SAGICOR FINANCIAL CORPORATION LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2018

Independent auditor's report

To the Shareholders of Sagicor Financial Corporation Limited

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Sagicor Financial Corporation Limited (the Company) and its subsidiaries (together 'the Group') as of December 31, 2018, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

Sagicor Financial Corporation Limited's consolidated financial statements comprise:

- the consolidated statement of financial position as of December 31, 2018;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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Our audit approach

Audit scope

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industries in which the Group operates.

The Group adopted IFRS 9 'Financial Instruments' (IFRS 9) on January 1, 2018, which resulted in significant adjustments to the accounting of certain financial instruments and related impairment provisions recognised on these instruments. Post transition of the standard, the most significant impact arose from the default of the Government of Barbados bonds held by the Group. This has resulted in two new key audit matters for our 2018 audit and the removal of one from the prior year as it pertained to fair value of investments, which has been replaced by the key audit matter (KAM) on expected credit losses in relation to financial assets.

A full scope audit was performed for six components. These six components were: Sagicor Life Inc ('Barbados branch'), Sagicor Life Inc ('EC branches'), Sagicor Life Inc ('Trinidad branch'), Sagicor USA, Inc. ('Sagicor USA'), Sagicor Group Jamaica Limited ('Sagicor Jamaica') and Sagicor Financial Corporation Limited. Additionally, based on our professional judgement, three components (Barbados Farms Limited, Sagicor General Insurance Inc. and Sagicor Finance (2015) Limited) were selected to perform an audit of specified account balances due to the materiality of certain individual balances to the Group consolidated financial statements as a whole. We performed analytical procedures with respect to the remaining components.
In establishing the overall Group audit strategy and plan, we determined the type of work that is needed to be performed at the components by the Group engagement team and by the component auditors. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work of those components to be able to conclude that sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole. The Group audit team held meetings with each component team for which a full scope audit was performed. The Group team, on a rotational basis, selects one component for a detailed review of their audit work. This year the Group audit team reviewed the audit work of the component auditors for Sagicor Jamaica. The Group team reviewed all component reporting with regards to the audit approach and findings submitted in detail by all full scope components.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Actuarial methodologies and assumptions used in the valuation of actuarial liabilities *See notes 2.15, 3.6 and 13 to the consolidated financial statements for disclosures of related accounting policies, judgements, estimates and balances.* Actuarial liabilities are the most significant liability on the Group's statement of financial position. At December 31, 2018, actuarial liabilities totalled $3 billion. We focused on this area as it involves significant judgement over uncertain future outcomes, mainly the ultimate total settlement value of long-term policyholder liabilities. Economic assumptions, such as investment return, associated discount rates and borrowing rates, policy expenses, and operating assumptions such as mortality and persistency are the key inputs used to estimate these long-term liabilities. Management uses qualified internal actuaries and an independent external actuary to assist in determining these assumptions and in valuing the actuarial liabilities.	• We were assisted by our own actuarial experts in considering industry and component specific facts and circumstances to evaluate the methodologies and assumptions utilized by management's actuaries. • We updated our understanding for any changes impacting the assumptions, specifically, we focused on mortality assumptions, persistency, investment return and associated discount rates, borrowing rates and policy expenses, all of which are based on the component's experience or published industry studies or market data. • For the Sagicor Life and Sagicor Jamaica segments, we tested a sample of contracts to assess whether contract features corresponded to the data on the policy master file and tested the accuracy and completeness of the transfer of that data to the actuarial valuation systems. • For the Sagicor USA and Sagicor Life segments, we tested a sample of contracts to assess whether policyholder data and contract features corresponded to the data in the actuarial valuation system. In addition, for the Sagicor USA segment, we compared data on a sample basis between the policy administration system and the valuation system to test completeness. We found the significant estimates and assumptions used by management to be reasonable, and that the methodologies used were established and accepted actuarial methodologies and were appropriate in the circumstances.

Expected credit losses in relation to financial assets

See notes 2.9, 3.1, 41 and 50 to the consolidated financial statements for disclosures of related accounting policies, judgements, estimates and balances.

The Group adopted the accounting standard IFRS 9 'Financial instruments' effective January 1, 2018. The standard introduces new requirements around two main aspects of how financial instruments are treated, namely measurement & classification and impairment. In relation to impairment, the standard prescribes a new forward looking, expected credit loss ('ECL') impairment model which takes into account reasonable and supportable forward looking information which will generally result in the earlier recognition of impairment provisions.

The introduction of the new standard required the Group to build and implement new models to measure the expected credit losses for relevant financial assets, with the most significant quantitative impact to debt securities.

We have focused on this area because there are a number of significant management determined judgements as well as key inputs, including:

- Criteria for a significant increase in credit risk, which impacts the staging of the assets and related expected credit loss calculations (i.e. one year or lifetime expected credit losses).
- Management's use of the optional practical expedient to assess credit risk on financial assets as low at the date of initial application and at the reporting date which allowed management to measure impairment using a 12-month expected credit loss for qualifying assets.
- As described in Note 2.9 of the consolidated financial statements, relevant inputs and techniques included in the expected credit loss model utilised for probability of default (PD), loss given default (LGD) and exposures at default (EAD) parameters. There is a large increase in the data inputs of these models, which increases the risk that the data used to

- We obtained the Group's accounting policies as they relate to the adoption of IFRS 9 and assessed the reasonableness of those accounting policies with the requirements of the standard.
- We obtained an understanding of the Group's business model assessment and for a sample of instruments verified the inputs into the solely payments of principal and interest test performed by management with original contracts.
- We tested the opening equity adjustments in relation to the adoption of the new standard's classification and measurement requirements.
- With the assistance of our valuation specialists, we performed the following procedures;
    - Obtained an understanding of management's ECL model including source data, evaluated the theoretical soundness and tested the mathematical integrity of the model.
    - Tested the reliability of source data used in the models on a sample basis by corroborating to historical data or external public information where available.
    - Where management has applied practical expedient calculations in accordance with the standard, we tested the Group's application of the low credit risk simplification at reporting date by using rating agencies definition of investment grade and evaluated the appropriateness of the Group classification of stage 1 and 2 debt securities.
    - Tested the critical data fields used in the ECL model, such as the maturity date, amortised cost, accrued interest, credit rating, date of default (if any), interest rate, write-off data and product category by tracing data back to source documents.

develop assumptions and operate the model is not complete or accurate.

- Use of multiple forward looking economic scenarios.

Management engaged a credit modeller expert to assist in the more complex aspects of the expected credit loss model.

The impact of adopting the new standard resulted in a reduction in the opening retained earnings of $10.4 million.

The Group's only material securities which carry a lifetime ECL pertain to the Government of Barbados bonds, which have been addressed in a separate key audit matter below.

- o Tested management's ECL calculations to determine if there were in line with management's assumptions, model design and were consistently applied. We recalculated the amortised cost for a sample of debt securities to test the accuracy of management's calculations, which is used as the EAD value.

- o Tested, on a sample basis, the completeness and accuracy of the initial credit risk and the credit risk at the reporting date using rating agencies' definition of investment grade and evaluated the appropriateness of the Group classification of debt securities as stage 2.

- o Evaluated the appropriateness of management's judgement pertaining to forward looking information, including macro-economic factors, the basis of the multiple economic scenarios used and the weighting applied to capture nonlinear losses.

Based on the procedures described above, no material exceptions were noted in our assessment of the Group's implementation of IFRS 9, including its provisioning in accordance with its newly adopted expected credit loss model.

Impairment and Valuation of Government of Barbados debt

See notes 2.9, 3.1, 9 and 41.3 to the consolidated financial statements for disclosures of related accounting policies, judgements, estimates and balances.

As at December 31, 2018 the Group held financial investments in the amount of US $5.3 billion, including US $231.5 million of debt issued by the Government of Barbados (GOB).

During the financial year, as a result of financial stress impacting the GOB finances, the GOB announced its intention to restructure both local and foreign currency denominated debt.

On October 1, 2018 the Group exchanged its holdings of Barbados dollar GOB debt for new instruments with substantially different terms to the previous instruments resulting in the de-

With the assistance of our valuation specialists, we performed the following procedures:

- Obtained an understanding of the methodology and assumptions used by management to construct the yield curve that was utilised to determine the ECLs and the fair value of the new instruments and assessed whether it followed appropriate valuation techniques in the context of market-consistent methodology.

- Performed an independent calculation of the yield curve, which we sensitized and applied to the contractual cash recognition of the old instruments and the recognition of the new instruments. As there was evidence that the modified financial instruments were credit-impaired at initial recognition, the new instruments were considered Purchase or Originated Credit Impaired (POCI) in accordance with IFRS 9. At the year-end, the US dollar denominated debt remained in default with negotiations with creditors continuing.

Barbados Dollar denominated GOB debt
At the point of exchange, the new instruments were recognized at their fair value. Management determined the fair value of the new instruments by applying an internally developed yield curve to the contractual cash flows of the new instruments. The carrying value of these new instruments also incorporates future lifetime ECL in accordance with IFRS 9.

US Dollar denominated GOB debt
In the absence of restructure terms for the US dollar denominated debt, management determined a provision for ECL on these instruments based on a loss given default of 36%, similar to the experience of the credit losses incurred on the Barbados dollar GOB debt. The exposure at default was the outstanding principal and accrued interest for these instruments at the end of the financial year.

We focused on this area because of the limited external evidence and the significant management judgement required in determining the estimated fair value of the new instruments and ECLs.

flows of the new instruments and determined an acceptable range for the recording of ECLs and the fair value of the new instruments. We compared these results to management's.

- We tested the inputs of management's ECL and fair value models to externally sourced information, where available, and reperformed management's calculations.

Based on the audit procedures performed, we determined that, the methodology and assumptions used by management to determine the ECLs and the fair value of the new instruments issued were not unreasonable.

Other information

Management is responsible for the other information. The other information comprises Sagicor Financial Corporation Limited's Annual Report (Annual Report) (but does not include the consolidated financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's shareholders as a body in accordance with section 90 of the Companies Act 1981 (Bermuda) and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

The engagement partner on the audit resulting in this independent auditor's report is Michael Bynoe.

PricewaterhouseCoopers SRL

PricewaterhouseCoopers SRL
Bridgetown, Barbados
April 18, 2019

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Sagicor

SAGICOR FINANCIAL CORPORATION LIMITED
APPOINTED ACTUARY'S
2018 REPORT TO THE SHAREHOLDERS AND POLICYHOLDERS

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

- A — Sagicor Life Inc. (Barbados) ("SLI"), including the previous entity "Sagicor Capital Life Insurance Company Limited (Barbados) ("SCLI")" which was amalgamated into Sagicor Life,
- B — Capital Life Insurance Company Bahamas Limited (Bahamas) ("CLIC"),
- C — Sagicor Life (Eastern Caribbean) Inc. ("SLECI"),
- D — Sagicor Life Aruba NV (Aruba),
- E — Sagicor Panamá SA (Panama),
- F — Nationwide Insurance Company Limited (Trinidad & Tobago),
- G — Sagicor Life Jamaica Limited (Jamaica) *,
- H — Sagicor Life of the Cayman Islands Limited (Cayman Islands) *, and
- I — Sagicor Life Insurance Company (USA) *,

for the balance sheet, at 31st December 2018, and their change in the consolidated statement of operations, for the year then ended, for each organization and on a consolidated basis in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

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

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

Sylvain Goulet

Sylvain Goulet, FCIA, FSA, MAAA
Affiliate Member of the Institute and Faculty of Actuaries
Member of the Caribbean Actuarial Association
Appointed Actuary for Sagicor Financial Corporation Limited, and the above Life Subsidiaries A to F

31st March 2019

Certain acronyms have been used throughout the financial statements and notes thereto to substitute phrases.

The more frequent acronyms and associated phrases are set out below.

Acronym	Phrase
AA	Appointed Actuary
EAD	Exposure at Default
ECL	Expected Credit Losses
FVOCI	Fair Value through Other Comprehensive Income
FVTPL	Fair Value through Profit and Loss
IAS	International Accounting Standards
IAS 39	International Accounting Standard No. 39 - Financial Instruments – Recognition and Measurement
IFRS	International Financial Reporting Standards
IFRS 9	International Financial Reporting Standard No.9 – Financial Instruments
IFRS 15	International Financial Reporting Standard No.15 – Revenue from Contracts with Customers
LGD	Loss Given Default
MCCSR	Minimum Continuing Capital and Surplus Requirement
OCI	Other Comprehensive Income
PD	Probability of Default
POCI	Purchased or Originated Credit-Impaired
SICR	Significant Increase in Credit Risk
SPPI	Solely Payments of Principal and Interest

Amounts expressed in US$000

	Note	2018	2017 restated	January 1, 2017 restated
ASSETS				
Investment property	5	93,494	80,816	80,662
Property, plant and equipment	7	262,288	165,560	167,723
Associates and joint ventures	6	236,132	97,223	87,293
Intangible assets	8	97,312	81,714	83,487
Financial investments	9	5,347,663	4,953,241	4,813,748
Reinsurance assets	10	714,597	797,391	777,344
Income tax assets	11	54,365	39,980	59,575
Miscellaneous assets and receivables	12	143,647	228,543	183,018
Cash resources		358,687	360,064	279,070
Assets of discontinued operation	38	17,239	10,110	-
Total assets		**7,325,424**	**6,814,642**	**6,531,920**

	Note	2018	2017 restated	January 1, 2017 restated
LIABILITIES				
Actuarial liabilities	13	3,024,464	2,944,700	2,771,824
Other insurance liabilities	14	247,577	224,159	207,122
Investment contract liabilities	15	390,397	379,018	377,576
Total policy liabilities		3,662,438	3,547,877	3,356,522
Notes and loans payable	16	490,275	413,805	395,213
Deposit and security liabilities	17	1,674,033	1,559,232	1,623,325
Provisions	18	74,287	80,027	101,292
Income tax liabilities	19	48,236	29,502	51,078
Accounts payable and accrued liabilities	20	240,694	246,976	204,975
Total liabilities		**6,189,963**	**5,877,419**	**5,732,405**
EQUITY				
Share capital	21	3,061	3,059	3,029
Share premium	21	300,665	300,470	297,050
Reserves	22	(76,995)	(47,388)	(64,798)
Retained earnings		374,138	368,451	301,799
Total shareholders' equity		600,869	624,592	537,080
Participating accounts	23	4,078	865	1,291
Non-controlling interests in subsidiaries		530,514	311,766	261,144
Total equity		**1,135,461**	**937,223**	**799,515**
Total liabilities and equity		**7,325,424**	**6,814,642**	**6,531,920**

These financial statements have been approved for issue by the Board of Directors on April 18, 2019.

Director

Director

Amounts expressed in US$000

	Note	2018	2017 restated
REVENUE			
Premium revenue	24	1,141,429	898,354
Reinsurance premium expense	24	(87,388)	(152,722)
Net premium revenue		1,054,041	745,632
Gain on derecognition of amortised cost investments		10,434	-
Gain reclassified to income from accumulated OCI		9,339	-
Net investment income	25	295,965	379,236
Fees and other revenue	26	114,482	93,740
Total revenue		**1,484,261**	**1,218,608**
BENEFITS			
Policy benefits and change in actuarial liabilities	27	728,360	719,320
Policy benefits and change in actuarial liabilities reinsured	27	(15,555)	(114,839)
Net policy benefits and change in actuarial liabilities		712,805	604,481
Interest costs	28	52,521	54,949
Total benefits		**765,326**	**659,430**
EXPENSES			
Administrative expenses		303,071	267,427
Commissions and related compensation		117,316	98,749
Premium and asset taxes		13,956	13,569
Finance costs		36,511	34,746
Credit impairment losses		95,519	-
Depreciation and amortisation		24,277	21,871
Total expenses		**590,650**	**436,362**
OTHER			
Gain arising on business combinations, acquisitions and divestitures (note 13.2, 37)		18,238	2,261

	Note	2018	2017 restated
INCOME BEFORE TAXES		**146,523**	**125,077**
Income taxes	32	(50,702)	(19,313)
NET INCOME FROM CONTINUING OPERATIONS		**95,821**	**105,764**
Net income from discontinued operation	38	7,129	10,110
NET INCOME FOR THE YEAR		**102,950**	**115,874**
Net income/(loss) is attributable to:			
Common shareholders:			
From continuing operations		36,521	62,313
From discontinued operation		7,129	10,110
		43,650	72,423
Participating policyholders		7,222	(1,044)
Non-controlling interests		52,078	44,495
		102,950	115,874
Basic earnings per common share:	34		
From continuing operations		11.9 cents	20.5 cents
From discontinued operation		2.3 cents	3.3 cents
		14.2 cents	23.8 cents
Fully diluted earnings per common share:	34		
From continuing operations		11.7 cents	20.0 cents
From discontinued operation		2.3 cents	3.2 cents
		14.0 cents	23.2 cents

Amounts expressed in US$000

OTHER COMPREHENSIVE INCOME	Note	2018	2017 restated
Items net of tax that may be reclassified subsequently to income:	35		
Financial assets measured at fair value through other comprehensive income (FVOCI):			
(Losses) on revaluation		(82,864)	-
Losses / (gains) transferred to income		(1,891)	-
Available for sale assets:			
Gains on revaluation		-	62,577
(Gains) transferred to income		-	(12,259)
Net change in actuarial liabilities		41,614	(18,152)
Retranslation of foreign currency operations		(25,185)	9,920
		(68,326)	42,086
Items net of tax that will not be reclassified subsequently to income:	35		
Gains / (losses) on revaluation of owner-occupied property		6,894	(1,759)
Gains / (losses) on equity securities designated at fair value through other comprehensive income		73	-
Gains / (losses) on defined benefit plans		(2,685)	23,914
		4,282	22,155
OTHER COMPREHENSIVE INCOME / (LOSS) FROM CONTINUING OPERATIONS		**(64,044)**	**64,241**

TOTAL COMPREHENSIVE INCOME	2018	2017 restated
Net income	102,950	115,874
Other comprehensive income / (loss)	(64,044)	64,241
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**38,906**	**180,115**
Total comprehensive income / (loss) is attributable to:		
Common shareholders:		
From continuing operations	2,917	96,436
From discontinued operation	7,129	10,110
	10,046	106,546
Participating policyholders	6,356	(210)
Non-controlling interests	22,504	73,779
	38,906	180,115

Amounts expressed in US$000

	Share Capital (note 21)	Share Premium (note 21)	Reserves (note 22)	Retained Earnings	Total Shareholders' Equity	Participating Accounts (note 23)	Non-controlling Interests	Total Equity
2018								
Balance, December 31, 2017 as reported previously	3,059	300,470	(47,482)	367,327	623,374	865	308,089	932,328
Prior year adjustment to actuarial liabilities (note 50)	-	-	94	1,124	1,218	-	3,677	4,895
Balance, December 31, 2017 as restated	3,059	300,470	(47,388)	368,451	624,592	865	311,766	937,223
Transition adjustment on adoption of IFRS 9 (note 50)	-	-	(217)	(10,442)	(10,659)	(2,930)	(2,352)	(15,941)
Balance, January 1, 2018	3,059	300,470	(47,605)	358,009	613,933	(2,065)	309,414	921,282
Total comprehensive income from continuing operations	-	-	(29,634)	32,551	2,917	6,356	22,504	31,777
Total comprehensive income from discontinued operation	-	-	-	7,129	7,129	-	-	7,129
Transactions with holders of equity instruments:								
Movements in treasury shares	2	195	-	-	197	-	-	197
Changes in reserve for equity compensation benefits	-	-	(787)	-	(787)	-	(28)	(815)
Dividends declared (note 21)	-	-	-	(15,300)	(15,300)	-	(18,554)	(33,854)
Acquisition/disposal of subsidiary and insurance business	-	-	-	-	-	-	222,755	222,755
Changes in ownership interest in subsidiaries	-	-	-	(3,092)	(3,092)	-	(9,581)	(12,673)
Disposal of interest in subsidiaries	-	-	(935)	935	-	-	(2,221)	(2,221)
Transfers and other movements	-	-	1,966	(6,094)	(4,128)	(213)	6,225	1,884
Balance, December 31, 2018	**3,061**	**300,665**	**(76,995)**	**374,138**	**600,869**	**4,078**	**530,514**	**1,135,461**

Amounts expressed in US$000

	Share Capital (note 21)	Share Premium (note 21)	Reserves (note 22)	Retained Earnings	Total Shareholders' Equity	Participating Accounts (note 23)	Non-controlling Interests	Total Equity
2017								
Balance, December 31, 2016 as reported previously	3,029	297,050	(64,795)	300,865	536,149	1,291	257,974	795,414
Prior year adjustment to actuarial liabilities (note 50)	-	-	(3)	934	931	-	3,170	4,101
Balance, December 31, 2016 as restated	3,029	297,050	(64,798)	301,799	537,080	1,291	261,144	799,515
Total comprehensive income from continuing operations	-	-	21,537	74,899	96,436	(210)	73,779	170,005
Total comprehensive income from discontinued operation	-	-	-	10,110	10,110	-	-	10,110
Transactions with holders of equity instruments:								
Allotments of common shares	21	2,021	-	-	2,042	-	-	2,042
Movements in treasury shares	9	1,399	-	-	1,408	-	-	1,408
Changes in reserve for equity compensation benefits	-	-	(6,270)	-	(6,270)	-	(75)	(6,345)
Dividends declared (note 21)	-	-	-	(15,216)	(15,216)	-	(19,861)	(35,077)
Transfers and other movements	-	-	2,143	(3,141)	(998)	(216)	(3,221)	(4,435)
Balance, December 31, 2017 as restated	**3,059**	**300,470**	**(47,388)**	**368,451**	**624,592**	**865**	**311,766**	**937,223**

Amounts expressed in US$000

	Note	2018	2017 restated
OPERATING ACTIVITIES			
Income before taxes		146,523	125,077
Adjustments for non-cash items, interest and dividends	36.1	65,655	(111,849)
Interest and dividends received		303,371	305,810
Interest paid		(89,029)	(83,627)
Income taxes paid		(31,720)	(43,352)
Net increase in investments and operating assets	36.1	(580,553)	(157,602)
Net increase in operating liabilities	36.1	232,016	(45,282)
Net cash flows - operating activities		**46,263**	**(10,825)**
INVESTING ACTIVITIES			
Property, plant and equipment, net	36.2	(326)	(13,385)
Associates and joint ventures, net		(146)	(6,908)
Dividends received from associates and joint ventures		600	2,561
Purchase of intangible assets		(4,795)	(6,182)
Changes in subsidiary and associate holdings, net of cash and cash equivalents		10,422	7,766
Sale of subsidiaries, net		(13,795)	-
Net cash flows - investing activities		**(8,040)**	**(16,148)**

	Note	2018	2017 restated
FINANCING ACTIVITIES			
Movement in treasury shares		(202)	(203)
Redemption of SFC preference shares		(1)	-
Shares issued to / (purchased from) non-controlling interests		1,967	(5,504)
Changes in ownership of subsidiaries		(12,673)	-
Notes and loans payable, net	36.3	(6,134)	16,182
Dividends paid to common shareholders		(14,959)	(14,950)
Dividends paid to non-controlling interests		(19,337)	(19,861)
Net cash flows - financing activities		**(51,339)**	**(24,336)**
Effects of exchange rate changes		(3,672)	1,875
NET CHANGE IN CASH AND CASH EQUIVALENTS - CONTINUING OPERATIONS		**(16,788)**	**(49,434)**
Cash and cash equivalents, beginning of year		338,349	387,783
CASH AND CASH EQUIVALENTS, END OF YEAR	36.4	**321,561**	**338,349**

1 GENERAL INFORMATION

On July 20, 2016, Sagicor Financial Corporation continued as an exempted company under the laws of Bermuda under the name Sagicor Financial Corporation Limited and registered as an external company under the Companies Act of Barbados on July 20, 2016. The Company was originally incorporated on December 6, 2002 under the Companies Act of Barbados as a public limited liability holding company.

The Company's issued common shares are listed on Barbados, Trinidad & Tobago and London stock exchanges.

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

The principal activities of the Sagicor Group are as follows:

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

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

These consolidated financial statements for the year ended December 31, 2018 have been approved by the Board of Directors on April 18, 2019. Neither the Company's owners nor others have the power to amend the financial statements after issue.

2 ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

The Group has adopted accounting policies for the computation of actuarial liabilities of life insurance and annuity contracts using approaches consistent with Canadian standards of practice. As no specific guidance is provided by IFRS for computing actuarial liabilities, management has judged that the Canadian standards of practice 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, financial assets carried at fair value through other comprehensive income, financial asset and liabilities held at fair value through income, actuarial liabilities and associated reinsurance assets.

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

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

2.1 Basis of preparation (continued)

Adoption of IFRS 9 and IFRS 15

Effective January 1, 2018, the Group adopted IFRS 9 - Financial Instruments (IFRS 9). As a result of the application of this new standard, the Group has adopted new accounting policies for financial assets which are set out in note 2.9. As permitted by the transition provisions in IFRS 9, the Group has elected not to restate comparative period results. Accordingly, the 2017 comparative information on financial assets is presented in accordance with IAS 39 – Financial Instruments – Recognition and Measurement (note 2.10). Adjustments to the carrying amounts of financial instruments as of January 1, 2018 were recognised in the statement of changes in equity.

Effective January 1, 2018, the Group adopted IFRS 15 – Revenue from Contracts with Customers (IFRS 15). This standard clarifies revenue recognition principles and provides a framework for recognising revenue and cash flows from service contracts from customers. IFRS 15 does not apply to the Group's primary activities of insurance and banking which are governed by IFRS 4 – 'Insurance Contracts' and IFRS 9 – 'Financial Instruments'.

In accordance with the transition provisions in IFRS 15, the standard has been implemented using the modified-retrospective method with no restatement of comparative information. There was no significant impact on the Group resulting from the implementation of the standard and consequently no transition adjustment has been recorded in the statement of changes in equity. The standard introduces new disclosure requirements which are included in notes 4.8, 12, 20 and 26.

There are new standards and amendments to standards and interpretations which are effective for annual periods beginning after January 1, 2018. These standards and amendments have not been adopted in preparing these consolidated financial statements (see note 2.28).

Change in accounting policy for the measurement of actuarial liabilities

This change in policy is set out in note 2.15(a). It is a voluntary change which is reflected as a prior period adjustment with retrospective application. The impact of this change in policy is summarized in note 50.

2.2 Basis of consolidation

(a) Subsidiaries

Subsidiaries are entities over which the Group has control. The Group has control over an entity when the Group is exposed to the variable returns from its ownership interest in the entity and when the Group can affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group, and subsidiaries are de-consolidated from the date on which control ceases.

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

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

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

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

Non-controlling interest balances represent the equity in a subsidiary not attributable to Sagicor's interest.

2.2 Basis of consolidation (continued)

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

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

(b) Discontinued operation

In December 2012, the Group agreed to sell Sagicor Europe Limited, its subsidiary Sagicor at Lloyd's Limited and its interest in Lloyd's of London syndicate 1206. The decision to sell resulted in the closure of the Sagicor Europe operating segment and therefore met the criteria of a discontinued operation. The sale was concluded in December 2013. As of December 31, 2018, the future price adjustments relating to the discontinued operation are disclosed in the statement of financial position at their estimated undiscounted value.

(c) Sale of subsidiaries

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

(d) Associates and joint venture

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

2 .2 Basis of consolidation (continued)

Accounting policies of associates and joint ventures have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group. Assets of certain associates include significant proportions of investment property and financial instruments invested in investment property which are carried at fair value in accordance with the valuation procedures outlined in note 2.5.

The Group recognises in income its share of associates and joint venture companies' post acquisition income and its share of the amortisation and impairment of intangible assets which were identified on acquisition. Unrealised gains or losses on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest. The Group recognises in other comprehensive income, its share of post-acquisition other comprehensive income. The Group recognises an impairment of its net investment in an associate or a joint venture when there is objective evidence that the carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the associate's or joint venture's fair value less costs to sell and its value in use.

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

(f) Employees share ownership plan (ESOP)

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

2.3 Foreign currency translation

(a) Functional and presentational currency

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

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

(b) Reporting units

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

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

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

	2018 closing	2018 average	2017 closing	2017 average
Barbados dollar	2.0000	2.0000	2.0000	2.0000
Eastern Caribbean dollar	2.7000	2.7000	2.7000	2.7000
Jamaica dollar	127.3996	128.5468	124.5754	128.0938
Trinidad & Tobago dollar	6.7804	6.7460	6.7628	6.7428
Pound sterling	0.78310	0.74846	0.74020	0.77496

2.3 Foreign currency translation (continued)

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

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

(c) Transactions and balances

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

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

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

2.4 Segments

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

2.5 Investment property

Investment property consists of freehold lands and freehold properties which are held for rental income and/or capital appreciation. Investment property is recorded initially at cost. In subsequent financial years, investment property is recorded at fair values as determined by independent valuation, with the appreciation or depreciation in value being taken to investment income. Fair value represents the price (or estimates thereof) that would be agreed upon in an orderly transaction between market participants at the valuation date. Fair values are derived using the market value approach and the income capitalisation approach, which reference market-based evidence, using comparable prices adjusted for specific factors such as nature, location and condition of property.

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

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

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

Rental income is recognised on an accrual basis.

2.6 Property, plant and equipment

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

2.6 Property, plant and equipment (continued)

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

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

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

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

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

Lands are not depreciated.

Amounts expressed in US$000

2.6 Property, plant and equipment (continued)

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

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

2.7 Intangible assets

(a) Goodwill

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

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

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

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

2.7 Intangible assets (continued)

(b) Other intangible assets

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

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

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

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

2.8 Real estate developed or held for resale

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

2.9 Financial assets – policies under IFRS 9

(a) Classification of financial assets

IFRS 9 introduces a principles-based approach to the classification of financial assets. Debt instruments, including hybrid contracts, are measured at fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVOCI") or amortized cost based on the nature of the cash flows of these assets and the Group's business model. These categories replace the existing IAS 39 classifications of fair value through income, available for sale, loans and receivables and held-to-maturity. Equity instruments are measured at FVTPL, unless they are not held for trading purposes, in which case an irrevocable election can be made on initial recognition to measure them at FVOCI with no subsequent reclassification to profit or loss.

Financial assets are measured on initial recognition at fair value and are classified as and subsequently measured either at amortised cost, at FVOCI or at FVTPL. Financial assets and liabilities are recognised when the Group becomes a party to the contractual provision of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

(b) Classification of debt instruments

Classification and subsequent measurement of debt instruments depend on:

- the Group's business model for managing the asset; and
- the cash flow characteristics of the asset.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories.

Measured at amortised cost

Debt instruments that are held to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest, such as most loans and advances to banks and customers and some debt securities, are measured at amortised cost. In addition, most financial liabilities are measured at amortised cost. The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs.

2.9 Financial assets – policies under IFRS 9 (continued)

Measured at fair value through other comprehensive income (FVOCI)

Debt instruments held for a business model that is achieved by both collecting contractual cash flows and selling and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI. These comprise primarily debt securities.

Measured at fair value through profit and loss (FVTPL)

Debt instruments are classified in this category if they meet one or more of the criteria set out below and are so designated irrevocably at inception:

- the use of the designation removes or significantly reduces an accounting mismatch;
- when the performance of group of financial assets is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy;
- when the debt instruments are held for trading and are acquired principally for the purpose of selling in the short-term or if they form part of a portfolio of financial assets in which there is evidence of short-term profit taking.

Business model assessment

Business models are determined at the level which best reflects how the Group manages portfolios of assets to achieve business objectives. Judgement is used in determining business models, which is supported by relevant, objective evidence including:

- The nature of liabilities, if any, funding a portfolio of assets;
- The nature of the market of the assets in the country of origination of a portfolio of assets;
- How the Group intends to generate profits from holding a portfolio of assets;
- The historical and future expectations of asset sales within a portfolio.

2.9 Financial assets – policies under IFRS 9 (continued)

Solely payments of principal and interest ("SPPI")

Where the business model is hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial assets are classified and measured at FVTPL.

(c) Unit linked funds fair value model

The Group's liabilities include unit linked funds which are components of insurance contracts issued or unit linked investment contracts issued with terms that the full investment return earned on the backing assets accrue to the contract-holders. Where these liabilities are accounted for at FVTPL, the financial investments backing these liabilities are consequently classified as and measured at FVTPL. This is to eliminate any accounting mismatch.

(d) Impairment of financial assets measured at amortized cost and FVOCI

IFRS 9 introduces an impairment model that requires the recognition of expected credit losses ("ECL") on financial assets measured at amortised cost and FVOCI and off-balance sheet loan commitments and financial guarantees which were previously provided for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) is required for ECL resulting from default events that are possible within the next 12 months (or less, where the remaining life is less than 12 months) ('12-month ECL').

2.9 Financial assets – policies under IFRS 9 (continued)

In the event of a significant increase in credit risk (SICR), an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL are recognised are defined as 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment are defined as being in default or otherwise credit-impaired are in 'stage 3'. Purchased or originated credit-impaired financial assets ("POCI") are treated differently as set out below.

To determine whether the life-time credit risk has increased significantly since initial recognition, the Group considers reasonable and supportable information that is available including information from the past and forward-looking information. Factors such as whether payments of principal and interest are in default, an adverse change in credit rating of the borrower and adverse changes in the borrower's industry and economic environment are considered in determining whether there has been a significant increase in the credit risk of the borrower.

(e) Purchased or originated credit-impaired assets (POCI)

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. These financial assets are credit-impaired on initial recognition. The Group calculates the credit adjusted effective interest rate, which is calculated based on the fair value origination of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows. Their ECL is always measured on a life time basis.

At each reporting date, the Group shall recognise in profit or loss the amount of the change in lifetime expected credit losses as an impairment gain or loss. The Group will recognise favourable changes in lifetime expected credit losses as an impairment gain, the gain occurs when the lifetime expected credit losses are less than the amount of expected credit losses that were included in the estimated cash flows on initial recognition.

2.9 Financial assets – policies under IFRS 9 (continued)

(f) Definition of default

The Group determines that a financial instrument is credit-impaired and in stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are past due for 90 days or more;
- there are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
- the financial asset is otherwise considered to be in default.

If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due.

(g) Write-off

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

(h) The general approach to recognising and measuring ECL

The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money;
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

2.9 Financial assets – policies under IFRS 9 (continued)

Measurement

Expected credit losses are calculated by multiplying three main components, being the probability of default ("PD"), loss given default ("LGD") and the exposure at default ("EAD"), discounted at the original effective interest rate. Management has calculated these inputs based on the historical experience of the portfolios adjusted for the current point in time. A simplified approach to calculating the ECL is applied to contract and other receivables which do not contain a significant financing component. Generally, these receivables are due within 12 months unless there are extenuating circumstances. Under this approach, an estimate is made of the life-time ECL on initial recognition (i.e. Stage 3). For ECL provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

The PD, LGD and EAD models which support these determinations are reviewed regularly in light of differences between loss estimates and actual loss experience; but given that IFRS 9 requirements have only been applied since January 1, 2018, the Group has been unable to make these comparisons. Therefore, the underlying models and their calibration, including how they react to forward-looking economic conditions remain subject to review and refinement. This is particularly relevant for lifetime PDs, which have not been previously used in regulatory modelling and for the incorporation of 'downside scenarios' which have not generally been subject to experience gained through stress testing. The exercise of judgement in making estimations requires the use of assumptions which are highly subjective and sensitive to the risk factors, and particularly to changes in economic and credit conditions across wide geographical areas. Many of the factors have a high degree of interdependency and there is no single factor to which loan impairment allowances are sensitive. Therefore, sensitivities are considered in relation to key portfolios which are particularly sensitive to a few factors and the results should not be further extrapolated.

The main difference between Stage 1 and Stage 2 expected credit losses is the respective PD horizon. Stage 1 estimates will use a maximum of a 12-month PD while Stage 2 estimates will use a lifetime PD. Stage 3 estimates will continue to leverage existing processes for estimating losses on impaired loans, however, these processes will be updated to reflect the requirements of IFRS 9, including the requirement to consider multiple forward-looking scenarios. An expected credit loss estimate will be produced for each individual exposure, including amounts which are subject to a more simplified model for estimating expected credit losses.

2.9 Financial assets – policies under IFRS 9 (continued)

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information will require significant judgment.

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions.

For a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

For defaulted financial assets, based on management's assessment of the borrower, a specific provision of expected life-time losses which incorporates collateral recoveries, is calculated and recorded as the ECL. The resulting ECL is the difference between the carrying amount and the present value of expected cash flows discounted at the original effective interest rate.

Forward looking information

The estimation and application of forward-looking information will require significant judgment. PD, LGD and EAD inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio.

Each macroeconomic scenario used in the expected credit loss calculation will have forecasts of the relevant macroeconomic variables – including, but not limited to, unemployment rates and gross domestic product, for a three-year period, subsequently reverting to long-run averages. Our estimation of expected credit losses in Stage 1 and Stage 2 will be a discounted probability-weighted estimate that considers a minimum of three future macroeconomic scenarios. Our base case scenario will be based on macroeconomic forecasts where available. Upside and downside scenarios will be set relative to our base case scenario based on reasonably possible alternative macroeconomic conditions.

2.9 Financial assets – policies under IFRS 9 (continued)

Scenario design, including the identification of additional downside scenarios will occur on at least an annual basis and more frequently if conditions warrant. Scenarios will be probability-weighted according to our best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights will be updated on a quarterly basis.

(i) Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers and debt instruments. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flow to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the group derecognises the original financial asset and recognises a new asset at fair value and recalculates the new effective interest rate for the asset. The date of negotiation is consequently considered to the be the date of initial recognition for impairment calculation purposes and the purpose of determining if there has been a significant increase in credit risk.

2.9 Financial assets – policies under IFRS 9 (continued)

(j) Re-classified balances

The Group reclassifies debt instruments when and only where its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period. Any re-classified balances of financial investment and impairment losses relating to the adoption of IFRS 9 are detailed in note 9.4.

(k) Classification of equity instruments

The Group classifies and subsequently measures all equity investments at FVTPL, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns.

(l) Embedded derivatives

The Group may hold debt securities and preferred equity securities which may contain embedded derivatives. The embedded derivative of a financial asset is classified in the same manner as the host contract.

(m) Presentation in the statements of income and other comprehensive income (OCI)

Debt and equity instruments measured at FVTPL

Realised changes in fair value, unrealised changes in fair value, interest income and dividend income are included in net investment income.

Debt instruments measured at amortized cost

- Interest income is included in net investment income.
- Credit impairment losses are presented in the income statement.
- Gain or loss on de-recognition is expected to be relatively infrequent and is included on the consolidated statement of income.

2.9 Financial assets – policies under IFRS 9 (continued)

Debt instruments measured at FVOCI

- Interest income is included in net investment income.
- Credit impairment losses are presented in the income statement.
- Unrealised gains and losses arising from changes in fair value are presented in OCI.
- On de-recognition, the cumulative gain or loss in OCI is transferred from OCI on the consolidated statement of income.

Equity instruments measured at FVOCI

- Dividend income is included in net investment income.
- Unrealised changes in fair value presented in OCI. Any impairment losses are included with fair value changes.
- On de-recognition, the cumulative gain or loss in OCI remains in the fair value reserve for FVOCI assets.

2.10 Financial assets – policies under IAS 39

(a) Classification

The Group classifies its financial assets into four categories:
- held to maturity financial assets;
- available for sale financial assets;
- financial assets at fair value through income;
- loans and receivables.

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

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

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

2.10 Financial assets – policies under IAS 39

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

- Assets designated by management on acquisition form part of managed portfolios whose performance is evaluated on a fair value basis in accordance with documented investment strategies. They comprise investment portfolios backing deposit administration and unit linked policy contracts for which the full return on the portfolios accrue to the contract-holders.
- Held for trading securities are acquired principally for the purpose of selling in the short-term or if they form part of a portfolio of financial assets in which there is evidence of short-term profit taking. Derivatives are also classified as held for trading unless designated as hedges.

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

(b) Recognition and measurement

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

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

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

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

2.10 Financial assets – policies under IAS 39 (continued)

(c) Fair value

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

(d) Impaired financial assets

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

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

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

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

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

2.10 Financial assets – policies under IAS 39 (continued)

(e) Securities purchased for resale

Securities purchased for resale are treated as collateralised financing transactions and are recorded at the amount at which they are acquired. The difference between the purchase and resale price is treated as interest and is accrued over the life of the agreements using the effective yield method.

(f) Finance leases

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

(g) Embedded derivatives

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

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

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

2.11 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.

Classification

Financial liabilities are measured at initial recognition at fair value and are classified as and subsequently measured either at amortised cost, or at fair value through profit and loss (FVTPL). Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The financial liabilities described under the unit linked fair value model (note 2.9 (c)) are classified and measured at FVTPL as the Group is obligated to provide investment returns to the unit holder in direct proportion to the investment returns on a specific portfolio of assets, which are also carried at FVTPL. Derivative financial liabilities are carried at FVTPL (note 2.12). All other financial liabilities are carried at amortised cost. It is noted that the financial liabilities measured at FVTPL do not have a cumulative own credit adjustment gain or loss.

Financial liability balances which were accounted for at amortised cost under IAS 39 continue to be so accounted for under IFRS 9 and financial liability balances which were accounted for at fair value through income under IAS 39 are now accounted at FVTPL on the adoption of IFRS 9. Consequently, no financial liability balances have been restated as of January 1, 2018.

The recognition and measurement of the Group’s principal types of financial liabilities are disclosed in note 2.14(b) (vii) and in the following paragraphs.

(a) Securities sold for re-purchase

Securities sold for re-purchase are treated as collateralised financing transactions and are recorded at the amount at which the securities were sold. Securities sold subject to repurchase are not derecognised but are treated as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral. The difference between the sale and re-purchase price is treated as interest and is accrued over the life of the agreements using the effective yield method.

2.11 Financial liabilities (continued)

The liability is extinguished when the obligation specified in the contract is discharged, assigned, cancelled or has expired.

(b) Deposit liabilities

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

(c) Loans and other debt obligations

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

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

(d) Fair value

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

(e) Presentation in the statement of income

For financial liabilities measured at amortised cost, the associated interest expense is included in interest expense or is presented as finance costs in the income statement.

For financial liabilities measured at FVTPL, the associated interest and fair value changes are included in interest expense.

2.12 Derivative financial instruments and hedging activities

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

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

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

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

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

2.13 Offsetting financial instruments

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

2.14 Policy contracts

(a) Classification

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

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

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

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

2.14 Policy contracts (continued)

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

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

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

Residual gains in the participating accounts constitute discretionary participation features which the Group classifies as equity (see also note 2.21).

(b) Recognition and measurement

(i) Property and casualty insurance contracts

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

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

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

2.14 Policy contracts (continued)

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

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

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

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

(ii) Health insurance contracts

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

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

2.14 Policy contracts (continued)

Claims are recorded on settlement. Reserves are recorded as described in note 2.15.

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

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

(iii) Long-term traditional insurance contracts

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

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

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

Reserves for future policy liabilities are recorded as described in note 2.15.

2.14 Policy contracts (continued)

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

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

(iv) 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, disability or critical illness benefit, a cash value on termination and/or a monthly annuity. Annuities are generally payable until the death of the beneficiaries with a proviso for a minimum number of payments. Benefits may include amounts for disability or waiver of premium on disability.

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

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

Policy benefits are recognised on the notification of death, disability or critical illness, on the receipt of a withdrawal request, on the termination or maturity date of the contract, or on the annuity payment date. Reserves for future policy liabilities are recorded as described in note 2.15.

2.14 Policy contracts (continued)

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

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

(v) Reinsurance contracts assumed

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

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

(vi) Reinsurance contracts held

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

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

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

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

2.14 Policy contracts (continued)

(vii) *Deposit administration and other investment contracts*

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

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

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

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

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

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

(c) Embedded derivatives

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

The Group does not separately measure embedded derivatives that are closely related to the host insurance contract or that meet the definition of an insurance contract. Options to surrender an insurance contract for a fixed amount are also not measured separately. In these cases, the entire contract liability is measured as set out in note 2.15.

2.14 Policy contracts (continued)

(d) Liability adequacy tests

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

2.15 Actuarial liabilities

(a) Life insurance and annuity contracts

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

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

2.15 Actuarial liabilities (continued)

The improvement of mortality rates is an accepted trend that is occurring in developed and developing countries around the world. All segments within the Group had previously recognized this trend in their reserving assumptions with the exception of the Sagicor Jamaica operating segment. Effective January 1, 2018, Sagicor Jamaica incorporated mortality improvement into its reserve calculations. The foregoing is part of a wider initiative across the Group to harmonize reserving practices across the segments.

Net insurance contract liabilities represent the amount which, together with estimated future premiums and net investment income, will be sufficient to pay projected future benefits, policyholder dividends and refunds, taxes (other than income taxes) and expenses on policies in-force net of reinsurance premiums and recoveries.

The determination of net insurance liabilities is based on an explicit projection of cash flows using current assumptions plus a margin for adverse deviation for each material cash flow item. Investment returns are projected using the current asset portfolios and projected reinvestment yields. The period used for the projection of cash flows is the policy lifetime for most individual insurance contracts.

The Group segments assets to support liabilities by major product segment and geographic market and establishes investment strategies for each liability segment. Projected net cash flows from these assets and the policy liabilities being supported by these assets are combined with projected cash flows from future asset purchases to determine expected rates of return on these assets for future years. Investment strategies are based on the target investment policies for each segment and the reinvestment returns are derived from current and projected market rates for fixed income investments. Investment return assumptions for each asset class make provision for expected future asset credit losses, expected investment management expenses and a margin for adverse deviation.

2.15 Actuarial liabilities (continued)

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

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 profit and loss and unit values of each fund are determined by dividing the value of the assets in the fund at the date of the financial statements by the number of units in the fund. The resulting liability is included in actuarial liabilities.

(b) Health insurance contracts

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

2.16 Presentation of current and non-current assets and liabilities

In note 41.5, the maturity profiles of financial and insurance assets and liabilities are identified. For other assets and liabilities, balances presented in notes 5 to 8, 10 to 12, 14, 18, 19 and 33 are non-current unless otherwise stated in those notes.

2.17 Employee benefits

(a) Pension benefits

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

The liability in respect of defined benefit plans is the present value of the defined benefit obligation at December 31 less the fair value of plan assets. The defined benefit obligation is computed using the projected unit credit method. The present value of the defined benefit obligation is determined by the estimated future cash outflows using appropriate interest rates on government bonds for the maturity dates and currency of the related liability.

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

For defined contribution plans, the Group pays contributions to the pension schemes on a mandatory or contractual basis. Once paid, the Group has no further payment obligations. Contributions are recognised in income in the period in which they are due.

Where a minimum funding requirement exists, the Group assesses the obligation, to determine whether the additional contributions would affect the measurement of the defined benefit asset or liability.

(b) Other retirement benefits

Certain Group subsidiaries provide supplementary health and life insurance benefits to qualifying employees upon retirement. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income and retained earnings or non-controlling interest in the period in which they arise.

2.17 Employee benefits (continued)

(c) Profit sharing and bonus plans

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

(d) Equity compensation benefits

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

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

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

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

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

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

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

2.17 Employee benefits (continued)

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

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

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

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

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

(e) Termination benefits

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

2.18 Taxes

(a) Premium taxes

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

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

Premium tax is recognised gross in the statement of income.

(b) Asset tax

The Group is subject to an asset tax in Jamaica and Barbados. In Jamaica, the asset tax is levied on insurance, securities dealers and deposit taking institutions, and is 0.25% of adjusted assets held at the end of the year. In Barbados, the asset tax is levied on insurance, deposit taking institutions and credit unions and is 0.35% of adjusted assets held at the end of a period. Taxes are accrued monthly.

(c) Income taxes

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

Amounts expressed in US$000

2.18 Taxes (continued)

Income tax rates	Life insurance and non-registered annuities	Registered annuities	Other lines of business
Barbados	5% of gross investment income	Nil	30% of net income
Jamaica	25% of profit before tax	Nil	25% - 33.33 % of profit before tax
Trinidad and Tobago	15% (deductions granted only in respect of expenses pertaining to long-term business investment income)	Nil	30% of net income
United States of America	21% of net income	Nil	Nil

(i) <u>Current income taxes</u>

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) <u>Deferred income taxes</u>

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

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

2.19 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.

2.20 Common shares

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

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

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

2.21 Participating accounts

(a) <u>"Closed" participating account</u>

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

2.21 Participating accounts (continued)

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

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

(b) "Open" participating account

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

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

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

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

2.21 Participating accounts (continued)

(c) Financial statement presentation

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

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

2.22 Statutory reserves

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

2.23 Interest income and interest expense

Policies under IFRS 9

Interest income (expense) is computed by applying the effective interest rate based to the gross carrying amount of a financial asset (liability), except for financial assets that are purchased, originated or subsequently become credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (i.e. after deduction of the loss allowance). Interest includes coupon interest and accrued discount and premium on financial instruments. Dividend income is recorded when declared.

2.23 Interest income an interest expense (continued)

Policies under IAS 39

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

2.24 Revenue from service contracts with customers

Revenues from service contracts with customers consist primarily of management and administration fees earned from third party investment funds, pension plans and insurance benefit plans (managed funds or administrative service only (ASO) benefit plans). These service contracts generally impose single performance obligations, each consisting of a series of similar related services to the unitholder or policyholder of each fund or plan. The Group's performance obligations within these service arrangements are generally satisfied over time as the unitholders and policyholders simultaneously receive and consume contracted benefits over time.

The Group also earns revenues for the provision of corporate finance, stockbroking, trust and related services to various customers.

Revenue from service contracts with customers is recognised when (or as) the Group satisfies the performance obligation of the contract. For obligations satisfied over time, revenue is recognised monthly or over some other period. For performance obligations satisfied at a point in time, revenue is recognised at that point in time.

2.25 Fees and other revenue – year ended December 31, 2017

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

2.26 Hotel revenue

Hotel revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of General Consumption Tax or applicable sales tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of services

Sale of service generated from hotel and other operations are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(b) Sale of goods

Sale of goods, mainly from gift shops is recognised when products are sold to customers. Sales are usually in cash or by credit card.

2.27 Cash flows

The following classifications apply to the cash flow statement.

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

Cash and cash equivalents comprise:

- cash balances,
- call deposits,
- other liquid balances with maturities of three months or less from the acquisition date,
- less bank overdrafts which are repayable on demand.

Cash equivalents are subject to an insignificant risk of change in value and excluded restricted cash.

2.28 Future accounting developments and reporting changes

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

IFRS 3 – Definition of a business, effective January 1, 2020
Subject / Comments
This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations. This standard will have no material effect on the Group.

IFRS 9 – Financial instruments on prepayment features with negative compensation effective January 1, 2019
Subject / Comments
The board has issued a narrow-scope amendment to IFRS 9 to enable companies to measure at amortised cost some prepayable financial assets with negative compensation. The assets affected, that include some loans and debt securities, would otherwise have been measured at fair value through profit or loss (FVTPL). Negative compensation arises where the contractual terms permit the borrower to repay the instrument before its contractual maturity, but the prepayment amount could be less than unpaid amounts of principal and interest. However, to qualify for amortised cost measurement, negative compensation must be reasonable compensation for early termination of the contract. This standard will have no material effect on the Group.

2.28 Future accounting developments and reporting changes (continued)

IFRS 16 – Leases, effective January 1, 2019
Subject / Comments
IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases. The income statement will also be affected because the total expense is higher typically in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like Earnings before Interest, Tax, Depreciation and Amortization will change. Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows. The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group has commenced the assessment of this standard and the impact will be disclosed in 2019.

2.28 Future accounting developments and reporting changes (continued)

IFRS 17 – Insurance Contracts, effective January 1, 2022
Subject / Comments
IFRS 17 was issued in May 2017 as replacement for IFRS 4 - Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of: • discounted probability-weighted cash flows • an explicit risk adjustment, and • a contractual service margin (“CSM”) representing the unearned profit of the contract which is recognised as revenue over the coverage period. The standard allows a choice between recognising changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers. There is a modification of the general measurement model called the ‘variable fee approach’ for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity’s share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features. The Group has commenced the review of this standard.

2.28 Future accounting developments and reporting changes (continued)

Interpretation 23 – Uncertainty over income tax treatments, effective January 1, 2019

Subject / Comments

This interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 – Income Taxes. The interpretation specifically addresses:

- whether an entity considers uncertain tax treatments separately;
- the assumptions an entity makes about the examination of tax treatments by taxation authorities;
- how an entity determines taxable income, tax bases, unused tax losses, unused tax credits and tax rates;
- how an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that provides a more likely resolution of the uncertainty should be followed.

This interpretation will have no material effect on the Group.

IAS 1 and IAS 8 – The definition of material, effective January 1, 2020

Subject / Comments

These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs: i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance is IAS 1 about immaterial information.

The Group is yet to assess the impact of this standard.

2.28 Future accounting developments and reporting changes (continued)

IAS 19 – Employee Benefits: amendments, effective January 1, 2019

Subject / Comments

The amendments to IAS 19 - Employee Benefits address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period.

The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset)

The amendments clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

This clarification provides that entities might have to recognise a past service cost, or a gain or loss on settlement, that reduces a surplus that was not recognised before. Changes in the effect of the asset ceiling are not netted with such amounts.

This standard change will have no material effect on the Group as we do not expect any significant change to our pension plans.

2.28 Future accounting developments and reporting changes (continued)

IAS 28 – Investments in Associates and Joint Ventures: amendments, effective January 1, 2019
Subject / Comments
The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests. In applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28. Entities must apply the amendments retrospectively, with certain exceptions. The Group does not expect the adoption of this standard to have any material impact.

Annual Improvements to IFRS, effective January 1, 2019	
Standard	**Subject of amendment**
IFRS 3 – Business Combinations	Previously held Interests in a joint operation
IFRS 11 – Joint Arrangements	Previously held Interests in a joint operation
IAS 12 – Income Taxes	Income tax consequences of payments on financial instruments classified as equity
IAS 23 – Borrowing Costs	Borrowing costs eligible for capitalisation
The Group does not expect the adoption of these improvements to have any material impact.	

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

3.1 Impairment of financial assets – policies under IFRS 9

In determining ECL (defined in note 2.9(d)), management is required to exercise judgement in defining what is considered a significant increase in credit risk and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions. Further information about the judgements involved is included in note 2.9 under sections 'Measurement' and 'Forward-looking information'.

(a) Establishing staging for debt securities and deposits

The Group's internal credit rating model is a 10-point scale which allows for distinctions in risk characteristics and is referenced to the rating scale of international credit rating agencies.

The scale is set out in the following table:

3.1 Impairment of financial assets – policies under IFRS 9 (continued)

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

The Group uses its internal credit rating model to determine which of the three stages an asset is to be categorized for the purposes of ECL.

Once the asset has experienced a significant increase in credit risk the investment will move from Stage 1 to Stage 2. Sagicor has assumed that the credit risk of a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial asset that is investment grade or Sagicor risk rating of 1-3 is considered low credit risk.

3.1 Impairment of financial assets – policies under IFRS 9 (continued)

Stage 1 investments are rated (i) investment grade, or (ii) below investment grade at origination and have not been downgraded more than 2 notches since origination. Stage 2 investments are assets which (i) have been downgraded from investment grade to below investment grade, or (ii) are rated below investment grade at origination and have been downgraded more than 2 notches since origination. Stage 3 investments are assets in default.

(b) Establishing staging for other assets measured at amortised cost, lease receivables, loan commitments and financial guarantee contracts

Exposures are considered to have resulted in a significant increase in credit risk and are moved to stage 2 when:

Qualitative test

- accounts that meet the portfolio's 'high risk' criteria and are subject to closer credit monitoring.

Backstop criteria

- accounts that are 30 calendar days or more past due. The 30 days past due criteria is a backstop rather than a primary driver of moving exposures into stage 2.

(c) Forward looking information

When management determines the macro-economic factors that impact the portfolios of financial assets, they first determine all readily available information within the relevant market. Portfolios of financial assets are segregated based on product type, historical performance and homogenous country exposures. There is often limited timely macro-economic data for Barbados, Eastern Caribbean, Trinidad and Jamaica. Management assesses data sources from local government, International Monetary Fund and other reliable data sources. A regression analysis is performed to determine which factors are most closely correlated with the credit losses for each portfolio. Where projections are available, these are used to look into the future up to three years and subsequently the expected performance is then used for the remaining life of the product. These projections are re-assessed on a quarterly basis.

3.1 Impairment of financial assets – policies under IFRS 9 (continued)

(d) Impairment of Government of Barbados debt securities

As further disclosed in note 41.3 (f) during the year, the Group participated in a debt exchange following the implementation of a debt restructuring programme by the Government of Barbados. The replacement debt securities are classified as purchased or originated credit-impaired assets (POCI) and have been valued using an internally generated yield curve derived from the Central Bank of Barbados base-line yield curve to which management has applied a risk premium. If the risk premium at all durations was increased / decreased by 15 / 25 basis points, the value of the POCI debt instruments on exchange would decrease / increase by 2% / 4%.

3.2 Impairment/Fair Value of financial assets – policies under IAS 39

An available for sale debt security, loan or receivable is considered impaired when management determines that it is probable that all amounts due according to the original contract terms will not be collected. This determination is made after considering the payment history of the borrower, the discounted value of collateral and guarantees, and the financial condition and financial viability of the borrower. The determination of impairment may either be considered by individual asset or by a grouping of assets with similar relevant characteristics.

The Sagicor Group invests in a number of sovereign financial instruments that are not quoted in an active market, these assets are classified as loans and receivables and are carried at amortised cost less provision for impairment in the financial statements. At December 31, 2017 there were significant holdings in instruments of Government of Jamaica, Government of Trinidad and Tobago and Government of Barbados carried at amortised cost. The Group assessed these instruments for impairment and concluded that based on all information available, that no impairment existed at December 31, 2017 in accordance with the accounting policies of the Group.

3.3 Fair value of securities not quoted in an active market

The fair value of securities not quoted in an active market may be determined using reputable pricing sources (such as pricing agencies), indicative prices from bond/debt market makers or other valuation techniques. Broker quotes as obtained from the pricing sources may be indicative and not executable or binding. The Group exercises judgement on the quality of pricing sources used. Where no market data is available, the Group may value positions using its own models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. The inputs into these models are primarily discounted cash flows.

The models used to determine fair values are periodically reviewed by experienced personnel. The models used for debt securities are based on net present value of estimated future cash flows, adjusted as appropriate for liquidity, and credit and market risk factors.

3.4 Recognition and measurement of intangible assets

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

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

3.5 Impairment of intangible assets

(a) Goodwill

The assessment of goodwill impairment involves the determination of the value of the cash generating business units to which the goodwill has been allocated. Determination of the value involves the estimation of future cash flows or of income after tax of these business units and the expected returns to providers of capital to the business units and / or to the Group as a whole. For the Sagicor Life reporting segment, the Group uses the value in use methodology for testing goodwill impairment. For the Sagicor Jamaica operating segment, the Group uses the fair value less cost to sell methodology, and for Sagicor General Insurance Inc the value in use methodology.

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

(b) Other intangible assets

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

3.6 Valuation of actuarial liabilities

(a) Canadian Actuarial Standards

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

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

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

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

Further details of the inputs used are set out in note 43.

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

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

3.6 Valuation of actuarial liabilities (continued)

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

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

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

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

3.7 Investment in associate

As at July 1, 2018 Sagicor Jamaica Group has a shareholding in Playa of 15%. From an accounting perspective, IAS 28 (Investments in Associate and Joint Ventures) paragraph 5, 6 and 8 guidance was considered as follows:

Where an entity holds 20% or more of the voting power (directly or through subsidiaries) on an investee, it will be presumed the investor has significant influence unless it can be clearly demonstrated that this is not the case. If the holding is less than 20%, the entity will be presumed not to have significant influence unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an entity from having significant influence.
The existence of significant influence by an entity is usually evidenced in one or more of the following ways:

- representation on the board of directors or equivalent governing body of the investee;
- participation in the policy-making process, including participation in decisions about dividends or other distributions;
- material transactions between the entity and the investee;
- interchange of managerial personnel; or
- provision of essential technical information

3.7 Investment in associate (continued)

In assessing whether potential voting rights contribute to significant influence, the entity examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other contractual arrangements whether considered individually or in combination) that affect potential rights, except the intentions of management and the financial ability to exercise or convert those potential rights. Management has two representatives out of twelve on the Board who are also members of two strategic Board committees.

Management has concluded, given its participation in the policy-making decisions, significant involvement in, and influence over decision making of Playa, this allows them to clearly demonstrate influence over Playa's financial and operating results even though Sagicor owns less than 20% of Playa's shares - rebuttable presumption.

Management has concluded after taking the above into consideration that it has significant influence over Playa through its holding and as such is of the view that its strategic investment in Playa should be treated as an investment in associate in accordance with IAS 28.

An impairment review of Playa was performed at the end of the year as its value based on quoted market prices is lower that its carrying value. An impairment review involves estimating the recoverable amount of an asset and comparing it with its carrying value. The recoverable amount is the higher of the fair value less cost to sell (FVLCTS) and the value in use (VIU). Value in use is determined using discounted cash flow analysis and the FVLCTS was based on a market approach. The FVLCTS resulted in a higher value than VIU. The Group uses its judgement to make assumptions that are mainly based on market conditions existing at the end of each reporting period such as discount rates, EBITDA multiples, projected cash flows and other relevant inputs. The valuation conclusions under the FVLCTS approach were considered within the range derived by the discounted cash flow analysis under the VIU approach.

Amounts expressed in US$000

4 SEGMENTS

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

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

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

(a) Sagicor Life

This group comprises Sagicor Life Inc, its branches and associates, and certain of its subsidiaries which conduct life, health, annuity insurance business, pension administration services and asset management in Barbados, Trinidad & Tobago, Eastern Caribbean, Dutch Caribbean, Bahamas and Central America.

The companies comprising this segment are set out in the following table.

4 SEGMENTS (continued)

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

Amounts expressed in US$000

4 SEGMENTS (continued)

(b) Sagicor Jamaica

This segment comprises the Sagicor Jamaica Group of companies, which conduct life, health, annuity, property and casualty insurance business, pension administration services, banking and financial services, hospitality and real estate investment services in Jamaica, Cayman Islands and Costa Rica.

The companies comprising this segment are as follows.

Sagicor Jamaica Segment Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagicor Group Jamaica Limited	Group holding company	Jamaica	49.11%
Sagicor Life Jamaica Limited	Life and health insurance and annuities	Jamaica	49.11%
Sagicor Life of the Cayman Islands Limited	Life insurance	The Cayman Islands	49.11%
Sagicor Pooled Investment Funds Limited	Pension fund management	Jamaica	49.11%
Employee Benefits Administrator Limited	Pension administration services	Jamaica	49.11%
Sagicor Re Insurance Limited	Property and casualty insurance	The Cayman Islands	49.11%
Sagicor Insurance Brokers Limited	Insurance brokerage	Jamaica	49.11%
Sagicor International Administrators Limited	Group insurance administration	Jamaica	49.11%
Sagicor Insurance Managers Limited	Captive insurance management services	The Cayman Islands	49.11%

4 SEGMENTS (continued)

Sagicor Jamaica Segment Companies (continued)	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagicor Property Services Limited	Property management	Jamaica	49.11%
Sagicor Investments Jamaica Limited	Investment banking	Jamaica	49.11%
Sagicor Bank Jamaica Limited	Commercial banking	Jamaica	49.11%
Sagicor Costa Rica SCR, S.A.	Life insurance	Costa Rica	24.56%
LOJ Holdings Limited	Insurance holding company	Jamaica	100%
Sagicor Securities Jamaica Limited	Securities trading	Jamaica	49.11%
Travel Cash Jamaica Limited (note 37)	Microfinance	Jamaica	25.05%
Sagicor Real Estate X-Fund Limited (note 37)	Investment in real estate activities	St. Lucia	14.39%
X Fund Properties Limited (note 37)	Hospitality and real estate investment	Jamaica	14.39%
X Fund Properties LLC (note 37)	Hospitality	USA	14.39%
Jamziv Jamaica Limited [(1)]	Holding Company	Jamaica	8.75%
Associates			
Playa Hotel & Resorts N.V. [(2)]	Hospitality	Netherlands	1.31%

Control of Sagicor Group Jamaica Limited is established through the following:

- The Group's effective shareholder's interest gives it the power to appoint the directors of the company and thereby direct relevant activities.
- The Group is exposed to the variable returns from its effective shareholder's interest.
- The Group has the ability to use the power to affect the amount of investor's returns

(1) This company became a subsidiary of Sagicor Real Estate X Fund Limited on July 1, 2018 and a subsidiary of the Group on October 1, 2018.

(2) The company became an associated company of Sagicor Real Estate X Fund Limited on July 1, 2018 and an associate of the Group on October 1, 2018.

Amounts expressed in US$000

4 SEGMENTS (continued)

(c) Sagicor Life USA

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

Sagicor Life USA Segment Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagicor Life Insurance Company	Life insurance and annuities	USA - Texas	100%
Sagicor USA Inc	Insurance holding company	USA - Delaware	100%
Sage Distribution, LLC	Life insurance and annuities	USA - Delaware	100%
Sage Partners, LLC	Life insurance and annuities	USA - Delaware	100%
Sagicor Benfell, LLC	Life insurance and annuities	USA - Delaware	90%
Sagicor Financial Partners, LLC	Life insurance and annuities	USA - Delaware	51%

4 SEGMENTS (continued)

(d) Head office function and other operating companies

These comprise the following:

Head office and other Group Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagicor Financial Corporation Limited	Group parent company	Bermuda	100%
Sagicor General Insurance Inc [(1)]	Property and casualty insurance	Barbados	98%
Sagicor Finance Inc	Loan and lease financing, and deposit taking	St. Lucia	70%
Sagicor Asset Management (T&T) Limited	Investment management	Trinidad & Tobago	100%
Sagicor Asset Management Inc.	Investment management	Barbados	100%
Sagicor Asset Management (Eastern Caribbean) Limited	Investment management	Barbados	100%
Barbados Farms Limited	Farming and real estate development	Barbados	77%
Sagicor Funds Incorporated	Mutual fund holding company	Barbados	100%
Globe Finance Inc [(2)]	Loan and lease financing, and deposit taking	Barbados	51%
The Mutual Financial Services Inc	Financial services holding company	Barbados	73%
Sagicor Finance Limited	Group financing vehicle	The Cayman Islands	100%
Sagicor Finance (2015) Limited	Group financing vehicle	The Cayman Islands	100%

(1) On November 16, 2018, the Group entered into an agreement to purchase an additional 45% of the issued and outstanding common shares of Sagicor General Insurance Inc.

(2) Sold on September 4, 2018 (see note 37).

Amounts expressed in US$000

4.1 Statement of income by segment

2018	Sagicor Life	Sagicor Jamaica	Sagicor Life USA	Head office and other	Adjustments	Total
Net premium revenue	320,517	309,729	389,974	33,821	-	1,054,041
Net gain/(losses) on derecognition of financial assets measured at amortised cost	(279)	10,279	(7)	441	-	10,434
Gains reclassified to income from accumulated OCI	430	8,436	774	(14)	(287)	9,339
Interest income	79,075	150,643	55,263	7,083	287	292,351
Other investment income	1,092	18,554	(15,805)	214	(441)	3,614
Fees and other revenues	7,925	97,985	(8,894)	17,504	(38)	114,482
Inter-segment revenues	15,675	-	-	94,129	(109,804)	-
Total revenue	**424,435**	**595,626**	**421,305**	**153,178**	**(110,283)**	**1,484,261**
Net policy benefits	217,732	198,171	103,710	18,767	-	538,380
Net change in actuarial liabilities	(62,053)	13,941	222,537	-	-	174,425
Interest expense	11,152	33,820	5,514	2,035	-	52,521
Administrative expenses	73,052	141,476	32,783	53,698	2,062	303,071
Commissions and premium and asset taxes	43,140	49,941	29,167	9,024	-	131,272
Finance costs	-	2,399	181	(5)	33,936	36,511
Credit impairment losses	82,266	10,245	571	2,437	-	95,519
Depreciation and amortisation	6,811	11,266	3,024	3,176	-	24,277
Inter-segment expenses	2,863 (1)	2,226	681 (1)	15,090	(20,860)	-
Total benefits and expenses	**374,963**	**463,485**	**398,168**	**104,222**	**15,138**	**1,355,976**
Gain arising on business combinations, acquisitions and divestitures	6,876	11,833	-	(471)	-	18,238
Segment income / (loss) before taxes	**56,348**	**143,974**	**23,137**	**48,485**	**(125,421)**	**146,523**
Income taxes	(9,560)	(33,237)	(4,859)	(3,155)	109	(50,702)
Segment net income / (loss) from continuing operations	**46,788**	**110,737**	**18,278**	**45,330**	**(125,312)**	**95,821**
Net income/(loss) attributable to shareholders - continuing operations	39,567	55,742	18,278	14,310	(91,376)	36,521
Total comprehensive income/(loss) attributable to shareholders - continuing operations	33,592	39,945	6,969	11,034	(88,623)	2,917

(1) During 2015, Sagicor Life USA entered into a reinsurance agreement with Sagicor Life; included in the inter-segment expenses is $1,867 relating to this transaction.

Amounts expressed in US$000

4.1 Statement of income by segment (continued)

2017 restated	Sagicor Life	Sagicor Jamaica	Sagicor Life USA	Head office and other	Adjustments	Total
Net premium revenue	308,602	320,067	86,719	30,244	-	745,632
Interest income	77,450	159,462	48,842	8,987	-	294,741
Other investment income	10,350	47,459	26,160	669	(143)	84,495
Fees and other revenues	11,895	62,580	(2,539)	21,836	(32)	93,740
Inter-segment revenues	12,931	-	-	71,150	(84,081)	-
Total revenue	**421,228**	**589,568**	**159,182**	**132,886**	**(84,256)**	**1,218,608**
Net policy benefits	197,716	171,038	87,606	27,125	-	483,485
Net change in actuarial liabilities	11,908	82,334	26,754	-	-	120,996
Interest expense	12,217	37,501	2,144	3,087	-	54,949
Administrative expenses	68,113	127,855	28,298	41,320	1,841	267,427
Commissions and premium and asset taxes	45,613	42,967	15,071	8,667	-	112,318
Finance costs	-	1,089	156	(251)	33,752	34,746
Depreciation and amortisation	6,437	9,219	2,491	3,724	-	21,871
Inter-segment expenses	5,647 (1)	1,858	(3,031) (1)	12,582	(17,056)	-
Total benefits and expenses	**347,651**	**473,861**	**159,489**	**96,254**	**18,537**	**1,095,792**
Gains arising on business combinations and acquisitions	-	2,261	-	-	-	2,261
Segment income / (loss) before taxes	**73,577**	**117,968**	**(307)**	**36,632**	**(102,793)**	**125,077**
Income taxes	(9,868)	(23,033)	13,600	(12)	-	(19,313)
Segment net income / (loss) from continuing operations	**63,709**	**94,935**	**13,293**	**36,620**	**(102,793)**	**105,764**
Net income/(loss) attributable to shareholders - continuing operations	64,753	46,625	13,293	6,683	(69,041)	62,313
Total comprehensive income/(loss) attributable to shareholders - continuing operations	59,864	76,371	21,355	6,564	(67,718)	96,436

(1) During 2015, Sagicor Life USA entered into a reinsurance agreement with Sagicor Life; included in the inter-segment expenses is $4,700 relating to this transaction.

4.1 Statement of income by segment (continued)

The principal non-controlling interests in the Group are in respect of Sagicor Group Jamaica Limited (Sagicor Jamaica).

Out of the total net income attributable to non-controlling interests of $52,078 (2017 - $44,495), Sagicor Jamaica contributed $54,993 (2017 - $48,310).

4.2 Variations in segment income

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

(i) Credit loss allowances for impairment of financial investments

The application of determining credit loss allowances in accordance with IFRS 9, brings additional judgement in the determination of credit losses. The determination of ECL involves establishing various assumptions based on economic conditions and historical trends. Changes in assumptions will impact the ECL allowances recorded in the income statement.

Significant changes in borrowers classified as stage 3 (IAS 39 – borrowers exhibiting evidence of impairment) will be triggered by changes affecting individual borrowers or groups of borrowers, leading to significant variations in losses recorded in the income statement.

(ii) Fair value gains / (losses) of financial investments

Significant gains and losses may be triggered by changes in market prices of assets carried at fair value.

For FVOCI (available for sale) investments, management may be able to time the disposal of such investments and consequently, impact the quantum of the realised gain or loss recognised in the statement of income.

For FVTPL (fair value through income) investments, management may also able to time the disposal of such investments. However, since the majority of these assets fund unit linked liabilities, the impact to Group net income is mitigated by any increased return due to the holders of the unit linked liabilities.

4.2 Variations in segment income (continued)

(iii) Gains on acquisitions /divestitures

On acquisition of a business or portfolio, if the fair value of the net assets acquired exceeds the total consideration transferred, the difference is recognized directly in the statement of income. Similarly, on sale if the consideration received exceeds the carrying value of the business or portfolio a gain is recognised in the statement of income. As acquisitions and disposals occur infrequently and with no consistent trend, the gain or loss recorded in the income statement may vary significantly from year to year.

(iv) Foreign exchange gains and losses

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

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

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

Amounts expressed in US$000

4.2 Variations in segment income (continued)

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

	2017 restated									
Variations in income by segment	**Sagicor Life Inc**	**Sagicor Life Jamaica**	**Sagicor Life USA**	**Head Office and Other**	**Total**	**Sagicor Life Inc**	**Sagicor Life Jamaica**	**Sagicor Life USA**	**Head Office and Other**	**Total**
Investment income measured on an IFRS 9 basis:										
Credit impairment losses	(82,266)	(10,245)	(571)	(2,437)	(95,519)	-	-	-	-	-
Gain / loss reclassified to income for FVOCI financial investments	454	8,436	774	(325)	9,339	-	-	-	-	-
Investment income measured on an IAS 39 basis:										
Impairment of financial investments	-	-	-	-	-	56	(8,251)	-	(166)	(8,361)
Gain / loss reclassified to income for available for sale financial investments	-	-	-	-	-	6,116	6,639	(403)	(93)	12,259
Foreign exchange gains / (losses)	(2,129)	(1,384)	-	476	(3,037)	514	(4,864)	-	172	(4,178)
Gains on acquisitions/ divestitures	6,876	11,833	-	(471)	18,238	-	2,261	-	-	2,261
Decrease / (increase) in actuarial liabilities from changes in assumptions	91,635	23,088	40,828	-	155,551	23,602	28,421	(11,120)	-	40,903
	14,570	31,728	41,031	(2,757)	84,572	30,288	24,206	(11,523)	(87)	42,884

Amounts expressed in US$000

4.3 Other comprehensive income

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

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

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

4.3 Other comprehensive income (continued)

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

(iv) Defined benefit plans' gains and losses
Experience adjustments and changes in actuarial assumptions gives rise to gains or losses on defined benefit plans.

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

	Variations in other comprehensive income by segment					
	Sagicor Life	**Sagicor Jamaica**	**Sagicor Life USA**	**Head Office and other**	**Adjustments**	**Total**
2018						
Unrealised investment losses	(12,163)	(36,316)	(33,133)	(1,252)	-	(82,864)
Changes in actuarial liabilities	8,693	8,215	24,706	-	-	41,614
Retranslation of foreign currency operations	(585)	(24,170)	-	(873)	443	(25,185)
Gains / (losses) on defined benefit plans	(2,948)	2,786	-	(2,523)	-	(2,685)
2017 restated						
Unrealised investment gains	6,873	26,143	22,147	194	2,543	57,900
Changes in actuarial liabilities	(4,122)	5,135	(14,488)	-	-	(13,475)
Retranslation of foreign currency operations	(444)	11,604	-	(1,139)	(101)	9,920
Gains on defined benefit plans	99	22,249	-	1,566	-	23,914

Amounts expressed in US$000

4.4 Statement of financial position by segment

	Sagicor Life	Sagicor Life Jamaica	Sagicor Life USA	Head office and other	Adjustments	Total
2018						
Financial investments	1,418,031	2,344,113	1,499,927	85,592	-	5,347,663
Other external assets	324,345	745,357	789,294	163,419	(61,893)	1,960,522
Assets of discontinued operation	-	-	-	17,239	-	17,239
Inter-segment assets	266,094	14,976	3,861	109,595	(394,526)	-
Total assets	2,008,470	3,104,446	2,293,082	375,845	(456,419)	7,325,424
Policy liabilities	1,297,308	753,793	1,602,601	70,629	(61,893)	3,662,438
Other external liabilities	160,824	1,526,230	373,901	466,570	-	2,527,525
Inter-segment liabilities	62,229	5,617	70,085	256,595	(394,526)	-
Total liabilities	1,520,361	2,285,640	2,046,587	793,794	(456,419)	6,189,963
Net assets	488,109	818,806	246,495	(417,949)	-	1,135,461
2017 restated						
Financial investments	1,386,182	2,291,191	1,123,623	152,245	-	4,953,241
Other external assets	351,871	531,671	856,271	182,468	(70,990)	1,851,291
Assets of discontinued operation	-	-	-	10,110	-	10,110
Inter-segment assets	214,767	13,347	2,505	62,101	(292,720)	-
Total assets	1,952,820	2,836,209	1,982,399	406,924	(363,710)	6,814,642
Policy liabilities	1,296,525	757,480	1,498,250	66,612	(70,990)	3,547,877
Other external liabilities	89,643	1,506,669	194,836	538,394	-	2,329,542
Inter-segment liabilities	27,285	4,098	51,587	209,750	(292,720)	-
Total liabilities	1,413,453	2,268,247	1,744,673	814,756	(363,710)	5,877,419
Net assets	539,367	567,962	237,726	(407,832)	-	937,223

Amounts expressed in US$000

4.4 Statement of financial position by segment (continued)

The principal non-controlling interests in the Group are in respect of Sagicor Group Jamaica Limited (Sagicor Jamaica). Out of the total non-controlling interests in the statement of financial position of $530,514 (2017 restated - $311,766), Sagicor Jamaica contributed $515,260 (2017 restated - $283,869).

4.5 Additions to non-current assets by segment

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

	2018	2017
Sagicor Life	7,858	9,822
Sagicor Jamaica	208,072	17,297
Sagicor Life USA	2,571	3,175
Head office and other	1,283	1,649
	219,784	31,943

4.6 Products and services

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

	2018	2017
Life, health and annuity insurance contracts issued to individuals	940,107	678,849
Life, health and annuity insurance and pension administration contracts issued to groups	283,983	307,046
Property and casualty insurance	45,647	42,026
Banking, investment management and other financial services	179,639	162,497
Farming and unallocated revenues	34,886	28,190
	1,484,261	1,218,608

4.7 Geographical areas

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

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

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

	External revenue		Non-current assets	
	2018	2017	2018	2017
Barbados	169,881	169,135	181,163	188,005
Jamaica	569,284	558,645	406,327	133,275
Trinidad & Tobago	168,967	173,027	65,927	65,559
Other Caribbean	155,327	158,759	26,197	28,465
USA	420,802	159,042	9,612	10,009
	1,484,261	1,218,608	689,226	425,313

Amounts expressed in US$000

4.8 Revenues from service contracts with customers

The following table discloses service contract revenues from customers by reportable segment.

Year ended December 31, 2018	Service contract revenues originated - at a point in time	- over time	Total
Sagicor Life	-	7,578	7,578
Sagicor Jamaica	42,082	36,839	78,921
Sagicor USA	219	-	219
Head office and other companies	-	(13)	(13)
	42,301	44,404	86,705

5 INVESTMENT PROPERTY

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

	2018	2017
Balance, beginning of year	80,816	80,662
Additions at cost	50	-
Amounts assumed on acquisition (note 37)	16,444	-
Transfer from real estate developed for resale (note 12)	(125)	-
Disposals	(2,613)	-
Change in fair values	(1,090)	74
Effects of exchange rate changes	12	80
Balance, end of year	93,494	80,816

Investment property includes $25,597 (2017 - $9,971) which represents the Group's proportionate interest in joint operations summarised in the following table.

Country	Description of property	Percentage ownership
Barbados	Freehold lands	50%
	Freehold office buildings	25% -33%
Trinidad & Tobago	Freehold office building	60%
Jamaica	Hotel	18.11%

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

Amounts expressed in US$000

6 ASSOCIATES AND JOINT VENTURES

6.1 Interest in Associates and Joint Ventures

Name of Entity	Country of Incorporation	% of ownership interest		Nature of relationship	Measurement Method	Carrying Amount	
		2018	2017			2018	2017
RGM Limited	Trinidad & Tobago	33%	33%	Associate	Equity Method	23,497	22,348
FamGuard Corporation Limited (1)	Bahamas	20%	20%	Associate	Equity Method	15,332	15,088
Primo Holding Limited	Barbados	38%	38%	Associate	Equity Method	324	330
Sagicor Costa Rica SCR, S.A.	Costa Rica	50%	50%	Joint Venture	Equity Method	2,596	2,860
Sagicor Real Estate X-Fund Limited (2)(3)	St. Lucia	-	29%	Associate	Equity Method	-	56,597
Playa Hotels and Resort N.V.	United States	15%	-	Associate	Equity Method	194,383	-
						236,132	97,223

(1) FamGuard Corporation Limited is listed on the Bahamas International Securities Exchange. The proportionate share of market value calculated on the basis of the year-end closing rate of $6.30 per share was $12,600 (2017 – $12,000).

(2) On October 1, 2018, Sagicor Group Jamaica obtained control over Sagicor X Fund, which resulted in the accounting treatment changing from investment in associate to a subsidiary as required by IFRS 3. Consequently, the results of Sagicor X Fund have been consolidated in these financial statements. The proportionate share of market value calculated on the basis of the year-end closing rate was $78,895 as at December 31, 2017.

(3) Sagicor X Fund controls 15.328% of the 130,478,993 shares issued by Playa, through its subsidiary company, Jamziv Jamaica Limited. Based on Sagicor X Fund's levels of investment in, and significant influence over, Playa, Sagicor X Fund is accounting for it's investment in Playa as an associated company from the date of acquisition as required by IAS 28. There are no contingent liabilities relating to the Group's interest in the associated company. The proportionate share of market value calculated based on quoted prices on the National Association of Securities Dealers Automated Quotation (NASDAQ) was $143,129 (2017 - $Nil).

6.2 Commitments

Commitments at the year-end if called are $969 (2017 –$374).

Amounts expressed in US$000

6.3 Summarised Financial Information

	RGM Limited		FamGuard Corporation Limited		Primo Holding Limited		Sagicor Costa Rica SCR, S.A.		Sagicor Real Estate X-Fund Limited		Playa Hotels and Resort N.V.	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
ASSETS												
Financial investments	-	-	297,970	283,967	-	-	10,372	8,581	-	129,115	-	-
Cash resources	4,686	4,077	8,091	15,402	-	-	1,415	3,612	-	7,756	115,810	-
Other investments and assets	125,992	126,423	62,817	62,678	1,000	1,000	13,810	11,357	-	241,075	2,028,835	-
Total assets	130,678	130,500	368,878	362,047	1,000	1,000	25,597	23,550	-	377,946	2,144,645	-
LIABILITIES												
Policy liabilities	-	-	232,328	225,334	-	-	11,747	1,067	-	-	-	-
Other liabilities	60,183	63,457	13,206	13,216	236	219	8,656	16,761	-	195,739	1,289,271	-
Total liabilities	60,183	63,457	245,534	238,550	236	219	20,403	17,828	-	195,739	1,289,271	-
Net Assets	70,495	67,043	123,344	123,497	764	781	5,194	5,722	-	182,207	855,374	-

Amounts expressed in US$000

6.3 Summarised Financial Information (continued)

	RGM Limited		FamGuard Corporation Limited		Primo Holding Limited		Sagicor Costa Rica SCR, S.A.		Sagicor Real Estate X-Fund Limited		Playa Hotels and Resort N.V.	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Investment, beginning of year	22,348	22,346	15,088	13,700	330	355	2,860	3,107	56,597	47,785	-	-
Additions	-	-	-	-	-	-	146	152	-	6,756	200,853	-
Transfers/disposals	-	-	-	-	-	-	-	-	-	(6,221)	-	-
Dividends received	-	(1,281)	(600)	(480)	-	-	-	-	-	(800)	-	-
Share of income/(loss)	1,591	1,531	1,047	1,683	(6)	(25)	140	(76)	1,609	6,736	(2,236)	-
Share of amortisation or impairment of intangible assets which were identified on acquisition	-	-	(10)	(72)	-	-	-	-	-	-	-	-
Share of income taxes	(375)	(191)	-	-	-	-	-	-	-	-	-	-
Share of other comprehensive income/(loss)	-	-	(193)	257	-	-	(485)	(400)	3,455	828	6,118	-
Disposal of interest	-	-	-	-	-	-	-	-	(59,914)	-	-	-
Effects of exchange rate changes	(67)	(57)	-	-	-	-	(65)	77	(1,747)	1,513	(10,352)	-
Investment, end of year	23,497	22,348	15,332	15,088	324	330	2,596	2,860	-	56,597	194,383	-

Amounts expressed in US$000

6.3 Summarised Financial Information (continued)

	RGM Limited		FamGuard Corporation Limited		Primo Holding Limited		Sagicor Costa Rica SCR, S.A.		Sagicor Real Estate X-Fund Limited		Playa Hotels and Resort N.V.	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Summarised statement of comprehensive income												
REVENUE												
Net premium revenue	-	-	114,537	92,705	-	-	12,444	12,735	-	-	-	-
Net investment and other income	26,823	24,768	17,929	23,331	-	-	1,231	1,029	64,081	101,547	619,725	-
Total revenue	26,823	24,768	132,466	116,036	-	-	13,675	13,764	64,081	101,547	619,725	-
BENEFITS AND EXPENSES												
Benefits	-	-	83,532	71,701	-	-	8,266	9,118	7,628	-	62,232	-
Expenses	21,507	19,663	40,884	36,092	17	66	4,944	4,269	49,895	77,986	526,611	-
Total benefits and expenses	21,507	19,663	124,416	107,793	17	66	13,210	13,387	57,523	77,986	588,843	-
INCOME BEFORE TAXES	5,316	5,105	8,050	8,243	(17)	(66)	465	377	6,558	23,561	30,882	-
Income taxes	(1,126)	(572)	-	-	-	-	(185)	(529)	(1,817)	(2,087)	(12,197)	-
NET INCOME FOR THE PERIOD	4,190	4,533	8,050	8,243	(17)	(66)	280	(152)	4,741	21,474	18,685	-
Other comprehensive income	-	-	-	1,413	-	-	(1,096)	(632)	17,147	2,824	41,074	-
Total comprehensive income	4,190	4,533	8,050	9,656	(17)	(66)	(816)	(784)	21,888	24,298	59,759	-
Dividends received from associates and joint ventures	-	1,281	600	480	-	-	-	-	-	800	-	-

Amounts expressed in US$000

7 PROPERTY, PLANT AND EQUIPMENT

	2018					2017				
	Owner-occupied property		Office furnishings, equipment & vehicles	Operating lease vehicles & equipment	Total	Owner-occupied properties		Office furnishings, equipment & vehicles	Operating lease vehicles & equipment	Total
	Lands	Land & buildings				Land	Land & buildings			
Net book value, beginning of year	35,232	78,465	46,297	5,566	165,560	37,185	77,855	41,179	11,504	167,723
Additions at cost	-	2,516	11,146	279	13,941	-	3,175	15,101	577	18,853
Additions arising from acquisitions	-	103,183	16,773	-	119,956	-	-	-	-	-
Transfer to intangible assets (note 8)	-	-	(3,527)	-	(3,527)	-	-	(729)	-	(729)
Other transfers	-	-	(61)	-	(61)	-	(121)	(50)	(1,368)	(1,539)
Transfers to real estate developed or held for sale (note 12)	-	-	-	-	-	-	(1,575)	-	-	(1,575)
Disposals and divestures	-	(9,286)	(364)	(3,846)	(13,496)	-	-	(349)	(3,282)	(3,631)
Change in fair values	-	(226)	-	-	(226)	(1,953)	(274)	-	-	(2,227)
Depreciation charge	-	(1,879)	(11,260)	(1,242)	(14,381)	-	(1,098)	(9,211)	(1,865)	(12,174)
Effects of exchange rate changes	-	(4,402)	(1,076)	-	(5,478)	-	503	356	-	859
Net book value, end of year	35,232	168,371	57,928	757	262,288	35,232	78,465	46,297	5,566	165,560
Represented by:										
Cost or valuation	35,232	176,012	157,960	1,642	370,846	35,232	81,697	134,103	11,897	262,929
Accumulated depreciation	-	(7,641)	(100,032)	(885)	(108,558)	-	(3,232)	(87,806)	(6,331)	(97,369)
	35,232	168,371	57,928	757	262,288	35,232	78,465	46,297	5,566	165,560

Owner-occupied lands are largely utilised for farming operations.

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

Amounts expressed in US$000

8 INTANGIBLE ASSETS

8.1 Analysis of intangible assets and changes for the year

	2018					2017			
	Goodwill	Customer & broker relationships	Trade Names	Software	Total	Goodwill	Customer & broker relationships	Software	Total
Net book value, beginning of year	44,234	12,391	-	25,089	81,714	43,911	13,737	25,839	83,487
Additions at cost	-	-	-	4,795	4,795	-	-	6,182	6,182
Transfer from property, plant and equipment (note 7)	-	-	-	3,527	3,527	-	-	729	729
Identified on acquisition (note 37):									
Harmony General Insurance Company Ltd	1,396	1,732	-	-	3,128	-	-	-	-
Travel Cash Jamaica Limited	1,478	1,128	31	-	2,637	-	-	-	-
X Fund Properties LLC	9,584	-	2,560	120	12,264	-	-	-	-
Subsidiary acquisitions and disposals	-	-	-	(120)	(120)	-	-	-	-
Amortisation/impairment charges	-	(1,795)	(1)	(8,090)	(9,886)	-	(1,674)	(7,951)	(9,625)
Effects of exchange rate changes	(237)	(258)	1	(253)	(747)	323	328	290	941
Net book value, end of year	56,455	13,198	2,591	25,068	97,312	44,234	12,391	25,089	81,714
Represented by:									
Cost or valuation	56,455	38,634	6,308	78,813	180,210	44,234	36,552	71,006	151,792
Accumulated depreciation and impairments	-	(25,436)	(3,717)	(53,745)	(82,898)	-	(24,161)	(45,917)	(70,078)
	56,455	13,198	2,591	25,068	97,312	44,234	12,391	25,089	81,714

Amounts expressed in US$000

8.2 Impairment of intangible assets

Goodwill arises from past acquisitions and is allocated to cash generating units (CGUs). Goodwill is tested annually for impairment. The recoverable amount of a CGU is determined as the higher of its value in use or its fair value less costs to sell.

For those CGU's which the fair value less costs of disposal methodology is used, financial projections are used as inputs to determine maintainable earnings over time to which is applied an appropriate earnings' multiple. For those CGU's which the value in use methodology is used, cash flows are extracted from financial projections to which are applied appropriate discount factors and residual growth rates, or alternatively, the cash flows from the financial projections are extended to 50 years using an actuarial appraisal value technique which incorporates appropriate discount rates and solvency capital requirements. As disclosed in note 2.7 (a) goodwill is allocated to the Group's reportable operating segments.

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

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

(a) Sagicor Life operating segment

	2018	2017
Carrying value of goodwill	26,526	26,552

8.2 Impairment of intangible assets (continued)

(i) Years ended December 31, 2018 & 2017

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

- Discount rates of 10% (2017, 10%) for individual life and annuity inforce business,
- New individual life and annuity business was included for the seven-year period 2019 to 2025, (seven-year period 2018 to 2024),
- Annual growth rate for new individual life and annuity business was 6.0% - 23.0% for 2019 and 5.0% – 17.0 % from 2020 to 2025 (2017 – 12.4% - 21.0% for the year 2018 and 5.0% to 16.8% from 2019 to 2024),
- Discount rates of 14% (2017, 14%) for new individual life and annuity business,
- Required Minimum Continuing Capital and Surplus Ratio (MCCSR) of 175% (2017 – 175%).

Sensitivity

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

Sagicor Life Inc Segment			MCCSR target ratio		
			Low	**Mid**	**High**
Discount rate	**Inforce**	**New business**	150%	175%	200%
Low	8%	12%	252,836	243,991	234,678
Mid	10%	14%	81,274	66,168	50,195
High	12%	16%	(43,976)	(62,897)	(82,828)

Amounts expressed in US$000

8.2 Impairment of intangible assets (continued)

(b) Sagicor Jamaica operating segment

	2018	2017
Carrying value of goodwill	24,248	13,398

The fair value less costs of disposal methodology was adopted to test goodwill impairment in both years. The after-tax multiple used for the segment 9.9 (2017– 8.6) which was derived from a pre-tax factor of 7.7 (2017 – 6.9) using an iterative method.

Sensitivity

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

	2018 test		
	Scenario 1	Scenario 2	Scenario 3
After tax earnings multiples	9.9	8.4	5.9
Reduction in forecast earnings	n/a	10%	10%
Excess of recoverable amount (of 49.11% interest)	231,500	137,255	10,977
Impairment (of 49.11% interest)	Nil	Nil	Nil

8.2 Impairment of intangible assets (continued)

(c) Sagicor General Insurance Inc

	2018	2017
Carrying value of goodwill	5,681	4,284

The Group recognised goodwill on the acquisition of its interest in Sagicor General Insurance Inc. Additional goodwill was recognised on the acquisition of Harmony General Insurance Company Ltd during the year (note 37.1). This company was amalgamated with Sagicor General Insurance prior to the end of the year. The value in use methodology has been used to test goodwill impairment in both years. The pre-tax discount factor was 19.9% (2017 –20.8%) which was derived from an after-tax factor of 16.0% (2017 – 15.0%) using an iterative method. The residual growth rate was 2.5% (2017 – 2.5%).

Sensitivity

The possible impairment of goodwill is sensitive to changes in the after tax discount factor and residual growth rate. This is illustrated in the following table.

	2018 test		
	Scenario 1	Scenario 2	Scenario 3
After tax discount factor	16.0	17.0	18.0
Residual growth rate	2.5	2.5	2.2
Reduction in residual growth rate	n/a	n/a	12%
Increase in after tax discount factor	n/a	6%	13%
Excess of recoverable amount (of 98.0% interest)	3,218	866	Nil
Impairment (of 98.0% interest)	Nil	Nil	(1,241)

Amounts expressed in US$000

9 FINANCIAL INVESTMENTS

9.1 Analysis of financial investments

	2018 IFRS 9 basis		2017 IAS 39 basis	
	Carrying value	Fair value	Carrying value	Fair value
Investments at FVOCI (available for sale):				
Debt securities	2,633,633	2,633,633	2,266,275	2,266,275
Equity securities	271	271	86,862	86,862
	2,633,904	2,633,904	2,353,137	2,353,137
Investments at FVTPL (fair value through income):				
Debt securities	198,807	198,807	180,484	180,484
Equity securities	267,234	267,234	158,621	158,621
Derivative financial instruments	7,696	7,696	32,477	32,477
Mortgage loans	30,143	30,143	45,447	45,447
Deposits	8	8	-	-
	503,888	503,888	417,029	417,029
Investments at amortised cost (loans and receivables):				
Debt securities	1,097,041	1,219,042	1,051,683	1,155,331
Mortgage loans	337,020	336,873	296,939	296,867
Policy loans	147,046	171,421	142,132	149,995
Finance loans and finance leases	514,486	500,261	564,399	551,922
Securities purchased for re-sale	7,170	7,170	16,518	16,518
Deposits	107,108	107,108	111,404	111,404
	2,209,871	2,341,875	2,183,075	2,282,037
Total financial investments	5,347,663	5,479,667	4,953,241	5,052,203

9.1 Analysis of financial investments (continued)

	2018 - IFRS 9 basis			2017
	Mandatory designation	Designated by election	Total	IAS 39 basis
Non-derivative investments at FVTPL (fair value through income) comprise:				
Equity securities	169,754	97,480	267,234	
Debt securities	62,528	136,279	198,807	
Mortgage loans	56	30,097	30,143	
Designated at fair value on initial recognition			488,557	375,917
Assets held for trading			7,635	8,635

	2018	2017
Debt securities comprise:		
Government & government-guaranteed debt securities	1,668,061	1,701,250
Collateralised mortgage obligations	438,382	240,363
Corporate debt securities	1,717,041	1,444,086
Other securities	105,997	112,743
	3,929,481	3,498,442
Included in financial investments are:		
Debt securities issued by an associated company	26,587	28,496
Mutual funds managed by the Group	180,249	166,899

9.2 Pledged assets

Debt and equity securities include $218,447 (2017 - $140,418) as collateral for loans payable and other funding instruments.

Amounts expressed in US$000

9.2 Pledged assets (continued)

Collateral for the obligation to the Federal Home Loan Bank of Dallas (FHLB) which is included in other funding instruments (note 17), consists of an equity holding in the FHLB with a market value of $13,361 (2017 - $6,520), and mortgages and mortgage backed securities having a total market value of $329,942 (2017 - $155,636).

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, 2018, these pledged assets totalled $495,470 (2017 - $514,674). Of these assets pledged as security, $494,280 (2017 – $513,468) represents collateral for securities sold under agreements to repurchase in instances when the transferee has the right by contract or by custom to sell or re-pledge the collateral.

9.3 Financial investments held under the unit linked fair value model

Financial investments include the following amounts for which the full income and capital returns accrue to the holders of unit linked insurance and investment contracts. These investments are measured at FVTPL and amortised cost for mortgages (2017 - fair value through income).

	2018	2017
Debt securities	126,156	143,167
Equity securities	160,627	154,775
Mortgage loans	61,491	45,381
Deposits	8	-
	348,282	343,323

9.4 Reconciliation of financial investment balances from IAS 39 to IFRS 9

The following table reconciles the carrying amounts of financial investments, from their previous measurement category in accordance with IAS 39 as of December 31, 2017 to their new measurement categories upon transition to IFRS 9 as of January 1, 2018.

9.4 Reconciliation of financial investment balances from IAS 39 to IFRS 9 (continued)

Measurement basis	IAS 39 carrying value	Reclass-ifications	Remeasurements		IFRS 9 carrying value
			ECL	Other	
FVOCI (available for sale):					
Debt securities	2,266,275	(30,493)	-	-	2,235,782
Equity securities	86,862	(86,392)	-	-	470
	2,353,137	(116,885)	-	-	2,236,252
FVTPL (fair value through income):					
Debt securities	180,484	30,493	-	-	210,977
Equity securities	158,621	86,392	-	-	245,013
Derivative financial instruments	32,477	-	-	-	32,477
Mortgage loans	45,447	(19,772)	-	-	25,675
	417,029	97,113	-	-	514,142
Amortised cost (loans and receivables):					
Debt securities	1,051,683	-	(11,415)	23	1,040,291
Mortgage loans	296,939	19,772	(862)	-	315,849
Policy loans	142,132	-	-	-	142,132
Finance loans and finance leases	564,399	-	(3,411)	-	560,988
Securities purchased for re-sale	16,518	-	-	-	16,518
Deposits	111,404	-	(512)	-	110,892
	2,183,075	19,772	(16,200)	23	2,186,670
Total financial investments	**4,953,241**	**-**	**(16,200)**	**23**	**4,937,064**

Amounts expressed in US$000

9.4 Reconciliation of financial investment balances from IAS 39 to IFRS 9 (continued)

The Group holds a small portfolio of debt instruments which failed to meet the SPPI test requirement for the FVOCI classification under IFRS 9. These are hybrid securities with features of both debt and equity, with interest payments in shares and callable dates, but have no fixed maturity date. As a result, these instruments are classified as FVTPL under IFRS 9.

The Group assessed its business model for equity securities within the Group's portfolio and identified certain equity securities which are managed separately and actively traded for capital gains. These securities which were previously classified as available for sale are reclassified to FVTPL under IFRS 9.

Floating rate mortgages being held to receive contractual cash flows, which were previously classified as fair value through income, have been reclassified as amortised cost as mandated by IFRS 9. During 2018, these assets generated interest revenue of $1,186 which approximates the interest revenue which would have been generated had they not been reclassified.

9.5 2008 reclassification of financial investments accounted for on an IAS 39 basis

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

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

The reclassifications were made because the markets for these securities were considered by management to have become inactive. The following disclosures are in respect of these reclassified assets.

	2017	
	Carrying value	**Fair value**
Government debt securities maturing after September 2018	26,344	35,367
Other debt securities	922	1,239
	27,266	36,606

	2017
Cumulative net fair value gain, beginning of year	5,090
Net fair value gains	3,245
Disposals	(778)
Effect of exchange rate changes	84
Cumulative net fair value gain, end of year	7,641

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

Amounts expressed in US$000

10 REINSURANCE ASSETS

	2018	2017
Reinsurers' share of:		
Actuarial liabilities (note 13.1)	653,722	736,547
Policy benefits payable (note 14.2)	39,085	41,571
Provision for unearned premiums (note 14.3)	14,727	11,561
Other items	7,063	7,712
	714,597	797,391

11 INCOME TAX ASSETS

	2018	2017
Deferred income tax assets (note 33)	27,583	20,477
Income and withholding taxes recoverable	26,782	19,503
	54,365	39,980

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

12 MISCELLANEOUS ASSETS AND RECEIVABLES

	2018	2017
Net defined benefit assets (note 31)	3,538	6,059
Real estate developed or held for resale	13,850	12,986
Prepaid and deferred expenses (ii)	26,495	22,885
Premiums receivable	51,633	53,446
Legal claim (note 20)	963	70,946
Service contract receivables (i)	1,245	-
Other assets and accounts receivable (i)	45,923	62,221
	143,647	228,543
Amounts due from managed funds included in receivables	6,052	7,892
Amounts expected to be realised within one year included in real estate developed or held for resale	8,779	7,291

(i) Service contract receivables are presented separately in 2018 to conform with IFRS 15.

(ii) Amounts are expected to be realised within one year.

Amounts expressed in US$000

13 ACTUARIAL LIABILITIES

13.1 Analysis of actuarial liabilities

	Gross liability		Reinsurers' share	
	2018	**2017 restated**	**2018**	**2017**
Contracts issued to individuals:				
Life insurance - participating policies	205,566	238,695	65	51
Life insurance and annuity - non-participating policies	2,057,098	1,965,774	638,201	719,494
Health insurance	14,760	13,189	350	433
Unit linked funds	241,690	219,533	-	-
Reinsurance contracts held	34,699	30,121	-	-
	2,553,813	2,467,312	638,616	719,978
Contracts issued to groups:				
Life insurance	26,406	32,057	111	79
Annuities	414,253	411,259	14,854	16,418
Health insurance	29,992	34,072	141	72
	470,651	477,388	15,106	16,569
Total actuarial liabilities	3,024,464	2,944,700	653,722	736,547

The following notes are in respect of the foregoing table:

- Life insurance includes coverage for disability and critical illness.
- Actuarial liabilities include $71,840 (2017 - $83,277) in assumed reinsurance.
- The liability for reinsurance contracts held occurs because the reinsurance premium costs exceed the mortality costs assumed in determining the gross liability of a policy contract.

13.2 Movement in actuarial liabilities

	Gross liability		Reinsurers' share	
	2018	**2017**	**2018**	**2017**
Balance, beginning of year:				
As reported previously	2,950,820	2,776,362	736,547	713,252
Prior year adjustment (note 13.2a)	(6,120)	(4,538)	-	-
Balance, beginning of year as restated	2,944,700	2,771,824	736,547	713,252
Changes in actuarial liabilities:				
Recorded in income (note 27)	91,568	144,325	(82,857)	23,329
Recorded in OCI	(48,181)	19,213	-	-
Assumed on acquisition of portfolio (note 13.2 b)	42,865	-	-	-
Other movements	3,153	(227)	31	2
Effect of exchange rate changes	(9,641)	9,565	1	(36)
Balance, end of year	3,024,464	2,944,700	653,722	736,547
Analysis of changes in actuarial liabilities				
Arising from increments and decrements of inforce policies and from the issuance of new policies	216,074	171,071	(85,599)	18,089
Arising from changes in assumptions for mortality, lapse, expenses, investment yields and asset default	(155,551)	(40,903)	(6,323)	-
Other changes:				
Actuarial modelling, refinements and improvements	(11,831)	1,917	-	-
Other items	(5,305)	31,453	9,065	5,240
Total	43,387	163,538	(82,857)	23,329

Amounts expressed in US$000

13.2 Movement in actuarial liabilities (continued)

(a) Change in Actuarial Reserving Practice

Effective January 1, 2018 the Group implemented a policy to harmonise its actuarial reserving practices across operational segments for the purposes of group reporting. This voluntary change in policy was reflected as a prior period adjustment in accordance with IAS 8. In addition, a detailed review of Sagicor USA's actuarial model was completed which concluded that the model inputs were generally appropriate; however, certain items were identified which have been treated as errors and prior periods have been adjusted accordingly. The Sagicor Jamaica's adjustment reduced actuarial liabilities by $7,815 and Sagicor USA's adjustment increased the liability by $3,277 for the year ended December 31, 2016. For the year ended December 31, 2017, The Sagicor Jamaica's adjustment reduced actuarial liabilities by $9,070 and Sagicor USA's adjustment increased the liability by $2,950 (note 50).

(b) Acquisition of insurance portfolio

During the year, qualifying life insurance and annuity policies of British American Insurance Company (Barbados) Limited (BAICO) were transferred to Sagicor Life Inc. BAICO was under the management of a judicial manager and the transfer was approved by the Supreme Court of Barbados. The portfolio consisted of 11,259 of individual life and annuity insurance policies in Barbados. The acquisition has been accounted for as a portfolio acquisition and the effects of the transaction are summarized below. Given the distressed nature of the portfolio the Group was able to negotiate assets to be transferred in excess of the liabilities assumed. Accordingly, the excess assets has been treated as a gain in the income statement.

	Fair value
Financial investments	49,688
Other assets	-
Total assets	49,688
Actuarial liabilities	42,865
Other policy liabilities	405
Total liabilities	43,270
Net assets acquired	6,418
Consideration	-
Gain on acquisition	6,418

13.3 Assumptions – life insurance and annuity contracts

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

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

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

(b) Assumptions for mortality and morbidity

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

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

Assumptions for morbidity are determined after reflecting insurer and industry experience.

(c) Assumptions for lapse

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

Amounts expressed in US$000

13.3 Assumptions – life insurance and annuity contracts (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 over time, and it is assumed that at the end of twenty years from the valuation date, all investments, except policy loans, are reinvested in long-term, default free government bonds.

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

Ultimate rate of return	2018	2017
Barbados	7.50%	7.00%
Jamaica	6.00%	6.00%
Trinidad & Tobago	5.00%	5.00%
Other Caribbean	4.50% - 7.00%	4.50% - 7.00%
USA	0.85% - 3.60%	0.85% - 3.65%

(e) Assumptions for operating expenses and taxes

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

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

13.3 Assumptions – life insurance and annuity contracts (continued)

(f) Margins for adverse deviations

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

Provisions for adverse deviations	2018	2017
Mortality and morbidity	103,650	96,090
Lapse	78,453	69,365
Investment yields and asset default	62,363	68,930
Operating expenses and taxes	11,042	10,807
Other	11,093	10,765
	266,601	255,957

13.4 Assumptions – health insurance contracts

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

Amounts expressed in US$000

14 OTHER INSURANCE LIABILITIES

14.1 Analysis of other insurance liabilities

	2018	2017
Dividends on deposit and other policy balances	62,979	63,744
Policy benefits payable	140,163	127,801
Provision for unearned premiums	44,435	32,614
	247,577	224,159

14.2 Policy benefits payable

	Gross liability		Reinsurers' share	
	2018	2017	2018	2017
Analysis of policy benefits payable:				
Life insurance and annuity benefits	99,332	86,562	24,526	22,809
Health claims	4,677	4,280	1,552	2,122
Property and casualty claims	36,154	36,959	13,007	16,640
	140,163	127,801	39,085	41,571

14.2 Policy benefits payable (continued)

	Gross liability		Reinsurers' share	
	2018	2017	2018	2017
Movement for the year:				
Balance, beginning of year	127,801	107,219	41,571	35,994
Subsidiary and insurance portfolio acquisitions	6,122	-	2,331	-
Policy benefits incurred	644,757	581,238	109,375	101,671
Policy benefits paid	(637,981)	(559,981)	(115,144)	(94,673)
Effect of exchange rate changes	(536)	(675)	952	(1,421)
Balance, end of year	140,163	127,801	39,085	41,571

14.3 Provision for unearned premiums

	Gross liability		Reinsurers' share	
	2018	2017	2018	2017
Analysis of the provision:				
Property and casualty insurance	36,115	32,177	14,727	11,561
Health insurance	8,320	437	-	-
	44,435	32,614	14,727	11,561

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

Amounts expressed in US$000

14.3 Provision for unearned premiums (continued)

	Gross liability		Reinsurers' share	
	2018	2017	2018	2017
Movement for the year:				
Balance, beginning of year	32,614	34,184	11,561	21,775
Subsidiary and insurance portfolio acquisitions	3,489	-	1,502	-
Premiums written	87,102	74,305	36,844	29,676
Premium revenue	(78,739)	(74,619)	(36,176)	(38,388)
Effect of exchange rate changes	(31)	(1,256)	996	(1,502)
Balance, end of year	44,435	32,614	14,727	11,561

15 INVESTMENT CONTRACT LIABILITIES

	2018		2017	
	Carrying value	Fair value	Carrying value	Fair value
At amortised cost:				
Deposit administration liabilities	110,585	110,585	121,483	121,483
Other investment contracts	130,670	130,669	117,782	119,915
	241,255	241,254	239,265	241,398
At fair value through income:				
Unit linked deposit administration liabilities	149,142	149,142	139,753	139,753
	390,397	390,396	379,018	381,151

16 NOTES AND LOANS PAYABLE

	2018		2017	
	Carrying value	Fair value	Carrying value	Fair value
8.875% senior notes due 2022	318,910	334,625	317,028	364,131
8.25% convertible redeemable preference shares due 2020 (b)	11,115	11,105	11,310	11,887
7.75% convertible redeemable preference shares due 2018 (b)	-	-	5,181	5,433
4.85% notes due 2019 (a)	75,039	74,124	74,929	76,199
Mortgage Loans (c)	76,952	76,952	-	-
Bank loans & other funding instruments	8,259	8,259	5,357	5,357
	490,275	505,065	413,805	463,007

(a) On March 21, 2016, the Company issued fourteen-month notes with a par value of $75 million which were repayable in 2017 and carried a 5.0% annual rate of interest. Effective December 20, 2016, the notes were extended at an annual rate of interest of 4.85% with a maturity date of August 14, 2019. Financial covenants in respect of these notes are summarised in Note 46.3 (b).

(b) On March 2, 2017, Sagicor Bank Jamaica Limited issued:

i. Cumulative redeemable preference shares with a tenor of three (3) years at 8.25% interest per annum.

ii. Cumulative redeemable preference shares with a tenor of eighteen (18) months at 7.75% interest per annum.

Amounts expressed in US$000

16 Notes and loans payable (continued)

(c) Mortgage Loans

	2018
4.90% mortgage notes due 2025	46,527
3.75% mortgage notes due 2019	1,496
4.75% mortgage notes due 2021	2,055
5.00% mortgage notes due 2020	4,245
9.00% mortgage notes due 2048	3,735
8.75% mortgage notes due 2020	10,624
9.00% mortgage notes due 2021	3,530
9.00% mortgage notes due 2026	3,704
7.00% mortgage notes due 2026	1,036
	76,952

17 DEPOSIT AND SECURITY LIABILITIES

	2018		2017	
	Carrying value	Fair value	Carrying value	Fair value
At amortised cost:				
Other funding instruments	461,572	462,223	279,874	284,980
Customer deposits	721,634	726,136	750,948	749,834
Securities sold for re-purchase	423,772	423,790	476,034	473,771
Bank overdrafts	2,158	2,158	2,568	2,568
	1,609,136	1,614,307	1,509,424	1,511,153
At fair value through income:				
Structured products	64,650	64,650	47,576	47,576
Derivative financial instruments (note 41.6)	247	247	2,232	2,232
	64,897	64,897	49,808	49,808
	1,674,033	1,679,204	1,559,232	1,560,961

17 Deposit and security liabilities (continued)

Other funding instruments consist of loans from banks and other financial institutions and include balances of $315,250 (2017 - $148,583) due to the Federal Home Loan Bank of Dallas (FHLB). The Group participates in the FHLB program in which funds received from the Bank are invested in mortgages and mortgage backed securities.

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

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

18 PROVISIONS

	2018	2017
Net defined benefit liabilities (note 31)	67,522	77,110
Cash settled share-based payment liabilities (1)	6,627	2,823
Other provisions	138	94
	74,287	80,027

(1) As of March 31, 2017, certain options are recorded using the cash-settled method of accounting. This resulted in a transfer of $4,873 from reserves to provisions at that date.

Amounts expressed in US$000

19 INCOME TAX LIABILITIES

	2018	2017 restated
Deferred income tax liabilities (note 33)	28,958	24,472
Income taxes payable	19,278	5,030
	48,236	29,502

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

20 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2018	2017
Amounts due to policyholders	54,470	22,385
Amounts due to reinsurers	9,364	22,590
Legal claim (i)	963	70,946
Service contract payables (ii)	1,254	-
Other accounts payable and accrued liabilities	174,643	131,055
	240,694	246,976

(i) On March 17, 2014 the Supreme Court of Jamaica granted judgement in favour of a claimant in a case brought against Sagicor Bank Jamaica Limited (formerly RBC Royal Bank Jamaica Limited). This claim pre-dated the acquisition of the Bank by Sagicor Group Jamaica Limited, and also pre-dated the acquisition of control of the Bank by RBTT from Finsac Limited ("Finsac") in 2001.

20 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (continued)

By virtue of the Share Sale Agreement entered into between Finsac, RBTT Financial Holdings Limited and RBTT International Limited, Finsac agreed to fully indemnify RBTT International Limited against any loss the bank may suffer in this matter. As the current owner of Sagicor Bank Jamaica Limited, Sagicor Group, is the current beneficiary of the Indemnity. The Indemnity from Finsac is further supported by a Government of Jamaica Guarantee on a full indemnity basis.

Sagicor appealed the Supreme Court decision and judgment was delivered on July 31, 2018 which ruled that the award previously awarded to the Claimant be reduced with costs to the Claimant subject to an accounting exercise to determine the apportionment of costs between the parties. This reduced award took into account lower interest rates applying simple interest rather than compounding interest. The issue of costs remains to be determined by the courts following a subsequent application to amend the judgment which was delivered in January 2019. An appeal to the Privy Council on this matter by the Claimant is pending.

The amount previously awarded to the Claimant was recorded as payable to the claimant plus accrued interest and a corresponding receivable from Finsac/Government of Jamaica was recorded.

(ii) Service contract payables are presented separately in 2018 totals in conformity with IFRS 15.

Amounts expressed in US$000

21 COMMON SHARES

The Company is authorised to issue 650,000,000 common shares and 320,000,000 convertible redeemable preference shares. In each case the shares have a par value of US$0.01.
The common shares issued are as follows:

	2018				2017			
	Number in 000's	Share capital	Share premium	Total	Number in 000's	Share capital	Share premium	Total
Issued and fully paid:								
Balance, beginning of year	306,556	3,066	301,132	304,198	304,494	3,045	299,111	302,156
Allotments arising from LTI	-	-	-	-	2,062	21	2,021	2,042
Balance, end of year	306,556	3,066	301,132	304,198	306,556	3,066	301,132	304,198
Treasury shares:								
Shares held for LTI and ESOP, end of year (note 30.1)	(441)	(5)	(467)	(472)	(673)	(7)	(662)	(669)
Total	306,115	3,061	300,665	303,726	305,883	3,059	300,470	303,529

Common share dividends declared, paid and proposed are set out in the following table.

	2018		2017	
	Per share	Total	Per share	Total
Dividends declared and paid during the year	5.0¢	15,300	5.0¢	15,216
Final dividend proposed for the current year and payable in the next year	2.5 ¢	7,664	2.5 ¢	7,664

Restrictions on common share dividends

The Company's constitutive documents included the following limitation on the payment of common share dividends. The Company shall not pay any dividends on its common shares, in respect of the 2011 financial year or thereafter, or repurchase any of its common shares, other than a repurchase pursuant to the LTI plan and ESOP, if the cumulative amount of such dividends and repurchases after July 31, 2011 would exceed 50% of the cumulative amount of Group net income from January 1, 2011. This requirement was repealed on June 16, 2017.

Amounts expressed in US$000

22 RESERVES

	<<<<<<<<<<<<< Fair value reserves >>>>>>>>>>>>						
	Owner occupied property	FVOCI assets	Available for sale assets	Actuarial liabilities	Currency translation reserves	Other reserves	Total reserves
2018							
Balance, December 31, 2017 as reported previously	25,153		29,737	(23,279)	(109,830)	30,737	(47,482)
Prior year adjustment to actuarial liabilities	-		4,677	(4,680)	105	(8)	94
Balance, December 31, 2017 as restated	25,153		34,414	(27,959)	(109,725)	30,729	(47,388)
Transition adjustment on adoption of IFRS 9 (note 50)		30,407	(34,577)	5,423	(105)	(1,365)	(217)
Balance, January 1, 2018	25,153	30,407	(163)	(22,536)	(109,830)	29,364	(47,605)
Other comprehensive income from continuing operations allocated to reserves	3,655	(58,063)		31,897	(7,123)	-	(29,634)
Transactions with holders of equity instruments:	-	-		-	-	-	
Allocated to reserve for equity compensation benefits	-	-		-	-	4,428	4,428
Eliminated from reserve for equity compensation benefits	-	-		-	-	(5,215)	(5,215)
Disposal of interest in subsidiaries	-	-	-	-	-	(935)	(935)
Transfers to retained earnings and other movements	(5,645)	131	163	1	-	7,316	1,966
Balance, December 31, 2018	23,163	(27,525)	-	9,362	(116,953)	34,958	(76,995)

Amounts expressed in US$000

22 RESERVES (continued)

	<<<<<< Fair value reserves >>>>>>					
	Owner occupied property	Available for sale assets	Actuarial liabilities	Currency translation reserves	Other reserves	Total reserves
2017						
Balance, December 31, 2017 as reported previously	27,184	(6,111)	(6,735)	(114,480)	35,347	(64,795)
Prior year adjustment to actuarial liabilities	-	-	(3)	-	-	(3)
Balance, December 31, 2017 as restated	27,184	(6,111)	(6,738)	(114,480)	35,347	(64,798)
Other comprehensive income from continuing operations allocated to reserves	(2,132)	40,135	(21,221)	4,755	-	21,537
Transactions with holders of equity instruments:						
Allocated to reserve for equity compensation benefits	-	-	-	-	5,039	5,039
Eliminated from reserve for equity compensation benefits	-	-	-	-	(11,309)	(11,309)
Transfers to retained earnings and other movements	101	390	-	-	1,652	2,143
Balance, December 31, 2017 as restated	25,153	34,414	(27,959)	(109,725)	30,729	(47,388)

Amounts expressed in US$000

23 PARTICIPATING ACCOUNTS

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

	Closed participating account		Open participating account	
	2018	2017	2018	2017
Movement for the year:				
Balance, beginning of year	(1,547)	(1,281)	2,412	2,572
Transition adjustment on adoption of IFRS 9 (note 50)	(1,046)	-	(1,884)	-
Balance, beginning of year as restated	(2,593)	(1,281)	528	2,572
Total comprehensive income / (loss)	5,367	(266)	989	56
Return of transfer to support profit distribution, to shareholders	-	-	(213)	(216)
Balance, end of year	2,774	(1,547)	1,304	2,412
Financial statement amounts:				
Assets	74,061	80,559	172,179	196,995
Liabilities	71,286	82,106	170,876	194,583
Revenues	3,339	7,129	2,393	23,552
Benefits	(2,272)	6,786	(108)	22,303
Expenses	162	414	147	1,474
Income taxes	109	131	472	617

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

24 PREMIUM REVENUE

	Gross premium		Ceded to reinsurers	
	2018	2017	2018	2017
Life insurance	442,629	419,085	30,580	29,833
Annuity	455,927	257,940	15,874	79,567
Health insurance	172,830	154,015	4,758	4,934
Property and casualty insurance	70,043	67,314	36,176	38,388
	1,141,429	898,354	87,388	152,722

Amounts expressed in US$000

25 NET INVESTMENT INCOME

	2018
Income from financial investments measured on an IFRS 9 basis	
Interest income:	
Debt securities	84,477
Mortgage loans	20,780
Policy loans	10,003
Finance loans and finance leases	58,308
Securities purchased for resale	853
Deposits, cash and other items	3,089
	177,510
Interest Income (FVOCI):	
Debt Securities	113,478
FVTPL investments:	
Fair value changes and interest income from debt securities	(898)
Fair value changes and dividend income from equity securities	15,869
Fair value changes and interest income from mortgage securities	930
Other items	8
	306,897

25 NET INVESTMENT INCOME (continued)

	2018	2017
Income from financial investments measured on an IFRS 9 basis	306,897	
Investment income		
Other income measured on an IFRS 9 basis	(10,594)	
Income from financial investments measured on an IAS 39 basis:		
Interest income		294,741
Dividend income		3,790
Net investment gains		78,341
Investment property income and fair value gains / (losses)	5,531	3,939
Share of operating income of associates and joint venture	2,145	9,849
Other investment income	370	300
	304,349	390,960
Investment expenses:		
Allowances for impairment losses (IAS 39 basis)		8,361
Direct operating expenses of investment property	6,042	1,964
Other direct investment expenses	2,342	1,399
	8,384	11,724
Net investment income	295,965	379,236

Amounts expressed in US$000

25 NET INVESTMENT INCOME (continued)

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

	2017
Interest income:	
Debt securities	204,037
Mortgage loans	18,675
Policy loans	9,678
Finance loans and finance leases	58,686
Securities purchased for re-sale	542
Deposits	2,865
Other balances	258
	294,741
Net investment gains / (losses):	
Debt securities	28,741
Equity securities	27,939
Other financial instruments	21,661
	78,341

25 NET INVESTMENT INCOME (continued)

Investments measured on an IAS 39 basis

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

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

Amounts expressed in US$000

26 FEES AND OTHER REVENUE

	Other Revenue	Revenue from contracts with customers (IFRS 15) Products transferred at a point in time	Products and services transferred over time	2018	2017
Service contract revenue	2,851	37,542	39,236	79,629	-
Fee income – assets under administration	3,045	-	-	3,045	29,179
Fee income – deposit administration and policy funds	-	-	-	-	2,000
Commission income on reinsurance contracts	91	-	-	91	9,530
Other fees and commission income	5,471	4,427	5,168	15,066	33,558
Foreign exchange losses	(3,037)	-	-	(3,037)	(4,178)
Hotel revenue	-	2,600	7,102	9,702	-
Other operating and miscellaneous income	9,654	332	-	9,986	23,651
	18,075	44,901	51,506	114,482	93,740

Amounts expressed in US$000

27 POLICY BENEFITS AND CHANGE IN ACTUARIAL LIABILITIES

	Gross benefit		Ceded to reinsurers	
	2018	2017 restated	2018	2017 restated
Life insurance benefits	236,966	215,472	16,542	13,976
Annuity benefits	242,387	203,072	70,182	61,327
Health insurance claims	131,713	118,848	4,954	5,254
Property and casualty claims	25,726	37,603	6,734	10,953
Total policy benefits	636,792	574,995	98,412	91,510
Change in actuarial liabilities (note 13.2)	91,568	144,325	(82,857)	23,329
Total policy benefits and change in actuarial liabilities	728,360	719,320	15,555	114,839

28 INTEREST COSTS

Financial liabilities measured on an IFRS 9 basis	2018
Interest expense for amortised cost financial liabilities:	
Investment contracts	9,567
Other funding instruments	8,561
Customer deposits	11,805
Securities sold for re-purchase	12,019
Insurance contracts and other items	1,715
	43,667
Fair value changes and interest expense for FVTPL financial liabilities	8,854
Total interest costs	52,521

28 INTEREST COSTS (continued)

Financial liabilities measured on an IAS 39 basis	2017
Interest expense:	
Investment contracts	15,796
Other funding instruments	6,514
Customer deposits	16,535
Securities sold for re-purchase	14,245
Insurance contracts and other items	1,859
Total interest expense	54,949

Financial liabilities measured on an IAS 39 basis

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

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

29 EMPLOYEE COSTS

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

	2018	2017
Administrative staff salaries, directors' fees and short-term benefits	115,911	107,431
Social security and defined contribution retirement costs	10,342	9,553
Equity-settled compensation benefits (note 30.1 to 30.2)	6,404	10,302
Cash-settled compensation benefits (note 30.1)	5,104	(1,182)
Defined benefit expense (note 31 (b))	9,317	13,561
	147,078	139,665

30 EQUITY COMPENSATION BENEFITS

30.1 The Company

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

In 2017, the shareholders of the Company approved the increase in the number of the Company's shares reserved for the LTI and ESOP from 26,555,274 common shares to 40,400,000 common shares.

(a) <u>LTI plan – restricted share grants</u>

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

30.1 The Company (continued)

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

	2018		2017	
	Number of grants '000	Weighted average price	Number of grants '000	Weighted average price
Balance, beginning of year	4,719	US$1.02	4,637	US$0.92
Grants issued	2,734	US$1.03	3,366	US$1.13
Grants vested	(4,520)	US$1.01	(3,054)	US$1.00
Grants lapsed/forfeited	(95)	US$0.97	(230)	US$0.96
Balance, end of year	2,838	US$1.04	4,719	US$1.02

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

	2018		2017	
	Number in 000's	$000	Number in 000's	$000
Balance, beginning of year	171	206	1	3
Shares acquired	-	-	170	203
Balance, end of year	171	206	171	206

During 2018 a cash settlement was made in lieu of share issue.

30.1 The Company (continued)

(b) LTI plan – share options

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

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

	2018		2017	
	Number of options '000	Weighted average exercise price	Number of options '000	Weighted average exercise price
Balance, beginning of year	18,687	US$1.25	19,800	US$1.30
Options granted	4,382	US$1.13	4,873	US$1.00
Options exercised	(3,760)	US$0.90	(4,555)	US$1.04
Options lapsed/forfeited	(2,795)	US$1.52	(1,431)	US$1.81
Balance, end of year	16,514	US$1.21	18,687	US$1.25
Exercisable at the end of the year	8,154	US$1.37	8,354	US$1.59
Share price at grant date	US$0.86 - 2.50		US $0.86 - 2.50	
Fair value of options at grant date	US$0.16 – 0.69		US$ 0.16 - 0.69	
Expected volatility	18.3% - 35.8%		18.3% - 35.8%	
Expected life	7.0 years		7.0 years	
Expected dividend yield	2.6% - 4.7%		2.6% - 4.7%	
Risk-free interest rate	4.5% - 6.8%		4.8% - 6.8%	

30.1 The Company (continued)

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

As disclosed in Note 18, share options which were previously settled in the Company's shares are now cash-settled.

(c) ESOP

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

	2018		2017	
	Number in 000's	$000	Number in 000's	$000
Balance, beginning of year	502	463	1,645	2,074
Shares acquired	76	84	-	-
Shares distributed	(308)	(281)	(1,143)	(1,611)
Balance, end of year	270	266	502	463

Amounts expressed in US$000

30.2 Sagicor Group Jamaica Limited

(a) Long-term incentive plan

Sagicor Group Jamaica Limited offers stock grants and stock options to senior executives as part of its long-term incentive plan. The group has set aside 150,000,000 of its authorised but un-issued shares at no par value for the stock grants and stock options.

In January 2007, the group introduced a new Long Term Incentive (LTI) plan which replaced the previous Stock Option plan. Under the LTI plan, executives are entitled but not obliged to purchase the group stock at a pre-specified price at some future date. The options are granted each year on the date of the Board of Directors Human Resources Committee meeting following the performance year at which the stock option awards are approved. Stock options vest in 4 equal installments beginning the first December 31 following the grant date and for the next three December 31 dates thereafter (25% per year). Options are not exercisable after the expiration of 7 years from the date of grant. The number of stock options in each stock option award is calculated based on the LTI opportunity via stock options (percentage of applicable salary) divided by the Black-Scholes value of a stock option of Sagicor Group Jamaica Limited stock on 31 March of the measurement year. The exercise price of the options is the closing bid price on 31 March of the measurement year.

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

	2018		2017	
	Number of options '000	Weighted average exercise price	Number of options '000	Weighted average exercise price
Balance, beginning of year	21,881	J$10.61	44,945	J$8.83
Options granted	2,713	J$34.10	4,580	J$23.65
Options exercised	(8,321)	J$9.55	(24,872)	J$9.66
Options lapsed/forfeited	(1,659)	J$15.75	(2,772)	J$11.41
Balance, end of year	14,614	J$13.60	21,881	J$10.61
Exercisable at the end of the year	9,672	J$12.59	13,820	J$9.72

30.2 Sagicor Group Jamaica Limited (continued)

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

	2018	2017
Fair value of options outstanding	J$24,080,000	J$30,963,000
Share price at grant date	J$7.11 - 34.10	J$6.51 – 23.65
Exercise price	J$7.11 - 34.10	J$6.51 – 23.65
Standard deviation of expected share price returns	26.0%	25.0%
Remaining contractual term	0.25 - 7 years	0.25 - 7 years
Risk-free interest rate	6.49%	8.70%

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

(b) Employee share purchase plan

Sagicor Group Jamaica Limited 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 $821 (2017 – $1,944).

Amounts expressed in US$000

31 EMPLOYEE RETIREMENT BENEFITS

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

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

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

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

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

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

All disclosures in sections 31 (a) to (d) of this note relate only to defined benefit plans.

31 EMPLOYEE RETIREMENT BENEFITS (continued)

(a) Amounts recognised in the statement of financial position

	2018	2017
Present value of funded pension obligations	283,525	249,357
Fair value of retirement plan assets	(285,172)	(257,893)
	(1,647)	(8,536)
Present value of unfunded pension obligations	43,847	51,656
Present value of unfunded medical and life benefits	21,784	27,931
Net liability	63,984	71,051
Represented by:		
Amounts held on deposit by the Group as deposit administration contracts	66,179	48,921
Other recognised liabilities	1,343	28,189
Total recognised liabilities (note 18)	67,522	77,110
Recognised assets (note 12)	(3,538)	(6,059)
Net liability	63,984	71,051

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

Amounts expressed in US$000

31 EMPLOYEE RETIREMENT BENEFITS (continued)

(b) Movements in balances

	2018				2017			
	Medical and life benefits	Retirement obligations	Retirement plan assets	Total	Medical and life benefits	Retirement obligations	Retirement plan assets	Total
Net liability / (asset), beginning of year	27,931	301,013	(257,893)	71,051	29,099	285,305	(214,502)	99,902
Current service cost	1,415	5,911	-	7,326	1,581	6,680	-	8,261
Interest expense / (income)	2,136	18,945	(19,854)	1,227	2,598	20,581	(17,879)	5,300
Past service cost and gains / losses on settlements	-	764	-	764	-	-	-	-
Net expense recognised in income	3,551	25,620	(19,854)	9,317	4,179	27,261	(17,879)	13,561
(Gains) / losses from changes in assumptions	6,115	9,695	(104)	15,706	7,002	8,885	(702)	15,185
(Gains) / losses from changes in experience	(14,399)	(4,700)	638	(18,461)	(12,479)	(21,032)	(14,928)	(48,439)
Return on plan assets excluding interest income	-	-	4,480	4,480	-	-	828	828
Change in asset ceiling excluding interest expense /(income)	-	-	(400)	(400)	-	-	-	-
Net (gains) / losses recognised in other comprehensive income	(8,284)	4,995	4,614	1,325	(5,477)	(12,147)	(14,802)	(32,426)
Contributions made by the Group	-	-	(8,850)	(8,850)	-	-	(9,971)	(9,971)
Contributions made by employees and retirees	-	6,322	(6,322)	-	-	6,252	(5,765)	487
Benefits paid	(745)	(16,956)	16,528	(1,173)	(612)	(16,371)	14,896	(2,087)
Other items	-	9,917	(17,056)	(7,139)	-	6,241	(5,279)	962
Effect of exchange rate movements	(669)	(3,539)	3,661	(547)	742	4,472	(4,591)	623
Other movements	(1,414)	(4,256)	(12,038)	(17,709)	130	594	(10,710)	(9,986)
Net liability / (asset), end of year	21,784	327,372	(285,172)	63,984	27,931	301,013	(257,893)	71,051

Amounts expressed in US$000

31 EMPLOYEE RETIREMENT BENEFITS (continued)

(c) Retirement plan assets

	2018	2017
Equity unit linked pension funds under Group management:		
Sagicor Equity Fund (Barbados)	(39,216)	(37,407)
Sagicor Bonds Fund (Barbados)	(23,113)	(27,028)
Sagicor Pooled Investment Funds (Jamaica):		
Equity Funds	(63,823)	(56,240)
Mortgage & Real Estate Fund	(35,757)	(29,969)
Fixed Income Fund	(16,347)	(15,864)
Foreign Currency Funds	(23,030)	(23,576)
Money Market Fund	(2,383)	(2,347)
Other Funds	(13,196)	(15,697)
	(216,865)	(208,128)
Other assets	(68,307)	(49,765)
Total plan assets	(285,172)	(257,893)

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

31 EMPLOYEE RETIREMENT BENEFITS (continued)

(d) Significant actuarial assumptions

The significant actuarial assumptions for the principal geographic areas as of December 31, 2018 were as follows:

Pension plans	Barbados & Eastern Caribbean	Jamaica	Trinidad
Discount rate - local currency benefits	7.75%	7.00%	2.00% - 5.00%
Discount rate - US$ indexed benefits	n/a	6.00%	n/a
Expected return on plan assets	7.75%	6% - 7%	5.00%
Future promotional salary increases	0 - 2.00%	7.00%	0 - 2.00%
Future inflationary salary increases	2.00%	3.00%	2.00%
Future pension increases	2.00%	0.50%	0.00%
Future increases in National Insurance Scheme Ceilings	3.50%	n/a	0.00%
Mortality table	UP94 with projection scale AA	American 1994 Group Annuitant Mortality (GAM 94) table with 5 year improvement	UP94 with projection scale AA
Termination of active members	3% - 8.40% up to age 30, reducing to 1 - 2.1% at age 50, 0% at age 51	2% - 5.8% up to age 30, reducing to 3.8% - 5.8% at age 50, 2.7% - 3.8% at age 51	3% up to age 30, reducing to 1% at age 50, 0% at age 51
Early retirement	100% at the earliest possible age to receive unreduced benefits	n/a	100% at the earliest possible age to receive unreduced benefits

Amounts expressed in US$000

31 EMPLOYEE RETIREMENT BENEFITS (continued)

Group medical and life plans	Barbados	Jamaica
Long term increase in health costs	4.25%	5.00%

(e) Sensitivity of actuarial assumptions

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

	Barbados & Eastern Caribbean	Jamaica	Trinidad
Base pension obligation	85,483	184,469	13,679
Change in absolute assumption	**Increase / (decrease) in pension obligations**		
Decrease discount rate by 1.0%	6,063	11,638	1,027
Increase discount rate by 1.0%	(4,745)	(8,906)	(704)
Decrease salary growth rate by 0.5%	(299)	(1,821)	(157)
Increase salary growth rate by 0.5%	313	1,947	196
Increase average life expectancy by 1 year	764	746	292
Decrease average life expectancy by 1 year	(1,070)	(962)	(150)

31 EMPLOYEE RETIREMENT BENEFITS (continued)

(e) Sensitivity of actuarial assumptions

The sensitivity of the medical and life benefits obligations to individual changes in actuarial assumptions is summarised below:

	Jamaica
Base medical and life obligation	21,784
Change in absolute assumption	**Increase / (decrease) in medical and life obligations**
Decrease discount rate by 1.0%	4,147
Increase discount rate by 1.0%	(3,241)
Decrease salary growth rate by 0.5%	(95)
Increase salary growth rate by 0.5%	102
Increase average life expectancy by 1 year	690
Decrease average life expectancy by 1 year	(690)

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

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

For the 2018 financial year, the total Group contributions to its defined benefits pension plans are estimated at $13,153.

Amounts expressed in US$000

32 INCOME TAXES

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

	2018	2017 restated
Current tax:		
Current tax on profits for the year	42,213	32,321
Adjustments to current tax of prior periods	(77)	152
Total current tax expense	42,136	32,473
Deferred tax:		
Decrease/(increase) in deferred tax assets	2,417	523
(Decrease)/increase in deferred tax liabilities	5,774	(13,874)
Total deferred tax expense	8,191	(13,351)
Share of tax of associated companies	375	191
	50,702	19,313

32 INCOME TAXES (continued)

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

	2018	2017 restated
Income before income tax expense	146,523	125,077
Taxation at the applicable rates on income subject to tax	61,406	42,436
Adjustments to current tax for items not subject to / allowed for tax	(29,630)	(29,878)
Other current tax adjustments	(95)	32
Adjustments for current tax of prior periods	162	(478)
Movement in unrecognised deferred tax asset	15,207	15,965
Deferred tax relating to the origination of temporary differences	(84)	(91)
Deferred tax relating to changes in tax rates or new taxes	1,252	(14,171)
Deferred tax that arises from the write down / (reversal of a write down) of a tax asset	(524)	(86)
Tax on distribution of profits from policyholder funds	1,341	1,666
Other taxes	1,667	3,918
	50,702	19,313

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

Amounts expressed in US$000

33 DEFERRED INCOME TAXES

The analysis and movement for the year of deferred tax asset balances are set out in the following table.

	Defined benefit liabilities	Unrealised losses on financial investments	Unused tax losses	Other items	Total
2018					
Balance, beginning of year	7,100	(574)	13,541	410	20,477
Subsidiary acquisitions and disposals					
(Charged)/credited to:					
Income	622	(1,893)	(6,120)	4,974	(2,417)
Other comprehensive income	(1,394)	13,056	-	(2,019)	9,643
Directly to equity	-	-	-	191	191
Amounts assumed on acquisition	34	-	-	-	34
Effect of exchange rate changes	(155)	111	(316)	15	(345)
Balance, end of year	6,207	10,700	7,105	3,571	27,583
Balance to be recovered within one year					1,984
2017					
Balance, beginning of year	13,581	6,918	14,993	787	36,279
(Charged)/credited to:					
Income	1,769	(268)	(1,746)	(278)	(523)
Other comprehensive income	(8,426)	(7,203)	(31)	(110)	(15,770)
Effect of exchange rate changes	176	(21)	325	11	491
Balance, end of year	7,100	(574)	13,541	410	20,477
Balance to be recovered within one year					2,516

33. DEFERRED INCOME TAXES (continued)

Unrecognised tax losses and potential deferred income tax assets are as follows.

	2018	2017
Expiry period for unrecognised tax losses:		
2018	-	23,551
2019	27,571	27,571
2020	24,863	24,863
2021	20,164	20,165
2022	37,435	37,441
2023	30,506	30,579
2024	34,316	33,727
2025	49,116	49,116
2026	55,039	55,038
After 2026	62,370	-
Total unrecognised tax losses	341,380	302,051
Potential deferred income tax assets	19,514	75,517

Amounts expressed in US$000

33 DEFERRED INCOME TAXES (continued)

The analysis and movement for the year of deferred tax liability balances are set out in the following table.

	Accelerated tax depreciation	Policy liabilities taxable in the future	Defined benefit assets	Accrued interest	Unrealised gains on financial investments	Off-settable tax assets relating to unused tax losses and other items	Other Items	Total
2018								
Balance, beginning of year as reported previously	1,666	33,464	334	1,111	15,323	(27,205)	399	25,092
Prior year adjustment to actuarial liabilities	-	(1,033)	-	-	(4,677)	5,090	-	(620)
Balance, beginning of year as restated	1,666	32,431	334	1,111	10,646	(22,115)	399	24,472
Charged/(credited) to:								
Income	104	9,048	-	123	126	(3,642)	15	5,774
Other comprehensive income	-	6,567	37	-	(9,471)	(67)	-	(2,934)
Amounts assumed on acquisition	1,704	-	(46)	(106)	-	373	-	1,925
Effect of exchange rate changes	(368)	-	-	-	1	-	88	(279)
Balance, end of year	3,106	48,046	325	1,128	1,302	(25,451)	502	28,958
Balance to be settled within one year								7,618
2017								
Balance, beginning of year as reported previously	1,640	62,738	343	1,000	6,398	(36,280)	399	36,238
Prior year adjustment to actuarial liabilities	-	(1,147)	-	-	-	-	-	(1,147)
Balance, beginning of year as restated	1,640	61,591	343	1,000	6,398	(36,280)	399	35,091
Charged/(credited) to:								
Profit or Loss	26	(28,099)	(65)	109	(10)	14,165	-	(13,874)
Other comprehensive income	-	(1,061)	56	2	4,256	-	-	3,253
Effect of exchange rate changes	-	-	-	-	2	-	-	2
Balance, end of year as restated	1,666	32,431	334	1,111	10,646	(22,115)	399	24,472
Balance to be settled within one year								6,680

34 EARNINGS PER COMMON SHARE

The basic earnings per common share is computed by dividing earnings attributable to common shareholders by the weighted average number of shares in issue during the year, after deducting treasury shares.

The computation of diluted earnings per common share recognises the dilutive impact of LTI share grants and share options (note 30.1), ESOP shares grants (note 30.1). In computing diluted earnings per share, the weighted average number of common shares is adjusted by the dilutive impacts of the afore-mentioned share grants and options.

	2018	2017 restated	2017 as reported previously
Income attributable to common shareholders	43,650	72,423	72,233
Weighted average number of shares in issue (in thousands)	306,494	304,732	304,732
LTI restricted share grants (in thousands)	3,190	5,492	5,492
ESOP shares (in thousands)	2,141	2,395	2,395
Adjusted weighted average number of shares in issue (in thousands)	311,825	312,619	312,619
Basic earnings per common share	**14.2¢**	**23.8¢**	**23.7¢**
Attributable to continuing operations	11.9¢	20.5¢	20.4¢
Attributable to discontinued operation	2.3¢	3.3¢	3.3¢
Fully diluted earnings per common share	**14.0¢**	**23.2¢**	**23.1¢**
Attributable to continuing operations	11.7¢	20.0¢	19.9¢
Attributable to discontinued operation	2.3¢	3.2¢	3.2¢

Amounts expressed in US$000

35 OTHER COMPREHENSIVE INCOME (OCI)

Schedule to OCI from continuing operations

	2018					2017 restated				
		After tax OCI is attributable to					After tax OCI is attributable to			
	OCI tax impact	Shareholders	Participating policyholders	Non-controlling interests	Total	OCI tax impact	Shareholders	Participating policyholders	Non-controlling interests	Total
Items that may be reclassified subsequently to income:										
FVOCI assets (2018) / Available for sale assets (2017):										
Gains / (losses) arising on revaluation	22,325	(57,961)	(6,436)	(18,467)	(82,864)	(11,327)	48,916	380	13,281	62,577
(Gains) / losses transferred to income	(1,702)	(138)	-	(1,753)	(1,891)	(141)	(8,781)	-	(3,478)	(12,259)
Net change in actuarial liabilities	(6,567)	31,897	5,536	4,181	41,614	1,061	(21,221)	456	2,613	(18,152)
Retranslation of foreign currency operations	-	(7,123)	34	(18,096)	(25,185)	-	4,755	(2)	5,167	9,920
Other	5	-	-	-	-	-	-	-	-	-
	14,061	(33,325)	(866)	(34,135)	(68,326)	(10,407)	23,669	834	17,583	42,086
Items that will not be reclassified subsequently to income:										
Gains / (losses) arising on revaluation of owner-occupied property	695	3,655	-	3,239	6,894	(248)	(2,132)	-	373	(1,759)
Defined benefit gains / (losses)	(1,360)	(3,970)	-	1,285	(2,685)	(8,512)	12,586	-	11,328	23,914
Other items	-	36	-	37	73	-	-	-	-	-
	(665)	(279)	-	4,561	4,282	(8,760)	10,454	-	11,701	22,155
Total OCI movements	13,396	(33,604)	(866)	(29,574)	(64,044)	(19,167)	34,123	834	29,284	64,241
Allocated to equity reserves		(29,634)					21,537			
Allocated to retained earnings		(3,970)					12,586			
		(33,604)					34,123			

Amounts expressed in US$000

36 CASH FLOWS

36.1 Operating activities

	2018	2017 restated
Adjustments for non-cash items, interest and dividends:		
Income from financial investments - IFRS 9 basis	(305,642)	-
Income from financial investments - IAS 39 basis	-	(376,872)
Gain / loss from disposal of interests in subsidiaries and associates	(11,820)	(2,261)
Net increase in actuarial liabilities	174,425	120,996
Gain on acquisition of insurance portfolio	(6,418)	-
Interest cost and finance cost	89,032	89,695
Credit impairment losses	95,519	-
Depreciation and amortisation	24,277	21,871
Increase in provision for unearned premiums	8,655	8,644
Other items	(2,373)	26,078
	65,655	(111,849)
Net increase in investments and operating assets:		
Investment property	2,563	-
Debt securities	(644,838)	7,272
Equity securities	(6,396)	4,324
Mortgage loans	147	(11,538)
Policy loans	(3,704)	(4,386)
Finance loans and finance leases	(62,818)	(34,822)
Securities purchased for re-sale	(5,974)	13
Deposits	9,506	(93,917)
Other assets and receivables	130,961	(24,548)
	(580,553)	(157,602)

36.1 Operating activities (continued)

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

	2018	2017 restated
Investment property:		
Disbursements	(50)	-
Disposal proceeds	2,613	-
	2,563	-
Debt securities:		
Disbursements	(1,679,517)	(1,789,622)
Disposal proceeds	1,034,679	1,796,894
	(644,838)	7,272
Equity securities:		
Disbursements	(56,378)	(36,335)
Disposal proceeds	49,982	40,659
	(6,396)	4,324
Net increase/(decrease) in operating liabilities:		
Insurance liabilities	15,716	13,544
Investment contract liabilities	14,429	(8)
Other funding instruments	186,063	(70,493)
Deposits	81,371	(169,229)
Securities sold for re-purchase	(48,606)	153,100
Other liabilities and payables	(16,957)	27,804
	232,016	(45,282)

Amounts expressed in US$000

36.2 Investing activities

	2018	2017
Property, plant and equipment:		
Purchases	(13,941)	(18,853)
Disposal proceeds	13,615	5,468
	(326)	(13,385)

36.3 Financing activities

	2018	2017
Notes and loans payable:		
Proceeds	1,380	18,146
Repayments	(7,514)	(1,964)
	(6,134)	16,182

36.4 Cash and cash equivalents

	2018	2017
Cash resources	261,899	268,402
Call deposits and other liquid balances	61,820	72,515
Bank overdrafts	(2,158)	(2,568)
	321,561	338,349

37 CHANGES IN SUBSIDIARY AND ASSOCIATE HOLDINGS

37.1 Harmony General Insurance Company Ltd. (HG)

On September 1, 2018 the Sagicor General Insurance Inc. acquired 100% of the shareholding of HG, a property and casualty insurer incorporated and operating in Barbados. The acquisition was by way of legal amalgamation, and the amalgamated entity continuing as Sagicor General Insurance Inc. The summary net assets acquired were as follows:

	Fair Value
Net assets acquired:	
Property, plant and equipment	16
Intangible assets	1,732
Financial investments	4,377
Reinsurance assets	3,833
Income tax assets	34
Miscellaneous assets and receivables	2,584
Cash resources	2,051
Other insurance liabilities	(9,611)
Provisions	(117)
Income taxes	150
Accounts payable and accrued liabilities	(1,695)
Total net assets	3,354
Share of net assets acquired	3,354
Purchase consideration	4,750
Goodwill arising on acquisition (note 8)	1,396

Amounts expressed in US$000

37.1 Harmony General Insurance Company Ltd. (HG) (continued)

The acquisition has been recorded using provisional values which could be subject to adjustment up to September 1, 2019.

The acquiree's net income and total revenue are as follows:

	Total Revenue	Net Income / (Loss)
For the eight months January 1, 2018 to August 31, 2018	4,846	(5,854)

37.2 Globe Finance Inc.

On September 4, 2018 the Sagicor Group divested its 51% holding in Globe Finance Inc.

The net (loss) / income of Globe Finance Inc. for the period to sale in 2018 and for the year ended December 2017 were as follows:

	Period to September 4, 2018	Year to December 31, 2017
Total net (loss) / income from Globe Finance Inc	(2,953)	190
Income attributable to shareholders	(1,772)	114

37.2 Globe Finance Inc. (continued)

The carrying amount of its net assets at sale and the consideration receivable was as follows:

	As of September 4, 2018
Financial investments	71,742
Other assets	23,806
Total assets	95,548
Total liabilities	89,997
Carrying amount of net assets sold	5,551
Total consideration	(5,538)
Loss on sale	13

37.3 Sagicor Real Estate X Fund Limited

In May 2017, the Group acquired an additional 74,100,770 shares in Sagicor Real Estate X Fund Limited, a 3.3% interest. In August 2017, a further 2,500,000 shares, 0.11% holdings, were obtained on settlement of an annuity contact. These acquisitions increased the Sagicor Group Jamaica Limited's holdings to 32.72%.

In October 2017, the Sagicor Group Jamaica Limited reduced its holdings in Sagicor Real Estate X Fund Limited by 3.41% to 29.31% when it sold 76,470,770 shares. This resulted in a $2,261 gain on disposal.

Amounts expressed in US$000

37.3 Sagicor Real Estate X Fund Limited (continued)

Certain events took place on October 1, 2018 which deemed the Group to have taken effective control of Sagicor Real Estate X Fund Limited and its subsidiaries (Sagicor X Fund Group) with its 29.31% interest. As required by IFRS 10 – Consolidation of Financial Statements, the events triggered the accounting for Sagicor X Fund Group to be changed from an associate to a subsidiary, using Step-Acquisition for full consolidation.

Step 1 - The carrying value of the investment in Sagicor X Fund Group on the Group's balance sheet as at September 30, 2018 was compared to the Group's share of the market value of Sagicor X Fund Group using the listed share price (deemed proceeds) along with recycling of accumulated unrealized foreign exchange gains in OCI of the Group relating to Sagicor X Fund Group as an associate. The accumulated unrealized fair value amount for revaluation of the owner-occupied property of the associate in the Group's books was also transferred from OCI to retained earnings.

Step 2 – The Group then recorded the net identifiable assets and liabilities, at fair value, of Sagicor X Fund Group as a subsidiary and compared its share (new deemed proceeds) to the new carrying value of the investment in subsidiary. The non-controlling interest amount was adjusted accordingly.

These transactions gave rise to a net gain on disposal of the associate of $11,832, an identifiable intangible asset of $2, and a goodwill amount of $9,584 on acquisition of the subsidiary in SGJ's books. Computations for the two steps are set out below:

Step 1: Deemed disposal of associate

Net realized gain on the step acquisition:	
Fair value of SGJ's holding in Sagicor X Fund Group as at September 30, 2018	68,684
Carrying value of investment in X Fund as an Associate on Balance Sheet of SGJ as at September 30, 2018	(59,914)
	8,770
Recycle of accumulated unrealized gains from investment in Sagicor X Fund Group as an associate:	
Currency translation reserves	3,062
Total gain on deemed disposal of associate	11,832
Accumulated unrealised revaluation gain for the associate being transferred to retained earnings	5,645

37.3 Sagicor Real Estate X Fund Limited (continued)

The summary net assets acquired were as follows:

	Fair Value
Net assets acquired:	
Investment property (note 5)	16,444
Property, plant and equipment	119,939
Investment in associated companies (note 6)	200,853
Intangible assets (note 8)	2,680
Financial investments	10,005
Miscellaneous assets and receivables	17,821
Cash resources	16,153
Notes and loans payable	(81,228)
Income tax liabilities	(8,439)
Accounts payable and accrued liabilities	(13,867)
Minority interest	(78,719)
Total net assets	201,642
Share of net assets acquired	59,100
Purchase consideration	68,684
Goodwill arising on acquisition (note 8)	9,584

	Total Revenue	Net Income / (Loss)
For the year ended December 31, 2018	56,453	2,878
Consolidated from September 1, 2018 to December 31, 2018	17,541	7,404

Amounts expressed in US$000

37.4 Travel Cash Jamaica Limited

(a) Effective December 1, 2018, the Sagicor Jamaica group acquired 51% of the share capital of Travel Cash Jamaica Limited.

The summary net assets acquired were as follows:

	Fair Value
Net assets acquired:	
Property, plant and equipment	5
Intangible assets (note 8)	1,159
Financial investments	3,054
Deposit and security liabilities	(1,167)
Total net assets	3,051
Share of net assets acquired	1,556
Purchase consideration	3,034
Goodwill arising on acquisition (note 8)	1,478

The acquiree's net income and total revenue are as follows:

	Total Revenue	Net Income / (Loss)
For the year ended December 31, 2018	147	88
Consolidated from December 1, 2018 to December 31, 2018	147	88

37.5 Ownership Changes – Sagicor General Inc

Effective November 23, 2018 Sagicor Life Inc acquired the 45% interest held by Goddard Enterprises Ltd in Sagicor General Inc for a cash payment. The payment made by the company amounted to $12,673 resulting in a transfer to retained earnings of $3,092. The net loss and other movements in equity are disclosed in the consolidation statement of equity.

As a consequence of the transaction the Group increased its total interest in Sagicor General Inc from 53% to 98%.

Amounts expressed in US$000

38 DISCONTINUED OPERATION

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

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

The terms of the sale required the Company to take certain actions and provide certain commitments which included future price adjustments to the consideration up to December 31, 2018, representing adjusted profits or losses from January 1, 2013 in the run-off of the 2011, 2012 and 2013 underwriting years of account of syndicates 1206 and 44, the total price adjustments subject to a limit.

38 DISCONTINUED OPERATION (continued)

Movement in Price Adjustments

	2018	2017
Balance receivable, beginning of year	(10,110)	-
Experience gain	(7,801)	(10,110)
Net currency movements	672	-
Receivable end of year	(17,239)	(10,110)

The price adjustments were subject to a limit based on the terms of the agreement. These results were subject to further underwriting, investment and foreign currency adjustments constrained by the limit as the experience develops.

The net gain / (loss) recognised in the statement of income is as follows.

	2018	2017
Currency translation loss	(672)	-
Movement in price adjustment	7,801	10,110
Net gain and total comprehensive gain	7,129	10,110

On February 12, 2019, Sagicor Financial Corporation Limited completed a review of the consideration, related to the price adjustments to December 31, 2018, and entered into a Deed of Release with AmTrust to close this exposure. The final settlement amount of £13.5 million was received on February 26, 2019.

39 CONTINGENT LIABILITIES

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

	2018	2017
Customer guarantees and letters of credit [1]	35,297	31,235

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

(a) Legal proceedings

The Group is subject to various claims, disputes and legal proceedings, as part of the normal course of business. Provision is made for such matters when, in the opinion of management and its professional advisors, it is probable that a payment will be made by the Group, and the amount can be reasonably estimated.

In respect of claims asserted against the Group which, according to the principles outlined above, have not been provided for, management is of the opinion that such claims are either without merit, can be successfully defended, cannot be reasonably estimated or will result in exposure to the Group which is immaterial to both the financial position and results of operations.

Significant matters are outlined below:

(i) Suit has been filed by a customer against one of the Group's, subsidiaries for breach of contract, and breach of trust in the amount of US$8,928,500, being loss allegedly suffered as a result of what the claimants say is the unlawful withholding of insurance proceeds by the subsidiary. No provision was made in these financial statements for this claim as the outcome of this matter cannot be properly assessed until it has been heard.

CONTINGENT LIABILITIES (continued)

(a) Legal proceedings (continued)

(ii) Suit has been filed by an independent contractor against one of the Group's subsidiaries for breach of contract arising from alleged contractual agreement. The Claimant alleges that the company failed to pursue initiatives contemplated by the contract with a third party and that by not doing so, it caused the Claimant company significant losses which they have estimated at over US$300,000,000. No provision was made in these financial statements for this claim as the claim has been stayed to accommodate arbitration as required under the Agreement between the parties coupled with the assessment by the Group of a probable favorable outcome.

(b) Tax assessments

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

Amounts expressed in US$000

40 FAIR VALUE OF PROPERTY

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

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

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

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

The results of applying the fair value hierarchy to the Group's property as of December 31, 2018 are as follows:

	Level 1	Level 2	Level 3	Total
Investment property	-	-	93,494	93,494
Owner-occupied lands	-	-	35,232	35,232
Owner-occupied land and buildings	-	-	168,371	168,371
	-	-	297,097	297,097

40 FAIR VALUE OF PROPERTY (continued)

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

	Investment property	Owner-occupied property		Total
		Lands	Land and buildings	
Balance, beginning of year	80,816	35,232	78,465	194,513
Additions	50	-	2,516	2,566
Assumed on acquisition	16,444	-	103,183	119,627
Transfers in / (out)	(125)	-	-	(125)
Disposals and divestures	(2,613)	-	(9,286)	(11,899)
Fair value changes recorded in net investment income	(1,090)	-	-	(1,090)
Fair value changes recorded in other comprehensive income	-	-	(226)	(226)
Depreciation	-	-	(1,879)	(1,879)
Effect of exchange rate changes	12	-	(4,402)	(4,390)
Balance, end of year	93,494	35,232	168,371	297,097

41 FINANCIAL RISK

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

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

Disclosures in this note, notes 42 and 43, exclude amounts of the discontinued operation.

41.1 Credit risk

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

Credit risk from financial investments is minimised through

- holding a diversified portfolio of investments,
- purchasing quality securities
- advancing loans only after careful assessment of the borrower and obtaining collateral,
- placing deposits with financial institutions with a strong capital base.
- placing limits on the amount of exposure in relation to any one borrower.

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

Exposure to credit risk is also managed in part by obtaining collateral and guarantees.

41.1 Credit risk (continued)

For mortgage loans, the collateral is real estate property, and the approved loan limit is 75% to 95% of collateral value. For finance loans and finance leases, the collateral often comprises a vehicle or other form of security and the approved loan / lease limit is 50% to 100% of the collateral value. Unsecured finance loans and finance leases are only granted when the initial amount is less than $4,900.

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

Policy loans are advanced on the security of the underlying insurance policy cash values. Cash loans are advanced to a maximum of 80% to 100% of the cash surrender value. Automatic premium loans may be advanced to the extent of available cash surrender value.

<u>Renegotiated assets</u>

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

<u>Rating of financial assets</u>

The Group's credit rating model (note 3.1) applies a rating scale to three categories of exposures:

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

For lending portfolios, the three default ratings of 8, 9 and 10 are utilised, while for investment portfolios and reinsurance assets, one default rating (8) is utilised.

In sections 41.2 and 41.3 below, we set out various credit risks and exposures in accordance of assets measured in accordance with IFRS 9. In section 41.4, we set out risks and exposures of assets measured in accordance with IAS 39.

Amounts expressed in US$000

41.2 Credit risk exposure – financial assets subject to impairment (IFRS 9 basis)

The total credit risk exposure of the Group at year end is summarised in the following table. For assets measured at FVOCI or amortised cost, credit risk exposure is the gross carrying amount. For assets measured at FVTPL, the Group's credit risk exposure is the carrying amount.

	2018	
Investment portfolios:		
Debt securities at FVOCI	2,717,688	
Debt securities at amortised cost	1,100,897	
Securities purchased for resale	7,170	
Deposits at amortised cost	107,527	
Debt securities at FVTPL	198,807	
		4,132,089
Lending portfolios:		
Mortgage loans at amortised cost	339,400	
Finance loans and leases at amortised cost	527,854	
Policy loans at amortised cost	147,156	
Mortgage loans at FVTPL	30,143	
		1,044,553
Cash	358,687	
Reinsurance assets	699,870	
Receivables (premium, accounts and miscellaneous)	99,764	
Derivative financial assets	7,696	
Total financial statement exposures		6,342,659
Lending commitments	62,496	
Customer guarantees and letters of credit	35,297	
Other items	24,580	
Total off financial statement exposures		122,373
Total		6,465,032

41.2 Credit risk exposure – financial assets subject to impairment (IFRS 9 basis) (continued)

The total credit risk exposure by operating segment is as follows:

	Sagicor Life	Sagicor Jamaica	Sagicor USA	Head office & other
Investment portfolios	1,069,108	1,620,107	1,379,293	63,581
Lending portfolios:	368,026	589,819	68,322	18,386
Cash	102,506	187,471	36,208	32,502
Reinsurance assets	5,351	4,611	738,970	12,831
Receivables	20,354	59,474	4,100	33,081
Derivative financial assets	-	247	7,449	0
Total financial statement exposures	1,565,345	2,461,729	2,234,342	160,381
Lending commitments	7,867	54,629	-	-
Customer guarantees and letters of credit	-	35,297	-	-
Other items	1,500	23,080	-	-
Total off financial statement exposures	9,367	113,006	-	-
Total	1,574,712	2,574,735	2,234,342	160,381

The principal individual credit exposures which are included in the foregoing tables are as follows:

	Sagicor Risk Rating	2018
Gov't of Jamaica debt securities	5	913,520
Gov't of Trinidad & Tobago debt securities	3	189,829
Gov't of Barbados debt securities (see 41.3(f))	8	231,521
Federal National Mortgage Association (USA) debt securities	1	127,430
Guggenheim Partners reinsurance asset (see 41.3(e))	2	464,231

41.2 Credit risk exposure – financial assets subject to impairment (IFRS 9 basis) (continued)

Credit risk exposure – financial investments subject to impairment

Financial assets carried at amortised cost or FVOCI are subject to credit impairment losses which are recognised in the statement of income. The following tables analyse the credit risk exposure of financial investments for which an ECL allowance is recognised.

Debt securities – FVOCI

Amounts in US $000	2018					2017
	ECL Staging					
	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL	POCI	Total	2017
December 31:						
Credit grade:						
Investment	2,110,188	18,447	-	-	2,128,635	1,665,004
Non-investment	455,988	78,786	30,812	-	565,586	561,448
Watch	-	-	-	-	-	46,824
Default	-	-	23,467	-	23,467	-
Unrated	-	-	-	-	-	102
Gross carrying amount	2,566,176	97,233	54,279	-	2,717,688	2,273,378
Loss allowance	(1,646)	(8,011)	(19,555)	-	(29,212)	(6,707)
Carrying amount	2,564,530	89,222	34,724	-	2,688,476	2,266,671

41.2 Credit risk exposure – financial assets subject to impairment (IFRS 9 basis) (continued)

Debt securities – amortised cost

Amounts in US $000	2018					2017
	ECL Staging					
	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL	POCI	Total	2017
December 31:						
Credit grade:						
Investment	213,244	-	-	577	213,821	201,894
Non-investment	717,965	8,369	10	149,594	875,938	662,657
Watch	639	3,783	-	5,928	10,350	187,097
Default	-	-	788	-	788	-
Unrated	-	-	-	-	-	35
Gross carrying amount	931,848	12,152	798	156,099	1,100,897	1,051,683
Loss allowance	(1,855)	(1,228)	(161)	(612)	(3,856)	-
Carrying amount	929,993	10,924	637	155,487	1,097,041	1,051,683

41.2 Credit risk exposure – financial assets subject to impairment (IFRS 9 basis) (continued)

Amounts in US $000	Mortgage loans – amortised cost 2018 ECL Staging Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL	POCI	Total	2017
December 31:						
Credit grade:						
Investment	210,885	9,673	28	-	220,586	209,675
Non-investment	86,713	6,861	811	-	94,385	68,156
Watch	48	545	12,597	-	13,190	13,191
Default	-	-	11,239	-	11,239	8,533
Gross carrying amount	297,646	17,079	24,675	-	339,400	299,555
Loss allowance	(625)	(283)	(1,472)	-	(2,380)	(2,616)
Carrying amount	297,021	16,796	23,203	-	337,020	296,939

41.2 Credit risk exposure – financial assets subject to impairment (IFRS 9 basis) (continued)

Amounts in US $000	Policy loans – amortised cost 2018 ECL Staging Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL	POCI	Total	2017
December 31:						
Credit grade:						
Investment	79,658	-	-	-	79,658	80,945
Non-investment	67,498	-	-	-	67,498	61,187
Watch	-	-	-	-	-	-
Default	-	-	-	-	-	-
Gross carrying amount	147,156	-	-	-	147,156	142,132
Loss allowance	(110)	-	-	-	(110)	-
Carrying amount	147,046	-	-	-	147,046	142,132

41.2 Credit risk exposure – financial assets subject to impairment (IFRS 9 basis) (continued)

Amounts in US $000	Finance loans and finance leases – amortised cost					
	2018					
	ECL Staging					
	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL	POCI	Total	2017
December 31:						
Credit grade:						
Investment	1,519	-	-	-	1,519	2,079
Non-investment	495,580	12,291	-	-	507,871	559,384
Watch	-	2,942	-	-	2,942	1,758
Default	-	-	15,522	-	15,522	13,726
Gross carrying amount	497,099	15,233	15,522	-	527,854	576,947
Loss allowance	(4,441)	(1,196)	(7,731)	-	(13,368)	(12,548)
Carrying amount	492,658	14,037	7,791	-	514,486	564,399

41.2 Credit risk exposure – financial assets subject to impairment (IFRS 9 basis) (continued)

Amounts in US $000	Securities purchases for resale – amortised cost					
	2018					
	ECL Staging					
	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL	POCI	Total	2017
December 31:						
Credit grade:						
Investment	-	-	-	-	-	-
Non-investment	7,170	-	-	-	7,170	16,518
Watch	-	-	-	-	-	-
Default	-	-	-	-	-	-
Gross carrying amount	7,170	-	-	-	7,170	16,518
Loss allowance	-	-	-	-	-	-
Carrying amount	7,170	-	-	-	7,170	16,518

41.2 Credit risk exposure – financial assets subject to impairment (IFRS 9 basis) (continued)

Deposits – amortised cost

Amounts in US $000	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL	POCI	Total 2018	2017
December 31:						
Credit grade:						
Investment	72,335	-	-	-	72,335	76,754
Non-investment	34,169	1	-	-	34,170	32,281
Watch	222	370	-	-	592	964
Unrated	430	-	-	-	430	1,405
Gross carrying amount	107,156	371	-	-	107,527	111,404
Loss allowance	(355)	(64)	-	-	(419)	-
Carrying amount	106,801	307	-	-	107,108	111,404

Stages 1–3 are shown under the heading "ECL Staging".

41.3 Credit impairment losses – financial assets subject to impairment (IFRS 9 basis)

The allowance for ECL is recognised in each reporting period and is impacted by a variety of factors, as described below:

- Transfers between stages due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired during the period;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to inputs used in the calculation including the effect of 'step-up' (or 'step down') between 12-month and life-time ECL;
- Impacts on the measurement of ECL due to changes made to models and assumptions; and
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements;

41.3 Credit impairment losses – financial assets subject to impairment (IFRS 9 basis) (continued)

The following tables contain analyses of the movement of loss allowances from January 1, 2018 to December 31, 2018 in respect of financial investments subject to impairment.

	Debt securities – FVOCI					Debt securities – amortised cost				
	2018					2018				
Amounts in US $000	ECL Staging					ECL Staging				
	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL	POCI	Total	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL	POCI	Total
Loss allowance at January 1, 2018	2,780	8,863	95	-	11,738	1,928	8,581	-	917	11,426
Transfers:										
Transfer from Stage 1 to Stage 2	(54)	54	-	-	-	-				
Transfer from Stage 1 to Stage 3	(759)	-	759	-	-	(78)	-	78	-	-
Transfer from Stage 2 to Stage 3	-	(1,303)	1,303	-	-	-	(276)	276	-	-
Debt securities originated or purchased	445	259	-	-	704	961	-	-	78	1,039
Debt securities fully derecognised	(581)	(1,832)	(92)	-	(2,505)	(657)	(7,502)	(1,173)	(65)	(9,397)
Changes in models/assumptions used in ECL calculation	(285)	1,288	13,650	-	14,653	4	-	-	-	4
Changes to inputs used in ECL calculation	122	728	3,766	-	4,616	(285)	425	980	(318)	802
Effect of exchange rate changes	(22)	(46)	74	-	6	(18)	-	-	-	(18)
Loss allowance at December 31, 2018	1,646	8,011	19,555	-	29,212	1,855	1,228	161	612	3,856
Credit impairment loss recorded in income					17,697					72,179

41.3 Credit impairment losses – financial assets subject to impairment (IFRS 9 basis) (continued)

Amounts in US $000	Mortgage loans – amortised cost					Finance loans and finance leases - amortised cost				
	2018					2018				
	ECL Staging					ECL Staging				
	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL	POCI	Total	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL	POCI	Total
Loss allowance at January 1, 2018	941	309	1,149	-	2,399	6,113	1,427	8,295	-	15,835
Transfers:										
Transfer from Stage 1 to Stage 2	(274)	274	-	-	-	(248)	248	-	-	-
Transfer from Stage 1 to Stage 3	(630)		630	-	-	(26)	-	26	-	-
Transfer from Stage 2 to Stage 1	101	(101)	-	-	-	332	(332)		-	-
Transfer from Stage 2 to Stage 3	-	(109)	109	-	-	-	(256)	256	-	-
Transfer from Stage 3 to Stage 2	-	10	(10)	-	-	-	11	(11)	-	-
Transfer from Stage 3 to Stage 1	4	-	(4)	-	-	32	-	(32)	-	-
Loans and leases originated or purchased	107	18	85	-	210	1,740	189	1,048	-	2,977
Loans and leases fully derecognised	(140)	(60)	(78)	-	(278)	(2,071)	(735)	(2,611)	-	(5,417)
Write-offs	-	-	-	-	-	-	(1)	-	-	(1)
Changes to inputs used in ECL calculation	516	(56)	(394)	-	66	(1,316)	668	902	-	254
Effect of exchange rate changes	-	(2)	(15)	-	(17)	(115)	(23)	(142)	-	(280)
Loss allowance at December 31, 2018	625	283	1,472	-	2,380	4,441	1,196	7,731	-	13,368
Credit impairment loss recorded in income					726					4,939

41.3 Credit impairment losses – financial assets subject to impairment (IFRS 9 basis) (continued)

Deposits - amortised cost

Amounts in US $000	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL	POCI	Total
	2018				
	ECL Staging				
Loss allowance at January 1, 2018	506	51	-	-	557
Deposits originated or purchased	294	-	-	-	294
Deposits fully derecognised	(387)	-	-	-	(387)
Changes to inputs used in ECL calculation	(58)	13	-	-	(45)
Loss allowance at December 31, 2018	355	64	-	-	419
Credit impairment loss recorded in income					(131)

41.3 Credit impairment losses – financial assets subject to impairment (IFRS 9 basis) (continued)

(a) Economic variable assumptions

Sagicor has selected three economic factors which provide the overall macroeconomic environment in considering forward looking information for base, upside and downside forecasts. These are as follows:

	As of December 31,			As of January 1,		
	2019	**2020**	**2021**	**2018**	**2019**	**2020**
Unemployment rate (USA)						
Base	4.2%	4.3%	4.4%	4.7%	4.5%	4.5%
Upside	4.0%	4.2%	4.3%	4.4%	3.7%	3.8%
Downside	4.4%	4.7%	4.8%	5.2%	5.5%	5.7%
World GDP						
Base	3.7%	3.7%	3.6%	3.7%	3.7%	3.7%
Upside	5.4%	5.4%	5.4%	5.6%	5.6%	5.6%
Downside	2.8%	2.8%	2.7%	2.8%	2.8%	2.85%
WTI Oil Prices/10						
Base	$4.80	$5.05	$5.15	$5.72	$5.42	$5.23
Upside	$9.48	$9.48	$9.48	$1.96	$1.96	$1.96
Downside	$2.95	$3.10	$3.16	$9.52	$9.52	$9.52

Amounts expressed in US$000

41.3 Credit impairment losses – financial assets subject to impairment (IFRS 9 basis) (continued)

Sagicor's lending operations in Barbados, Trinidad, and Jamaica have limited readily available information regarding economic forecasts. Management has examined the information within the market and selected economic drivers that have the best correlation to the portfolio's performance. Economic state is assigned to reflect the driver's impact on ECL.

Barbados	Expected state for the next 12 months	Scenario
Unemployment rate	Base	Negative
	Upside	Stable
	Downside	Negative
GDP growth	Base	Stable
	Upside	Stable
	Downside	Negative

Trinidad & Tobago	Expected state for the next 12 months	Scenario
Unemployment rate	Base	Negative
	Upside	Stable
	Downside	Negative
GDP growth	Base	Stable
	Upside	Positive
	Downside	Negative

Jamaica	Expected state for the next 12 months	Scenario
Interest rate	Base	Positive
	Upside	Positive
	Downside	Stable
Unemployment rate	Base	Positive
	Upside	Positive
	Downside	Stable

41.3 Credit impairment losses – financial assets subject to impairment (IFRS 9 basis) (continued)

(b) Significant increase in credit risk (SICR)

The ECL impact of a SICR for debt securities has been estimated as follows.

SICR criteria (see note 3.1)	Actual threshold applied	Change in threshold	ECL impact of change in threshold
Debt securities	2-notch downgrade since origination	1-notch downgrade since origination	$1,301

The staging for lending products is based primarily on days past due with 30-day used as backstop, thus sensitivity analysis is not performed.

(c) Loss given default (LGD)

The ECL impact of changes in LGD rates is summarised as follows:

Debt securities	LGD		ECL impact of	
	Rate applied	Change in rate	increase in value	decrease in value
Corporate	52%	(- /+ 5) %	1,016	(982)
Sovereign, excluding Barbados and Jamaica	45%	(- /+ 5) %	333	(333)
Sovereign - Barbados, excluding BAICO securities domestic	5%	(- /+ 5) %	181	-
Sovereign - Barbados, external	36%	(- /+ 5) %	2,887	(2,629)
Sovereign - Barbados - BAICO bonds [(1)]	17%	(- /+ 5) %	41	(41)
Sovereign - Jamaica	15%	(- /+ 5) %	236	(236)

Amounts expressed in US$000

41.3 Credit impairment losses – financial assets subject to impairment (IFRS 9 basis) (continued)

(d) Scenario design

The weightings assigned to each economic scenario as at January 1 and December 31, 2018 are set out in the following table.

	Base	Upside	Downside
Sagicor Life portfolios	80%	10%	10%
Sagicor Jamaica portfolios	80%	10%	10%
Sagicor Life USA	80%	10%	10%

Refer to section (f) for Government of Barbados exposures

The results of varying the upside and downside scenarios are as follows.

	Base – 80% Upside – 5% Downside – 15%	**Base – 80% Upside – 15% Downside – 5%**
	Increase in ECL	**Decrease in ECL**
Debt securities,	$277	($277)
Lending products	$190	($189)
Government of Barbados - BAICO bonds [1]	$3	($3)

41.3 Credit impairment losses – financial assets subject to impairment (IFRS 9 basis) (continued)

[1] As part of the acquisition of the British American Insurance Company (BAICO) insurance portfolio (note 13.2), Sagicor received bonds issued by the Government of Barbados of US$46.6 million to support the policyholder liabilities transferred. In order to safeguard the interest of policyholders these bonds were issued with a protective clause in accordance with the sale and purchase agreement approved by the Supreme Court which prevented the Government of Barbados from restructuring these bonds at any time. Accordingly, these bonds have been excluded from the Government of Barbados's restructuring plan, and, have been classified as Stage 1.

41.3 Credit impairment losses – financial assets subject to impairment (IFRS 9 basis) (continued)

The following tables explain the changes in the carrying value between the beginning and the end of the period due to these factors. The gross carrying amounts of investments below represent the Group's maximum exposure to credit risk on these assets.

Debt securities - FVOCI

Amounts in US $000	ECL staging				
	Stage 1	Stage 2	Stage 3	Purchased	
	12-month ECL	Lifetime ECL	Lifetime ECL	credit-impaired	Total
Gross carrying amount as at January 01, 2018	2,061,339	136,393	2,330	-	2,200,062
Transfers:					
Transfer from Stage 1 to Stage 2	(18,305)	18,305	-	-	-
Transfer from Stage 1 to Stage 3	(18,070)	-	18,070	-	-
Transfer from Stage 2 to Stage 3	-	(34,849)	34,849	-	-
New financial assets originated or purchased	946,087	4,591	-	-	950,678
Financial assets fully derecognised during the period	(322,793)	(19,696)	(2,258)	-	(344,747)
Write-offs	(1,791)	-	-	-	(1,791)
Changes in principle and interest	(70,846)	(6,845)	1,191	-	(76,500)
Foreign exchange adjustment	(9,445)	(666)	97	-	(10,014)
Gross carrying amount as at December 31, 2018	**2,566,176**	**97,233**	**54,279**	**-**	**2,717,688**

Debt securities - amortised cost

Amounts in US $000	ECL staging				
	Stage 1	Stage 2	Stage 3	Purchased	
	12-month ECL	Lifetime ECL	Lifetime ECL	credit-impaired	Total
Gross carrying amount as at January 01, 2018	813,354	225,621	-	12,708	1,051,683
Transfers:					
Transfer from Stage 1 to Stage 3	(4,009)	-	4,009	-	-
Transfer from Stage 2 to Stage 3	-	(545)	545	-	-
Transfer from Stage 3 to Stage 2	-	(450)	450	-	-
New financial assets originated or purchased	304,702	(100)	-	150,724	455,326
Financial assets fully derecognised during the period	(122,604)	(208,998)	(4,000)	(7,053)	(342,655)
Changes in principle and interest	(54,663)	(3,375)	(206)	(280)	(58,524)
Foreign exchange adjustment	(4,932)	(1)	-	-	(4,933)
Gross carrying amount as at December 31, 2018	**931,848**	**12,152**	**798**	**156,099**	**1,100,897**

41.3 Credit impairment losses – financial assets subject to impairment (IFRS 9 basis) (continued)

Mortgage loans - amortised cost

Amounts in US $000	ECL staging				
	Stage 1	Stage 2	Stage 3	Purchased	
	12-month ECL	Lifetime ECL	Lifetime ECL	credit-impaired	Total
Gross carrying amount as at January 01, 2018	270,719	17,567	29,934	-	318,220
Transfers:					
Transfer from Stage 1 to Stage 2	(12,297)	12,297	-	-	-
Transfer from Stage 1 to Stage 3	(1,688)	-	1,688	-	-
Transfer from Stage 2 to Stage 1	7,176	(7,176)	-	-	-
Transfer from Stage 2 to Stage 3	-	(3,158)	3,158	-	-
Transfer from Stage 3 to Stage 2	-	688	(688)	-	-
Transfer from Stage 3 to Stage 1	967	-	(967)	-	-
New financial assets originated or purchased	52,606	815	399	-	53,820
Financial assets fully derecognised during the period	(28,472)	(4,730)	(8,334)	-	(41,536)
Write-offs	-	-	(35)	-	(35)
Changes in principle and interest	12,170	550	(242)	-	12,478
Foreign exchange adjustment	(3,535)	226	(238)	-	(3,547)
Gross carrying amount as at December 31, 2018	**297,646**	**17,079**	**24,675**	**-**	**339,400**

Finance loans and finance leases - amortised cost

Amounts in US $000	ECL staging				
	Stage 1	Stage 2	Stage 3	Purchased	
	12-month ECL	Lifetime ECL	Lifetime ECL	credit-impaired	Total
Gross carrying amount as at January 01, 2018	544,414	12,236	19,946	-	576,596
Transfers:					
Transfer from Stage 1 to Stage 2	(15,608)	15,608	-	-	-
Transfer from Stage 1 to Stage 3	(2,196)	-	2,196	-	-
Transfer from Stage 2 to Stage 1	2,058	(2,058)	-	-	-
Transfer from Stage 2 to Stage 3	-	(4,583)	4,583	-	-
Transfer from Stage 3 to Stage 2	-	16	(16)	-	-
Transfer from Stage 3 to Stage 1	48	-	(48)	-	-
New financial assets originated or purchased	200,491	3,411	3,186	-	207,088
Financial assets fully derecognised during the period	(183,391)	(8,480)	(14,241)	-	(206,112)
Write-offs	(26)	(20)	(1)	-	(47)
Changes in principle and interest	(40,726)	(889)	83	-	(41,532)
Foreign exchange adjustment	(7,965)	(8)	(166)	-	(8,139)
Gross carrying amount as at December 31, 2018	**497,099**	**15,233**	**15,522**	**-**	**527,854**

41.3 Credit impairment losses – financial assets subject to impairment (IFRS 9 basis) (continued)

Securities purchased for resale - amortised cost

Amounts in US $000	ECL staging				
	Stage 1	Stage 2	Stage 3	Purchased	
	12-month ECL	Lifetime ECL	Lifetime ECL	credit-impaired	Total
Gross carrying amount as at January 01, 2018	16,518	-	-	-	16,518
Net new financial assets originated or purchased	354,086	-	-	-	354,086
Financial assets fully derecognised during the period	(363,168)	-	-	-	(363,168)
Changes in principle and interest	(17)	-	-	-	(17)
Foreign exchange adjustment	(249)	-	-	-	(249)
Gross carrying amount as at December 31, 2018	**7,170**	**-**	**-**	**-**	**7,170**

Deposits - amortised cost

Amounts in US $000	ECL staging				
	Stage 1	Stage 2	Stage 3	Purchased	
	12-month ECL	Lifetime ECL	Lifetime ECL	credit-impaired	Total
Gross carrying amount as at January 01, 2018	111,034	370	-	-	111,404
New financial assets originated or purchased	60,746	1	-	-	60,747
Financial assets fully derecognised during the period	(52,170)	-	-	-	(52,170)
Changes in principle and interest	(11,426)	-	-	-	(11,426)
Foreign exchange adjustment	(1,028)	-	-	-	(1,028)
Gross carrying amount as at December 31, 2018	**107,156**	**371**	**-**	**-**	**107,527**

Amounts expressed in US$000

41.3 Credit impairment losses – financial assets subject to impairment (IFRS 9 basis) (continued)

(e) Reinsurance asset – Guggenheim Partners

The reinsurance asset held in the name of Guggenheim Partners is secured by assets held in a trust. The excess of the fair value of the trust assets over the reinsurance asset is as follows:

	2018
Fair value of trust assets	574,731
Carrying value of reinsurance asset	(464,231)
	110,500

(f) Government of Barbados debt securities in default

During the month of June 2018, the Government of Barbados (GOB) suspended all payments to creditors of its external commercial debt which is denominated primarily in US dollars. Interest payments due on June 5, 2018 and June 15, 2018 were not made. Principal payments on matured domestic debt which is denominated in Barbados dollars were suspended and debt holders were required to roll-over principal balances.

The announcement of the suspended payments was evidence that the financial assets were credit-impaired and consequently, in June Sagicor re-classified its GOB debt security holdings to Stage 3 with a probability of default of 100%. Some GOB debt instruments were purchased more recently and therefore there were instruments that had not yet experienced a significant increase in credit risk relative to the initial credit risk and moved from Stage 1 to Stage 3 upon the announcement.

On September 7, 2018 the GOB announced its debt restructuring program which is being done in conjunction with the economic recovery plan and an IMF programme. The IMF programme will allow Barbados to reduce its current debt service cost substantially and it is expected that the manageability of the restructured cash flows will improve the credit quality of the instrument offered in the debt exchange.

41.3 Credit impairment losses – financial assets subject to impairment (IFRS 9 basis) (continued)

As at September 30, 2018 the negotiations of the new bond were materially completed and on October 1, 2018 Sagicor signed an agreement with the Government of Barbados which outlined the terms of the debt exchange. In exchange for its debt, the Group has accepted the following securities, the majority of which are series G:

Series G

A 50-year amortising bond which includes a 15-year grace period on principal payments. The interest rates on the bond range from 4% per annum for the first 15 years to 8% for years 26 through 50 with interest capitalisation of 100% for the first five years.

Series C

A 15-year amortising bond with interest rates ranging from 1.0% for the first 3 years to 3.75% for years 5 through to maturity. Interest on these bonds is to be paid quarterly with the first payment due on December 31, 2018. The principal will be repaid in four equal quarterly instalments commencing one year prior to maturity.

Series D

A 35-year amortising bond with interest rates ranging from 1.5% for the first 5 years to 7.5% for years 16 through to maturity. Interest on these bonds is paid quarterly with the first payment due on November 30, 2018. The principal will be repaid in three equal instalments commencing one year prior to maturity with the final payment on August 31, 2053.

External Debt

The restructuring of the external debt is yet to be finalised.

Amounts expressed in US$000

41.3 Credit impairment losses – financial assets subject to impairment (IFRS 9 basis) (continued)

Credit impairment loss and de-recognition of original domestic debt securities

As a result of the debt restructure outlined above, a credit impairment loss has been recognised in the statement of income. In addition, the domestic debt securities were de-recognised since the maturity profile and interest rates of the replacement debt securities were materially different. In November 2018, management derived a yield curve from which the initial fair values of the replacement securities were determined. The yield curve was derived from the Central Bank of Barbados base-line yield curve to which management applied a further risk premium considering

- the GOB credit rating relative to investment grade,
- the potential for further default,
- the lack of liquidity of the debt, and
- the economic uncertainty as Barbados enters a period of severe economic reform and structural adjustment.

The risk premium derived is summarised in the following table.

Years	Spread
0-10	25 bps
11-21	50bps
22-24	75 bps
25-29	100 bps
30-50	150 bps

41.3 Credit impairment losses – financial assets subject to impairment (IFRS 9 basis) (continued)

The replacement debt securities are classified as "originated credit-impaired" (POCI).

The consequential movement in the carrying values of GOB debt for the period referred to above is summarised as follows:

GOB Debt Securities	Domestic debt	External debt	Total
Gross carrying value prior to default	275,805	50,741	326,546
Loss allowance prior to default	(7,890)	(1,645)	(9,535)
Net carrying value prior to default	267,915	49,096	317,011
Accrued interest and other adjustments	2,664	7,975	10,639
Credit impairment loss arising from the default	(75,394)	(16,508)	(91,902)
Carrying value as of October 1, 2018	195,185	40,563	235,748
Accrued interest and other adjustments	1,014		
Domestic debt not included in restructure	(49,765)		
Adjusted carrying value on restructure	146,434		
Fair value on recognition of replacement securities	147,250		
Gain on de-recognition of original securities	816		

41.4 Credit risk – financial investments measured on IAS 39 basis

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

	2017	
	$000	%
Investment portfolios	3,986,428	64.6
Lending portfolios:	1,048,917	17.0
Reinsurance assets	785,830	12.7
Other financial assets	219,090	3.5
Total financial statement exposures	6,040,265	97.8
Lending commitments	78,985	1.3
Customer guarantees and letters of credit	31,235	0.5
Other items	24,902	0.4
Total off financial statement exposures	135,122	2.2
Total	6,175,387	100.0%

41.4 Credit risk – financial investments measured on IAS 39 basis (continued)

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

Risk Rating	Classification	Investment portfolios 2017 Exposure $000	Investment portfolios 2017 Exposure $000	Lending portfolios 2017 Exposure $000	Lending portfolios 2017 Exposure %
1	Minimal risk	329,099	8%	514,455	49%
2	Low risk	459,919	12%	121,435	12%
3	Moderate risk	1,445,870	36%	267,220	25%
4	Acceptable risk	172,175	4%	57,670	5%
5	Average risk	1,242,095	31%	41,651	4%
6	Higher risk	298,546	8%	12,800	1%
7	Special mention	3,335	0%	11,307	1%
8	Substandard	485	0%	4,205	1%
9	Doubtful	n/a	n/a	7,043	1%
10	Loss	n/a	n/a	11,048	1%
TOTAL RATED EXPOSURES		3,951,524	99%	1,048,834	100%
UN-RATED EXPOSURES		34,904	1%	83	0%
TOTAL		3,986,428	100%	1,048,917	100%

Amounts expressed in US$000

41.4 Credit risk – financial investments measured on IAS 39 basis (continued)

The Group's largest exposures to individual counterparty credit risks as of December 31, 2017 are set out below. The individual ratings reflect the rating of the counterparty listed below, while the amounts include exposures with subsidiaries of the counterparty.

	Sagicor Risk Rating	2017
Investment portfolios:		
Government of Jamaica	5	861,252
Government of Trinidad and Tobago	3	265,174
Government of Barbados	6	280,407
The Bank of Nova Scotia	2	56,357
Government of St Lucia	5	71,617
The Federal National Mortgage Association	1	106,882
The Federal Home Loan Mortgage Corporation	1	61,574
Lending portfolios:		
Value Assets International S.A. and Egret Limited	4	29,085
Reinsurance assets:		
Guggenheim Partners (1)	3	531,310

(1) The reinsurance asset held in the name of Guggenheim Partners is secured by assets held in trust totalling $574,135.

41.4 Credit risk – financial investments measured on IAS 39 basis (continued)

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

	2017
Barbados	202,098
Jamaica	519,770
Trinidad & Tobago	154,660
Other Caribbean	106,805
USA	65,584
	1,048,917

(c) Past due and impaired financial assets

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

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

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

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

Amounts expressed in US$000

41.4 Credit risk – financial investments measured on IAS 39 basis (continued)

2017	Debt securities	Mortgage loans	Finance loans & leases
Neither past due nor impaired	3,490,549	291,123	521,860
Past due up to 3 months, but not impaired	7,010	23,255	34,195
Past due up to 12 months, but not impaired	-	3,487	1,598
Past due up to 5 years, but not impaired	-	4,005	-
Past due over 5 years, but not impaired	-	2,257	-
Total past due but not impaired	7,010	33,004	35,793
Impaired assets (net of impairment)	883	18,259	6,746
Total carrying value	3,498,442	342,386	564,399
Accumulated allowances on impaired assets	619	7,390	14,414

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

Amounts expressed in US$000

41.5 Liquidity risk

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

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

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

(a) Insurance liabilities

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

	Expected discounted cash flows			
	Maturing within 1 year	**Maturing 1 to 5 years**	**Maturing after 5 years**	**Total**
2018				
Actuarial liabilities	201,360	769,778	2,053,326	3,024,464
Other insurance liabilities	106,982	44,241	51,919	203,142
Total	308,342	814,019	2,105,245	3, 227,606
2017				
Actuarial liabilities	208,151	696,530	2,040,019	2,944,700
Other insurance liabilities	118,584	20,875	52,086	191,545
Total	326,735	717,405	2,092,105	3,136,245

Amounts expressed in US$000

41.5 Liquidity risk (continued)

(b) Financial liabilities and commitments

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

	2018 - Contractual un-discounted cash flows				2017 - Contractual un-discounted cash flows			
	On demand or within 1 year	1 to 5 years	After 5 years	Total	On demand or within 1 year	1 to 5 years	After 5 years	Total
Financial liabilities:								
Investment contract liabilities	334,537	48,948	15,562	399,047	320,760	53,878	11,154	385,792
Notes and loans payable	114,673	445,239	67,133	627,045	41,034	526,404	-	567,438
Deposit and security liabilities:								
Other funding instruments	402,596	55,505	17,707	475,808	222,353	64,701	17,959	305,013
Customer deposits	695,300	30,054	-	725,354	687,085	71,037	8,706	766,828
Structured products	48,563	17,095	-	65,658	35,009	15,356	-	50,365
Securities sold for re-purchase	424,658	-	-	424,658	477,940	-	-	477,940
Derivative financial instruments	187	60	-	247	2,008	224	-	2,232
Bank overdrafts	2,158	-	-	2,158	2,568	-	-	2,568
Accounts payable and accrued liabilities	237,584	1,898	1,342	240,824	173,720	91,742	1,000	266,462
Total financial liabilities	2,260,256	598,799	101,744	2,960,799	1,962,477	823,342	38,819	2,824,638
Off financial statement commitments:								
Loan commitments	42,630	11,590	8,276	62,496	76,192	981	1,812	78,985
Non-cancellable operating lease and rental payments	4,735	5,737	-	10,472	4,977	8,300	-	13,277
Customer guarantees and letters of credit	20,596	1,064	13,637	35,297	17,765	-	-	17,765
Capital commitments	19,361	-	-	19,361	17,831	1,846	11,558	31,235
Total off financial statement commitments	87,322	18,391	21,913	127,626	116,765	11,127	13,370	141,262
Total	2,347,578	617,190	123,657	3,088,425	2,079,242	834,469	52,189	2,965,900

Amounts expressed in US$000

41.5 Liquidity risk (continued)

(c) Financial and insurance assets

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

	2018 – Contractual or expected discounted cash flows				2017 – Contractual or expected discounted cash flows			
	Maturing within 1 year	Maturing 1 to 5 years	Maturing after 5 years	Total	Maturing within 1 year	Maturing 1 to 5 years	Maturing after 5 years	Total
Debt securities	563,247	652,926	2,713,308	3,929,481	402,939	536,581	2,558,922	3,498,442
Mortgage loans	22,513	41,261	303,389	367,163	16,521	31,886	293,979	342,386
Policy loans	4,585	13,758	128,703	147,046	3,495	14,127	124,510	142,132
Finance loans and finance leases	193,259	243,372	77,855	514,486	125,568	159,581	279,250	564,399
Securities purchased for re-sale	7,170	-	-	7,170	16,518	-	-	16,518
Deposits	105,036	1,033	1,047	107,116	103,248	6,086	2,070	111,404
Derivative financial instruments	7,636	60	-	7,696	32,253	224	-	32,477
Reinsurance assets: share of actuarial liabilities	75,276	260,139	318,307	653,722	95,109	284,649	356,789	736,547
Reinsurance assets: other	45,957	-	191	46,148	49,082	-	201	49,283
Premiums receivable	51,633	-	-	51,633	53,446	-	-	53,446
Other assets and accounts receivable	47,318	-	614	47,932	61,269	71,081	817	133,167
Cash resources	358,687	-	-	358,687	351,967	-	8,097	360,064
Total	1,482,317	1,212,549	3,543,414	6,238,280	1,311,415	1,104,215	3,624,635	6,040,265

41.6 Interest rate risk

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

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

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

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

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

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

41.6 Interest rate risk (continued)

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

Amounts expressed in US$000

41.6 Interest rate risk (continued)

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

	2018					2017				
	Exposure within 1 year	Exposure 1 to 5 years	Exposure after 5 years	Not exposed to interest	Total	Exposure within 1 year	Exposure 1 to 5 years	Exposure after 5 years	Not exposed to interest	Total
Other insurance liabilities	9,310	4,042	50,947	138,843	203,142	7,920	4,756	52,086	126,783	191,545
Investment contract liabilities	333,037	44,274	13,079	7	390,397	319,503	50,194	9,321	-	379,018
Notes and loans payable	96,000	338,234	56,107	(66)	490,275	7,604	406,148	-	53	413,805
Deposit and security liabilities:										
Other funding instruments	439,732	10,905	10,366	569	461,572	211,648	49,773	18,043	410	279,874
Customer deposits	691,337	27,498	-	2,799	721,634	679,555	69,462	-	1,931	750,948
Structured products	47,989	16,661	-	-	64,650	40,578	6,670	-	328	47,576
Securities sold for re-purchase	422,786	-	-	986	423,772	474,579	-	-	1,455	476,034
Derivative financial instruments	187	60	-	-	247	-	-	-	2,232	2,232
Bank overdrafts	2,158	-	-	-	2,158	2,568	-	-	-	2,568
Accounts payable and accrued liabilities	338	964	-	239,392	240,694	1,917	70,946	-	174,113	246,976
Total	2,042,874	442,638	130,499	382,530	2,998,541	1,745,872	657,949	79,450	307,305	2,790,576

Amounts expressed in US$000

41.6 Interest rate risk (continued)

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

	2018					2017				
	Exposure within 1 year	Exposure 1 to 5 years	Exposure after 5 years	Not exposed to interest	Total	Exposure within 1 year	Exposure 1 to 5 years	Exposure after 5 years	Not exposed to interest	Total
Debt securities	621,338	631,971	2,618,873	57,299	3,929,481	626,248	472,660	2,350,813	48,721	3,498,442
Equity securities	-	-	-	267,505	267,505	-	-	-	245,483	245,483
Mortgage loans	57,558	39,711	267,696	2,198	367,163	19,996	36,452	284,703	1,235	342,386
Policy loans	3,713	13,513	125,321	4,499	147,046	2,591	13,855	120,899	4,787	142,132
Finance loans and leases	489,930	17,028	5,383	2,145	514,486	486,854	37,773	38,191	1,581	564,399
Securities purchased for re-sale	7,170	-	-	-	7,170	16,435	-	-	83	16,518
Deposits	104,683	1,098	1,047	288	107,116	108,940	340	1,700	424	111,404
Derivative financial instruments	-	-	-	7,696	7,696	-	-	-	32,477	32,477
Reinsurance assets: other	-	-	191	45,957	46,148	47	-	200	49,036	49,283
Premiums receivable	-	-	-	51,633	51,633	184	-	-	53,262	53,446
Other assets and accounts receivable	2,190	1,066	-	44,875	48,131	4,172	71,170	-	57,825	133,167
Cash resources	152,656	-	-	206,031	358,687	270,267	-	-	89,797	360,064
Total	1,439,238	704,387	3,018,511	690,126	5,852,262	1,535,734	632,250	2,796,506	584,711	5,549,201

Amounts expressed in US$000

41.6 Interest rate risk (continued)

The table below summarises the average interest yields on financial assets and liabilities held during the year.

	2018 – amortised cost & FVOCI instruments	2017 – all instruments
Financial assets:		
Debt securities	5.8%	6.1%
Mortgage loans	6.0%	5.7%
Policy loans	7.2%	7.2%
Finance loans and finance leases	11.4%	11.6%
Securities purchased for re-sale	7.5%	5.1%
Deposits	2.9%	2.3%
Financial liabilities:		
Investment contract liabilities	4.8%	5.6%
Notes and loans payable	8.4%	9.5%
Other funding instruments	2.3%	2.1%
Deposits	1.6%	2.0%
Securities sold for re-purchase	3.4%	3.6%

a) Sensitivity

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

41.6 Interest rate risk (continued)

Sagicor Investments Jamaica Limited and Sagicor Bank Jamaica Limited

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

The sensitivity of income is the effect of the assumed changes in interest rates on income based on floating rate debt securities and financial liabilities. The sensitivity of TCI is calculated by revaluing fixed rate financial assets carried at FVOCI (2017 – available for sale) for the effects of the assumed changes in interest rates. The correlation of a number of variables will have an impact on market risk. It should be noted that movements in these variables are non-linear and are assessed individually.

2018				2017			
Change in interest rate		Effect on net income	Effect on TCI	Change in interest rate		Effect on net income	Effect on TCI
JMD	USD			JMD	USD		
- 1%	- 0.5%	4,713	23,850	- 1%	- 0.5%	8,525	21,297
+1%	+ 0.5%	(4,663)	(21,879)	+1%	+ 0.5%	(8,856)	(19,691)

41.7 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 different currencies.

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

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

41.7 Foreign exchange risk (continued)

2018	US$ 000 equivalents of balances denominated in						
	Barbados $	Jamaica $	Trinidad $	Eastern Caribbean $	US $	Other Currencies	Total
ASSETS							
Financial investments [(1)]	335,070	1,017,543	424,508	145,714	3,026,132	131,191	5,080,158
Reinsurance assets	6,611	3,206	6,132	4,124	679,093	704	699,870
Receivables [(1)]	12,113	50,227	8,926	9,033	14,771	4,694	99,764
Cash resources	9,135	84,474	51,294	9,996	159,566	44,222	358,687
Total monetary assets	362,929	1,155,450	490,860	168,867	3,879,562	180,811	6,238,479
Other assets [(2)]	194,218	360,401	76,096	21,002	419,456	(1,467)	1,069,706
Total assets of continuing operations	557,147	1,515,851	566,956	189,869	4,299,018	179,344	7,308,185
LIABILITIES							
Actuarial liabilities	393,705	362,175	318,810	59,314	1,791,859	98,601	3,024,464
Other insurance liabilities [(1)]	77,959	26,081	33,295	12,545	40,275	12,987	203,142
Investment contracts	32,876	63,615	162,334	48,678	75,558	7,336	390,397
Notes and loans payable	2,698	42,845	-	-	444,732	-	490,275
Deposit and security liabilities	2,236	560,476	1,211	15,111	1,078,395	16,604	1,674,033
Provisions	29,285	24,148	12,443	(592)	2,234	6,769	74,287
Accounts payable and accruals	40,696	92,226	20,529	27,160	55,819	4,264	240,694
Total monetary liabilities	579,455	1,171,566	548,622	162,216	3,488,872	146,561	6,097,292
Other liabilities [(2)]	17,680	17,373	22,974	4,305	28,038	2,301	92,671
Total liabilities of continuing operations	597,135	1,188,939	571,596	166,521	3,516,910	148,862	6,189,963
Net position	(39,988)	326,912	(4,640)	23,348	782,108	30,482	1,118,222

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

41.7 Foreign exchange risk (continued)

2017	US$ 000 equivalents of balances denominated in						
	Barbados $	Jamaica $	Trinidad $	Eastern Caribbean $	US $	Other Currencies	Total
ASSETS							
Financial investments (1)	444,488	942,730	430,696	140,655	2,598,363	150,826	4,707,758
Reinsurance assets	5,037	312	7,564	8,476	762,719	1,722	785,830
Receivables (1)	16,335	124,204	7,858	16,947	15,291	6,003	186,638
Cash resources	30,474	103,260	28,523	16,004	122,939	58,864	360,064
Total monetary assets	496,334	1,170,506	474,641	182,082	3,499,312	217,415	6,040,290
Other assets (2)	203,652	360,583	72,786	20,247	108,991	(2,017)	764,242
Total assets of continuing operations	699,986	1,531,089	547,427	202,329	3,608,303	215,398	6,804,532
LIABILITIES							
Actuarial liabilities	401,388	342,842	337,729	54,441	1,713,101	95,199	2,944,700
Other insurance liabilities (1)	69,223	23,065	30,411	19,796	38,595	10,455	191,545
Investment contracts	34,252	71,648	149,381	44,735	70,084	8,918	379,018
Notes and loans payable	-	16,491	-	-	397,314	-	413,805
Deposit and security liabilities	82,293	547,756	1,348	15,674	895,363	16,798	1,559,232
Provisions	29,424	28,364	12,894	710	1,814	6,821	80,027
Accounts payable and accruals	43,000	133,292	16,855	4,578	42,880	6,371	246,976
Total monetary liabilities	659,580	1,163,458	548,618	139,934	3,159,151	144,562	5,815,303
Other liabilities (2)	14,828	3,040	15,732	4,099	22,174	2,243	62,116
Total liabilities of continuing operations	674,408	1,166,498	564,350	144,033	3,181,325	146,805	5,877,419
Net position	25,578	364,591	(16,923)	58,296	426,978	68,593	927,113

(1) Monetary balances only
(2) Non-monetary balances, income tax balances and retirement plan assets

Amounts expressed in US$000

41.7 Foreign exchange risk (continued)

(a) Sensitivity

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

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

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

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

- Currency risk of reported results of foreign operations

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

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

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

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

41.7 Foreign exchange risk (continued)

JMD currency risk

The effect of a 10% depreciation in the JMD relative to the USD arising from JMD reporting units as of December 31, 2018 and for the year then ended are considered in the following table.

	Amounts denominated in		Total	Effect of a 10%
	JMD	USD	amounts	depreciation
Financial position:				
Assets	1,093,697	755,287	1,848,984	(109,370)
Liabilities	630,115	630,325	1,260,440	(63,011)
Net position	463,582	124,962	588,544	(46,359)
Represented by:				
Currency risk of the Group's investment in foreign operations				(46,359)
Income statement:				
Revenue	409,421	48,383	457,804	(28,557)
Benefits	(211,169)	(9,679)	(220,848)	21,117
Expenses	(150,651)	(7,421)	(158,072)	15,065
Income taxes	4,095	-	4,095	(410)
Net income	51,696	31,283	82,979	7,215
Represented by:				
Currency risk relating to the future cash flows of monetary balances				12,385
Currency risk of reported results of foreign operations				(5,170)
				7,215

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

41.8 Fair value of financial instruments

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

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

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

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

A financial instrument is classified as Level 2 if:

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

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

41.8 Fair value of financial instruments (continued)

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

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

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

A financial instrument is classified as Level 3 if:

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

Level 3 FVOCI (2017 - available for sale) securities include corporate and government agency debt instruments issued in the Caribbean, primarily in Jamaica and Trinidad. The fair values of these instruments have been derived from December 31 market yields of government instruments of similar durations in the country of issue of the instruments. The fair value of FVOCI Government of Barbados debt securities have been determined as set out in note 41.3 (f).

Level 3 assets designated as FVTPL (2017 - fair value through income) include mortgage loans, debt securities and equities for which the full income return and capital returns accrue to holders of unit linked liabilities. These assets are valued with inputs other than observable market data.

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

Amounts expressed in US$000

41.8 Fair value of financial instruments (continued)

(a) Financial instruments carried at fair value

	2018				2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
FVOCI (available for sale) securities:								
Debt securities	646,960	1,986,673	-	2,633,633	653,516	1,610,263	2,496	2,266,275
Equity securities	223	-	48	271	23,314	53,167	10,381	86,862
	647,183	1,986,673	48	2,633,904	676,830	1,663,430	12,877	2,353,137
FVTPL (fair value through income) investments:								
Debt securities	15,949	104,332	78,526	198,807	19,185	62,542	98,757	180,484
Equity securities	32,677	210,290	24,267	267,234	14,269	144,352	-	158,621
Derivative financial instruments	-	247	7,449	7,696	-	2,232	30,245	32,477
Mortgage loans	-	-	30,143	30,143	-	-	45,447	45,447
Deposits	-	8	-	8				
	48,626	314,877	140,385	503,888	33,454	209,126	174,449	417,029
Total assets	695,809	2,301,550	140,433	3,137,792	710,284	1,872,556	187,326	2,770,166
Total assets by percentage	23%	73%	4%	100%	26%	68%	6%	100%
Investment contracts:								
Unit linked deposit administration liabilities	-	-	149,142	149,142	-	-	139,753	139,753
Deposit and security liabilities:								
Structured products	-	-	64,650	64,650	-	-	47,576	47,576
Derivative financial instruments	-	247	-	247	-	2,232	-	2,232
	-	247	64,650	64,897	-	2,232	47,576	49,808
Total liabilities	-	247	213,792	214,039	-	2,232	187,329	189,561
Total liabilities by percentage	0%	0%	100%	100%	0%	1%	99%	100%

Transfers from Level 1 to Level 2 in 2018 - Nil (2017 – Nil). Transfers from Level 2 to Level 1 in 2018 – Nil (2017 - Nil).

Amounts expressed in US$000

41.8 Fair value of financial instruments (continued)

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

	2018				2017	2018			2017
	FVOCI investments	FVTPL investments	Derivative instruments	Total assets	Total assets	Investment contracts	Structured products	Total liabilities	Total liabilities
Balance, beginning of year under IAS 39	12,877	144,204	30,245	187,326	176,342	139,753	47,576	187,329	165,447
Reclassifications on adoption of IFRS 9	(9,365)	(7,822)	-	(17,187)	-	-	-	-	-
Additions	-	43,280	21,837	65,117	78,882	-	-	-	-
Issues	-	-	-	-	-	19,287	58,071	77,358	44,185
Settlements	-	-	-	-	-	(9,903)	(41,979)	(51,882)	(28,256)
Fair value changes recorded in investment income	-	4,069	(11,407)	(7,338)	21,044	-	-	-	-
Fair value changes recorded in interest expense	-	-	-	-	-	(1,121)	-	(1,121)	125
Fair value changes recorded in OCI	-	(75)	-	(75)	(98)	-	-	-	-
Disposals	(3,463)	(54,015)	(33,226)	(90,704)	(87,814)	-	-	-	-
Transfers (out of) Level 3 classification	-	(10)	-	(10)	(16)	-	-	-	-
Transfers to instruments carried at amortised cost	-	-	-	-	-	1,457	2,621	4,078	3,682
Effect of exchange rate changes	(1)	3,305	-	3,304	(1,014)	(331)	(1,639)	(1,970)	2,146
Balance, end of year	48	132,936	7,449	140,433	187,326	149,142	64,650	213,792	187,329
Fair value changes recorded in investment income for instruments held at end of year	-	4,234	(13,980)	(9,746)	11,587	-	-	-	-
Fair value changes recorded in interest expense for instruments held at end of year	-	-	-	-	-	(1,121)	-	(1,121)	125

Amounts expressed in US$000

41.8 Fair value of financial instruments (continued)

(b) Financial instruments carried at amortised cost

The carrying values of the Group's non-traded financial assets and financial liabilities carried at amortised cost approximate their fair value in notes 10, 12, and 20. The fair value hierarchy of other financial instruments carried at amortised cost as of December 31, 2018 is set out in the following tables.

	Level 1	Level 2	Level 3	Total
Debt securities	-	592,006	627,036	1,219,042
Mortgage loans	-	-	336,873	336,873
Policy loans	-	-	171,421	171,421
Finance loans and finance leases	-	-	500,261	500,261
Securities purchased for resale	-	-	7,170	7,170
	-	592,006	1,642,761	2,234,767

41.8 Fair value of financial instruments (continued)

	Level 1	Level 2	Level 3	Total
Investment contracts:				
Deposit administration liabilities	-	-	110,585	110,585
Other investment contracts	-	-	130,669	130,669
	-	-	241,254	241,254
Notes and loans payable:				
Convertible redeemable preference shares	-	-	11,105	11,105
Notes and other items	-	337,323	156,637	493,960
	-	337,323	167,742	505,065
Deposit and security liabilities				
Other funding instruments	-	-	462,223	462,223
Customer deposits	-	1,255	724,881	726,136
Securities sold for repurchase	-	-	423,790	423,790
	-	1,255	1,610,894	1,612,149
	-	338,578	2,019,890	2,358,468

Amounts expressed in US$000

41.8 Fair value of financial instruments (continued)

(c) Equity price risk

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

Sensitivity

The sensitivity to fair value changes in equity securities arises from those instruments which are not held under the unit linked model. The table below sets out the source markets of such equity securities and the effects of an across the board 20% change in equity prices on income before tax (IBT) as at December 31, 2018.

	Carrying value	Effect of 20% change on IBT
Listed on Caribbean stock exchanges and markets	14,311	2,862
Listed on US stock exchanges and markets	64,392	12,878
Listed on other exchanges and markets	27,904	5,581
	106,607	21,321

41.9 Derivative financial instruments and hedging activities

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

41.9 Derivative financial instruments and hedging activities (continued)

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

	Contract / notional amount	Fair value	
		Assets	Liabilities
2018			
Derivatives held for trading:			
Equity indexed options	768,342	7,696	247
	768,342	7,696	247
2017			
Derivatives held for trading:			
Equity indexed options	713,452	32,477	2,232
	713,452	32,477	2,232

41.9 Derivative financial instruments and hedging activities (continued)

(i) Equity indexed options

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

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

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

Amounts expressed in US$000

41.10 Offsetting Financial Assets and Liabilities

The Group is eligible to present certain financial assets and financial liabilities on a net basis on the balance sheet pursuant to criteria described in note 2.13. The following tables provide information on the impact of offsetting on the consolidated balance sheet, as well as the financial impact of netting for instruments subject to an enforceable master netting arrangement or similar agreement as well as available cash and financial instrument collateral.

	Gross amounts of financial assets	Gross amounts set off on the balance sheet	Net amounts of financial assets presented on the balance sheet	Impact of master netting arrangements	Financial instruments collateral	Net amount
2018						
ASSETS						
Non-derivative financial investments	5,332,797	-	5,332,797	(441,340)	(517,319)	4,374,138
Securities purchased for resale	7,170	-	7,170	-	-	7,170
Derivative financial instruments	7,696	-	7,696	(247)	-	7,449
	5,347,663	-	5,347,663	(441,587)	(517,319)	4,388,757
LIABILITIES						
Non-derivative deposit and security liabilities	1,673,786	-	1,673,786	(437,160)	(412,615)	824,011
Derivative financial instruments	247	-	247	(247)	-	-
	1,674,033	-	1,674,033	(437,407)	(412,615)	824,011
2017						
ASSETS						
Non-derivative financial investments	4,904,246	-	4,904,246	(1,211,913)	(206,987)	3,485,346
Securities purchased for resale	16,518	-	16,518	-	-	16,518
Derivative financial instruments	32,477	-	32,477	(2,232)	-	30,245
	4,953,241	-	4,953,241	(1,214,145)	(206,987)	3,532,109
LIABILITIES						
Non-derivative deposit and security liabilities	1,557,000	-	1,557,000	(1,191,066)	(188,722)	177,212
Derivative financial instruments	2,232	-	2,232	(2,232)	-	-
	1,559,232	-	1,559,232	(1,193,298)	(188,722)	177,212

42 INSURANCE RISK – PROPERTY & CASUALTY CONTRACTS

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

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

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

42.1 Underwriting risk

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

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

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

42.2 Claims risk

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

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

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

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

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

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

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

42.2 Claims risk (continued)

Total insurance coverage		2018	2017
Property	Gross	8,613,754	8,348,729
	Net	1,419,817	1,410,917
Motor	Gross	449,467	433,491
	Net	433,491	433,491
Accident and liability	Gross	3,176,165	2,769,682
	Net	2,903,875	2,253,850
Total	Gross	12,239,386	11,551,902
	Net	4,757,183	4,098,258

The insurer assesses its exposures by modelling realistic disaster scenarios of potential catastrophic events. Claims arising from wind storms, earthquakes and floods and events triggering multi-coverage corporate liability claims are potential sources of catastrophic losses arising from insurance risks. A realistic disaster scenario modelled for 2018 is presented below and results in estimated gross and net losses.

	Gross loss	Net loss
A Barbados and St. Lucia windstorm having a 200-year return period.	204,910	5,000

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

42.3 Reinsurance risk

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

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

42.3 Reinsurance risk (continued)

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

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

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

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

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

Type of risk	**Retention by insurers -** currency amounts in thousands
Property	• maximum retention of $4,500 for a single event; • maximum retention of $5,000 for a catastrophic event; • quota share retention to maximum of 20% in respect of treaty limits; • quota share retention is further reduced to a maximum of $375 per event.

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

42.3 Reinsurance risk (continued)

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

- Hurricane with a 200-year return period affecting Barbados and St. Lucia and an earthquake with a 250-year return period affecting Trinidad within a 24-hour period.

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

Risk Rating	Classification	Exposure $000	Exposure %
1	Minimal risk	357,500	53%
2	Low risk	314,000	47%
3	Moderate risk	-	0%
4	Acceptable risk	-	0%
5	Average risk	-	0%
6	Higher risk	-	0%
7	Special mention	-	0%
8	Substandard	-	0%
TOTAL		671,500	100%

43 INSURANCE RISK – LIFE, ANNUITY & HEALTH CONTRACTS

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

43.1 Contracts without investment returns

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

43.1 Contracts without investment returns (continued)

(a) Product design and pricing risk

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

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

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

(b) Mortality and morbidity risk

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

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

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

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

Amounts expressed in US$000

43.1 Contracts without investment returns (continued)

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

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

2018 Premium revenue by location of insureds	Gross	Ceded	Net
Barbados	26,023	1,254	24,769
Jamaica	91,280	2,501	88,779
Trinidad & Tobago	28,377	(88)	28,465
Other Caribbean	27,086	1,043	26,043
USA	64	48	16
Total	172,830	4,758	168,072

(c) Sensitivity of incurred claims

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

	2018		2017	
	Liability	5% increase in liability	Liability	5% increase in liability
Actuarial liability	44,752	2,238	47,261	2,363
Claims payable	4,677	234	4,280	214
	49,429	2,472	51,541	2,577

43.2 Contracts with investment returns

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

(a) Product design and pricing risk

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

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

(b) Mortality and longevity risk

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

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

Amounts expressed in US$000

43.2 Contracts with investment returns (continued)

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

Total insurance coverage on insurance policies provides a quantitative measure of absolute mortality risk. However, claims arising in any one year are a very small proportion in relation to the total insurance coverage provided. The total amounts insured by the Group in respect of both contracts with or without investment returns at December 31, gross and net of reinsurance, are summarised by geographic area below.

Total insurance coverage		2018		2017	
		Individual contracts	Group contracts	Individual contracts	Group contracts
Barbados	Gross	4,261,357	1,197,963	3,973,661	1,299,463
	Net	3,966,925	1,147,578	3,680,227	1,247,768
Jamaica	Gross	8,882,015	6,653,054	8,045,374	5,935,234
	Net	8,757,886	6,576,574	7,934,866	5,882,949
Trinidad & Tobago	Gross	3,541,183	2,184,995	3,491,638	2,225,487
	Net	2,959,623	2,072,894	2,900,602	2,115,756
Other Caribbean	Gross	8,165,280	1,595,521	7,936,174	1,443,434
	Net	7,170,958	1,409,095	6,939,861	1,282,782
USA	Gross	6,970,364	35,427	6,291,352	38,824
	Net	2,800,085	33,969	2,106,362	37,318
Total	Gross	31,820,199	11,666,960	29,738,199	10,942,442
	Net	25,655,477	11,240,110	23,561,918	10,566,573

43.2 Contracts with investment returns (continued)

Total liability under annuity contracts provide a good measure of longevity risk exposure.

Total liability under annuity contracts		2018		2017	
		Individual contracts	Group contracts	Individual contracts	Group contracts
Barbados	Gross	104,790	47,762	116,587	45,417
	Net	104,790	47,762	116,587	45,417
Jamaica	Gross	899	345,928	608	341,872
	Net	899	345,928	608	341,872
Trinidad & Tobago	Gross	114,469	-	120,342	-
	Net	114,469	-	120,342	-
Other Caribbean	Gross	30,634	28	30,721	28
	Net	30,634	28	30,721	28
USA	Gross	1,292,070	20,535	1,183,959	23,942
	Net	611,227	5,681	408,531	7,524
Total	Gross	1,542,862	414,253	1,452,217	411,259
	Net	862,019	399,399	676,789	394,841

43.2 Contracts with investment returns (continued)

(c) Lapse risk

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

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

(d) Expense risk

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

(e) Investment risk

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

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

43.3 Reinsurance risk

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

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

Type of insurance contract	**Retention by insurers** - currency amounts in thousands
Health insurance contracts with individuals	Retention per individual to a maximum of $175
Health insurance contracts with groups	Retention per individual to a maximum of $175
Life insurance contracts with individuals	Retention per individual life to a maximum of $500
Life insurance contracts with groups	Retention per individual life to a maximum of $500

43.4 Sensitivity arising from the valuation of actuarial liabilities

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

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

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

Amounts expressed in US$000

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

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

Sensitivity	Scenario		
	Sagicor Life Inc segment	Sagicor Jamaica Segment	Sagicor USA segment
Worsening rate of lapse	Lapse rates were either doubled or halved, and the more adverse result was selected.		Lapse rates were increased or reduced by 30%, and the more adverse result was selected.
High interest rate	Assumed increases in the investment portfolio yield rates of 0.25% per year for 5 years, with the rates remaining constant thereafter.	Assumed increases in the investment portfolio yield rates of 0.5% for 10 years.	A 1% increase was applied to the investment portfolio rate.
Low interest rate	Assumed decreases in investment portfolio yield rates of 0.25% per year for 5 years, with the rates remaining constant thereafter.	Assumed decreases in investment portfolio yield rates of 0.5% per year for 10 years.	A 1% decrease was applied to the investment portfolio rate.
Worsening mortality and morbidity	Mortality and morbidity rates for insurance and critical illness products were increased by 3% of the base rate per year for 5 years. For annuity products, the mortality rates were decreased by 3% of the base rate for 5 years.		For life insurance and deferred annuity products, the base assumed rates were increased annually by 3% cumulatively over the next 5 years. For pay-out annuity products only, the mortality rates were decreased by 3% cumulatively over the next 5 years.
Higher expenses	Policy unit maintenance expense rates were increased by 5% per year for 5 years above those reflected in the base scenario.		

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

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

	Sagicor Life Inc segment		Sagicor Jamaica segment		Sagicor Life USA segment	
	2018	2017	2018	2017	2018	2017
Base net actuarial liability	926,050	956,305	345,154	374,483	816,843	623,269
Scenario	**Increase in net liability**		**Increase in net liability**		**Increase in net liability**	
Worsening rate of lapse	156,151	144,892	66,642	53,868	12,058	11,432
High interest rate	(97,608)	(89,289)	(115,773)	(111,058)	(49,675)	(37,115)
Low interest rate	169,985	161,474	110,246	102,183	57,482	42,637
Worsening mortality/ morbidity	39,692	37,528	48,267	42,776	16,030	16,783
Higher expenses	20,618	19,053	16,569	17,530	3,002	5,255

Amounts expressed in US$000

43.5 Dynamic capital adequacy testing (DCAT)

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

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

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

The purpose of the DCAT is

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

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

44 FIDUCIARY RISK

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

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

	2018	2017
Pension and insurance fund assets	2,166,463	2,072,232
Mutual fund, unit trust and other investment fund assets	1,261,247	1,132,928
	3,427,710	3,205,160

Fee income under administration is discussed in Note 26.

45 STATUTORY RESTRICTIONS ON ASSETS

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

To satisfy the above requirements, invested assets and cash totalling $1,185,805 (2017 - $1,253,052) 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.

Amounts expressed in US$000

46 CAPITAL MANAGEMENT

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

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

46.1 Capital resources

The principal capital resources of the Group are as follows:

	2018	2017 restated
Shareholders' equity	600,869	624,187
Non-controlling interest	530,514	312,171
Notes and loans payable	490,275	413,805
Total financial statement capital resources	1,621,658	1,350,163

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

46.2 Capital adequacy

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

(a) Life insurers

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

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

The consolidated MCCSR for the life insurers of the Sagicor Group as of December 31 has been estimated as 234% (2017 – 258%). This is the principal standard of capital adequacy used to assess the overall strength of the life insurers of the Sagicor Group. However, because of the variations in capital adequacy standards across jurisdictions, the consolidated result should be regarded as applicable to the life insurers of the Group and not necessarily applicable to each individual segment, insurance subsidiary or insurance subsidiary branch.

The Company complies with all regulatory capital requirements.

Amounts expressed in US$000

46.2 Capital adequacy (continued)

(i) Sagicor Life Jamaica

Sagicor Life Jamaica is governed by the Jamaican MCCSR regime which requires an insurer to maintain a minimum ratio of 150%. For the years ended December 31, 2018 and 2017, this ratio was 183.8% and 186% respectively.

(ii) Sagicor Life Insurance Company (USA)

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

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

Sagicor Life Insurance Company looks to maintain a surplus of at least 300% of the RBC amount, and the company has maintained these ratios as of December 31, 2018 and 2017 respectively.

46.2 Capital adequacy (continued)

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

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

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

The table below summarises the capital adequacy ratios. During 2018 and 2017, all applicable externally imposed capital requirements were complied with.

	Sagicor Investments Jamaica		Sagicor Bank Jamaica	
	2018	**2017**	**2018**	**2017**
Actual capital base to risk weighted assets	14%	16%	15%	15%
Required capital base to risk weighted assets	10%	10%	10%	10%

Amounts expressed in US$000

46.3 Financial covenants

(a) 8.875% Senior Notes

Under the indenture entered into by the Group on the issue of these senior notes the Group has to comply with a number of covenants as follows:

COVENANT	DESCRIPTION
Limitation of indebtedness	Under this covenant, the Group is restricted to incremental borrowing up to a prescribed level. The Group must maintain a fixed charge coverage ratio, in excess of 2:1 in order to incur additional debt.
Limitation on restricted payments covenant	This covenant limits cash outflows, dividends, acquisition and investments by the Group. The Group must maintain a fixed charge coverage ratio of 2:1 and an MCCSR capital ratio in excess of 175%.
Limitation on restricted distributions from subsidiaries	This covenant limits the subsidiaries from creating encumbrances or restrictions on their ability to make distributions to the Parent.
Limitation on sale of assets of subsidiary stock	This covenant restricts the Group from selling material subsidiary assets without using the proceeds to either reinvest in the business or offer to buy back bondholders.
Limitation on affiliate transactions	This covenant restricts affiliate transactions of the Group.
Change in control	This covenant allows investors to put their bonds back to the Group at a certain value when a specified event has changed ownership/control of the Group.
Limitation on liens	This covenant restricts the Group's ability to secure future debt with the Group's assets.
Optional Redemption	The notes are redeemable at the Group's option after August 11, 2018 at specified redemption rates.

46.3 Financial covenants (continued)

(b) 4.85% notes due 2019

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

Permitted liens are liens existing on the dates of issue of the senior notes and notes respectively, certain liens which would arise in the course of normal business, and other liens whose outstanding principal amounts in aggregate outstanding principal amount do not exceed 10% of the consolidated net tangible assets (as is defined in the indenture and trust deed). As of December 31, 2018, and 2017, the Group satisfied these requirements.

The Group complies with all covenants.

Amounts expressed in US$000

47 RELATED PARTY TRANSACTIONS

Other than as disclosed in notes 5, 9, 12, 26, 30, 31 and 44, there are no material related party transactions except as disclosed below.

Key management transactions and balances

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

Compensation	**2018**	**2017**
Salaries, directors' fees and other short-term benefits	25,340	19,884
Equity-settled compensation benefits	5,674	6,969
Pension and other retirement benefits	1,733	1,475
	32,747	28,328

	Mortgage loans	**Other loans**	**Total loans**
Balance, beginning of year	4,784	1,074	5,858
Advances	1,348	722	2,070
Repayments	(1,382)	(463)	(1,845)
Effects of exchange rate changes	-	(16)	(16)
Balance, end of year	4,750	1,317	6,067
Interest rates prevailing during the year	6.00%	6.00% – 8.00%	

48 BREACH OF INSURANCE REGULATIONS – RELATED PARTY BALANCES

As at December 31, 2018, one of the Group's subsidiaries, Sagicor Life Jamaica Limited exceeded the regulated 5% maximum of related party balances to total assets of the company. Management is in discussions with the Regulator, Financial Services Commission, in relation to this matter. The regulator has not imposed any penalty.

49 ALIGNVEST AGREEMENT

On November 27, 2018, the Group entered into a definitive arrangement agreement as amended on January 28, 2019 with Alignvest Acquisition II Corporation ("Alignvest") pursuant to which Alignvest will acquire all the shares of Sagicor by way of a scheme of arrangement under the laws of Bermuda, where Sagicor is incorporated. Closing is expected in 2019, and completion is subject to shareholder and regulatory approval and certain conditions being met by both Alignvest and Sagicor. Until such time that the transaction is either completed or the agreement terminated, Sagicor has agreed that it shall make all commercially reasonable efforts to present intact its current business organisation, key employees, material business relationships and operations.

Sagicor also announced that Sagicor and Alignvest will acquire Scotiabank's life insurance operations in Jamaica and in Trinidad & Tobago and will also enter into a 20-year exclusive agreement where Sagicor will provide insurance solutions to Scotiabank's clients in Jamaica and Trinidad & Tobago. The completion of the acquisition is dependent on the completion of the acquisition of Sagicor as outlined above. Closing is expected in late 2019 or early 2020, subject to regulatory approval and certain conditions being met.

Amounts expressed in US$000

50 RESTATEMENT AND TRANSITION TO IFRS 9 OF FINANCIAL STATEMENTS

The changes in accounting policy outlined in note 2.15 which have impacted the prior period statements of the financial position, income and comprehensive income are summarised in the following tables. Other corrections are outlined separately below:

STATEMENT OF FINANCIAL POSITION	December 31, 2017			January 1, 2018	
	As reported previously	Actuarial adjustment	As restated	Transition adjustments	Carrying value
ASSETS					
Financial investments	4,953,241	-	4,953,241	(16,177)	4,937,064
Income tax assets	39,980	-	39,980	284	40,264
Miscellaneous assets and receivables	228,543	-	228,543	(48)	228,495
Other assets	1,592,878	-	1,592,878	-	1,592,878
Total assets	6,814,642		6,814,642	(15,941)	6,798,701
LIABILITIES					
Actuarial liabilities	2,950,820	(6,120)[(1)]	2,944,700	-	2,944,700
Income tax liabilities	28,277	1,225	29,502	-	29,502
Other liabilities	2,903,217	-	2,903,217	-	2,903,217
Total liabilities	5,882,314	(4,895)	5,877,419	-	5,877,419
EQUITY					
Share capital / premium	303,529	-	303,529	-	303,529
Reserves	(47,482)	94	(47,388)	(217)	(47,605)
Retained earnings	367,327	1,124	368,451	(10,442)	358,009
Shareholders' equity	623,374	1,218	624,592	(10,659)	613,933
Participating accounts	865	-	865	(2,930)	(2,065)
Non-controlling interests in subsidiaries	308,089	3,677	311,766	(2,352)	309,414
Total equity	932,328	4,895	937,223	(15,941)	921,282
Total liabilities and equity	6,814,642	-	6,814,642	(15,941)	6,798,701

[(1)] Effective January 1, 2018 the Group implemented a policy to harmonise its actuarial reserving practices across operational segments. This voluntary change in policy was reflected as a prior period adjustment in accordance with IAS 8. In addition, a detailed review of Sagicor USA's actuarial model was completed which concluded that the model inputs were generally appropriate; however, certain items were identified which have been treated as errors and prior periods have been adjusted accordingly. The Sagicor Jamaica's adjustment reduced actuarial liabilities by $9,070 and Sagicor USA's adjustment increased the liability by $2,950.

Amounts expressed in US$000

50. Restatement and transition to IFRS 9 of financial statements (continued)

STATEMENT OF FINANCIAL POSITION	December 31, 2016		
	As reported previously	Actuarial adjustment	As restated
ASSETS			
Financial investments	4,813,748	-	4,813,748
Income tax assets	59,575	-	59,575
Miscellaneous assets and receivables	183,018	-	183,018
Other assets	1,475,579	-	1,475,579
Total assets	6,531,920	-	6,531,920
LIABILITIES			
Actuarial liabilities	2,776,362	(4,538)[(1)]	2,771,824
Income tax liabilities	50,641	437	51,078
Other liabilities	2,909,503	-	2,909,503
Total liabilities	5,736,506	(4,101)	5,732,405
EQUITY			
Share capital / premium	300,079	-	300,079
Reserves	(64,795)	(3)	(64,798)
Retained earnings	300,865	934	301,799
Shareholders' equity	536,149	931	537,080
Participating accounts	1,291	-	1,291
Non-controlling interests in subsidiaries	257,974	3,170	261,144
Total equity	795,414	4,101	799,515
Total liabilities and equity	6,531,920	-	6,531,920

[(1)] Effective January 1, 2018 the Group implemented a policy to harmonise its actuarial reserving practices across operational segments. This voluntary change in policy was reflected as a prior period adjustment in accordance with IAS 8. In addition, a detailed review of Sagicor USA's actuarial model was completed which concluded that the model inputs were generally appropriate; however, certain items were identified which have been treated as errors and prior periods have been adjusted accordingly. The Sagicor Jamaica's adjustment reduced actuarial liabilities by $7,815 and Sagicor USA's adjustment increased the liability by $3,277.

Amounts expressed in US$000

50. Restatement and transition to IFRS 9 of financial statements (continued)

STATEMENT OF INCOME	Year ended December 31, 2017		
	As reported previously	Actuarial adjustment	As restated
Revenue	1,220,869	-	1,220,869
Benefits	(660,761)	1,331	(659,430)
Expenses	(436,362)	-	(436,362)
Income before taxes	123,746	1,331	125,077
Income taxes	(18,577)	(736)	(19,313)
Net income from continuing operations	105,169	595	105,764
Net income from discontinued operation	10,110	-	10,110
Net income	115,279	595	115,874
Net income is attributable to:			
Shareholders - continuing operations	62,123	190	62,313
Shareholders - discontinued operation	10,110	-	10,110
	72,233	190	72,423
Participating policyholders	(1,044)	-	(1,044)
Non-controlling interests	44,090	405	44,495
	115,279	595	115,874

See note 34 for the restatement of earnings per common share.

50. Restatement and transition to IFRS 9 of financial statements (continued)

STATEMENT OF COMPREHENSIVE INCOME	Year ended December 31, 2017		
	As reported previously	Actuarial adjustment	As restated
Other comprehensive income:			
Items net of tax that may be reclassified subsequently to income:			
Net change in actuarial liabilities	(13,475)	(4,677)[(1)]	(18,152)
Retranslation of foreign currency operations	9,721	199	9,920
Other items	45,641	4,677[(1)]	50,318
Items net of tax that will not be reclassified subsequently to income	22,155	-	22,155
Other comprehensive income	64,042	199	64,241
Net income	115,279	595	115,874
Total comprehensive income	179,321	794	180,115
Total comprehensive income is attributable to:			
Shareholders - continuing operations	96,141	295	96,436
Shareholders - discontinued operation	10,110	-	10,110
	106,251	295	106,546
Participating policyholders	(210)	-	(210)
Non-controlling interests	73,280	499	73,779
	179,321	794	180,115

(1) This classification reflects the change in the corporation tax rate due to legislation enacted in late 2017 in the USA segment.