>
TERRENCE ANTHONY MARTINS	<input type="checkbox"/>	<input type="checkbox"/>
DODRIDGE DENTON MILLER	<input type="checkbox"/>	<input type="checkbox"/>

2 Re-appointment of Incumbent Auditors and  
Authorization of Directors to fix their Remuneration:

Vote FOR	WITHHOLD from Voting
<input type="checkbox"/>	<input type="checkbox"/>

3 Confirmation of Amendments to Bylaw No 1:  
(Please refer to Item 4 of the Notice of the  
Meeting for the full text of the Resolution)

Vote FOR	WITHHOLD from Voting
<input type="checkbox"/>	<input type="checkbox"/>

4 Fixing of Directors' Remuneration:  
(Please refer to Item 5 of the Notice of the  
Meeting for the full text of the Resolution)

Vote FOR	WITHHOLD from Voting
<input type="checkbox"/>	<input type="checkbox"/>

.....  
NAME OF SHAREHOLDER(S) (PLEASE PRINT)

.....  
SIGNATURE OF SHAREHOLDER(S)

.....  
DATE

### NOTES ON PROXY:

This form must be executed by the Shareholder or by his/her attorney duly authorized in writing. If the Shareholder is a body corporate, an estate, or trust, the form must be executed by the officers or attorney thereof or the person, duly authorized, in which case each signatory should state the capacity in which he/she signs.

If this form is not dated in the space provided, it will be deemed to bear the date on which it was mailed to the Shareholder.

This proxy authorization form confers discretionary authority upon the person whom it appoints in respect of any variation or amendments or additions to the matters identified in the Notice of Meeting and any other matter that may properly come before the Meeting or any adjournment thereof.

THIS IS YOUR PROXY AUTHORIZATION FORM. PLEASE COMPLETE, SIGN AND RETURN THIS FORM BY 5.30 PM ON JUNE 24, 2007, OR AT LEAST 48 HOURS BEFORE THE TIME APPOINTED FOR HOLDING THE MEETING OR ADJOURNED MEETING, TO:

- THE CORPORATE SECRETARY, SAGICOR CORPORATE CENTRE, WILDEY, ST MICHAEL, BARBADOS
- THE CORPORATE SECRETARY, SAGICOR FINANCIAL CORPORATION, C/O SAGICOR LIFE INC, SAGICOR FINANCIAL CENTRE, 16 QUEEN'S PARK WEST, PORT OF SPAIN, TRINIDAD, OR
- THE BRANCH REGISTRAR, COMPUTERSHARE INVESTOR SERVICES (CHANNEL ISLANDS) LIMITED, ORDINANCE HOUSE, 31 PIER ROAD, ST HELIER, JERSEY, CHANNEL ISLANDS.