



Annual Report **2018**



INTERNATIONAL
BALANCED
FUND

OUR VISION

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

For 177 years, Sagicor's business has been based on long-term relationships with its customers, employees, and communities, who entrust us with their financial well-being. Our name and reputation draw on the strength, stability and financial prudence that are our heritage, and this identity defines the flexibility that wise financial thinking can bring to our customers throughout their lives. Through local expertise, and in partnerships with world-class asset managers, reinsurers, together with sound risk management practices, Sagicor is able to provide wise financial advice, and continue to meet the needs of our customers now and in the future.

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Our Values

Sagicor is Timeless, Borderless, and Colourless. These values speak to the all-encompassing nature of our company, guiding our behaviour, procedures, business decisions and relationships.

TIMELESS

We are building a company for today which, while relevant to the current time, will continue to remain relevant for all times. Therefore we will always be innovative and embrace change, never allowing ourselves to become staid or obsolete so that we can retain our edge to compete in the future.

COLOURLESS

We conduct our business and interpersonal relationships on that consciously high level which creates an environment characterised by a philosophy of equitable treatment and equal opportunity for all.

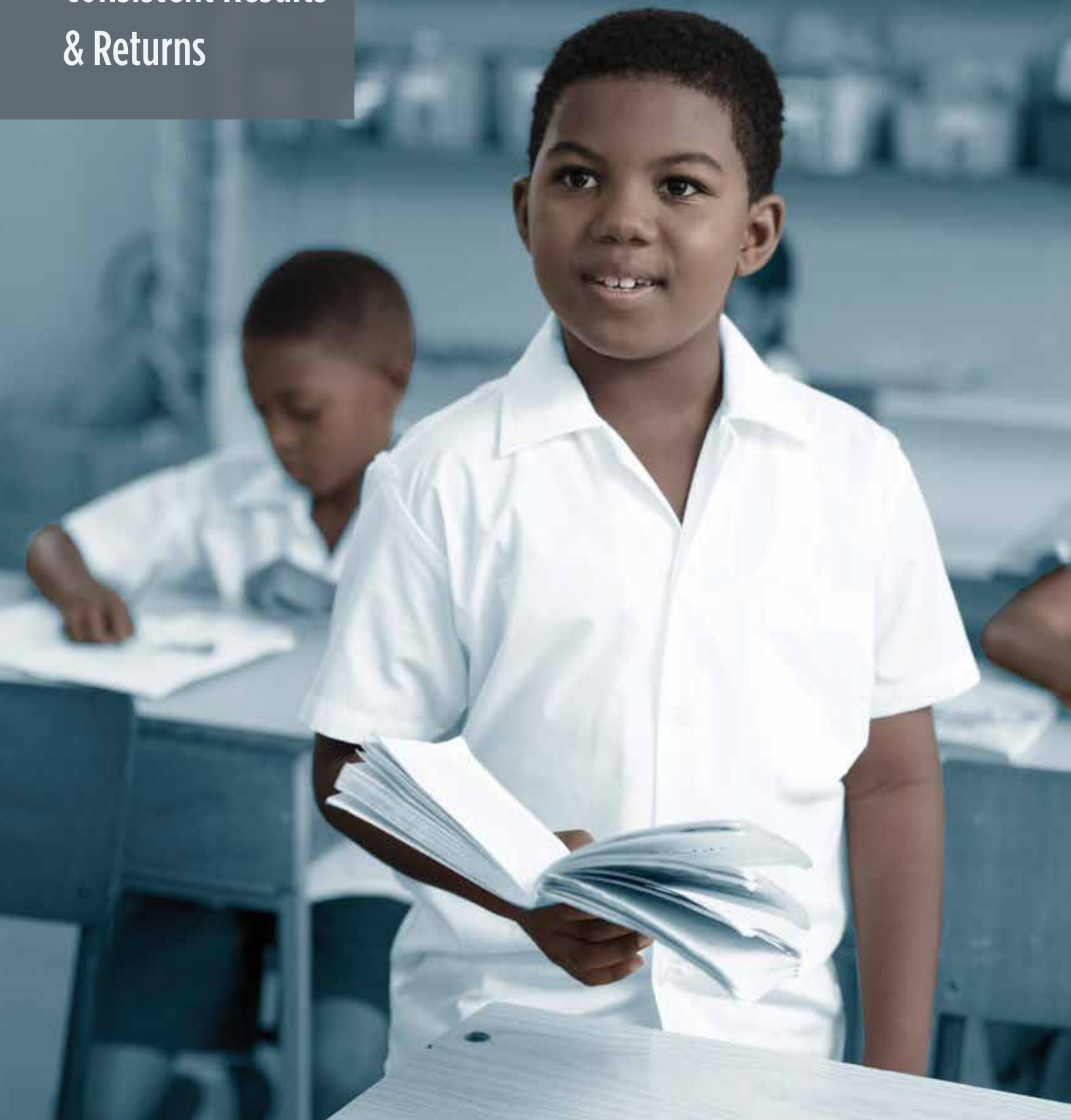




BORDERLESS

We view ourselves as members of one organisation, and will not be constrained by any self-imposed physical, intellectual or cultural limitations. We will conduct our business in a way that truly reflects this philosophy.

Consistent Results & Returns



Sagicor exists to
achieve results for the stakeholders
in the communities in which
it operates.

SAGICOR INTERNATIONAL BALANCED FUND

The most important element in pension funding is the investment return on the pension fund. However, the pension fund has to be substantial to provide such diversification of assets as would provide adequate capital security.

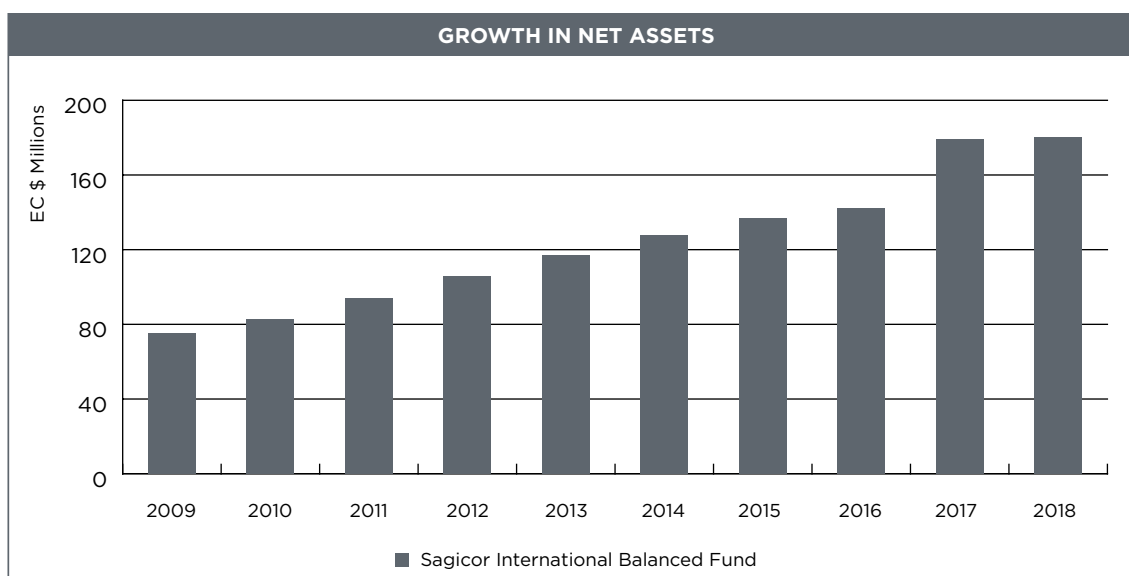
This is the principle around which the Sagicor International Balanced Fund Pension Policy was written. In April 2001, The Barbados Mutual Life Assurance Society, now Sagicor Life Inc, established a Unit Trust in the Eastern Caribbean, namely, The Mutual (Eastern Caribbean) Fund. The Fund was subsequently renamed the Sagicor(Eastern Caribbean) Fund and effective June 1 2016 was renamed the Sagicor International Balanced Fund. Investment in this Unit Trust is restricted to Eastern Caribbean registered Pension Plans, giving the Unit Trust tax exempt status in most territories. The assets of the Unit Trust are held apart from Sagicor's general life fund.

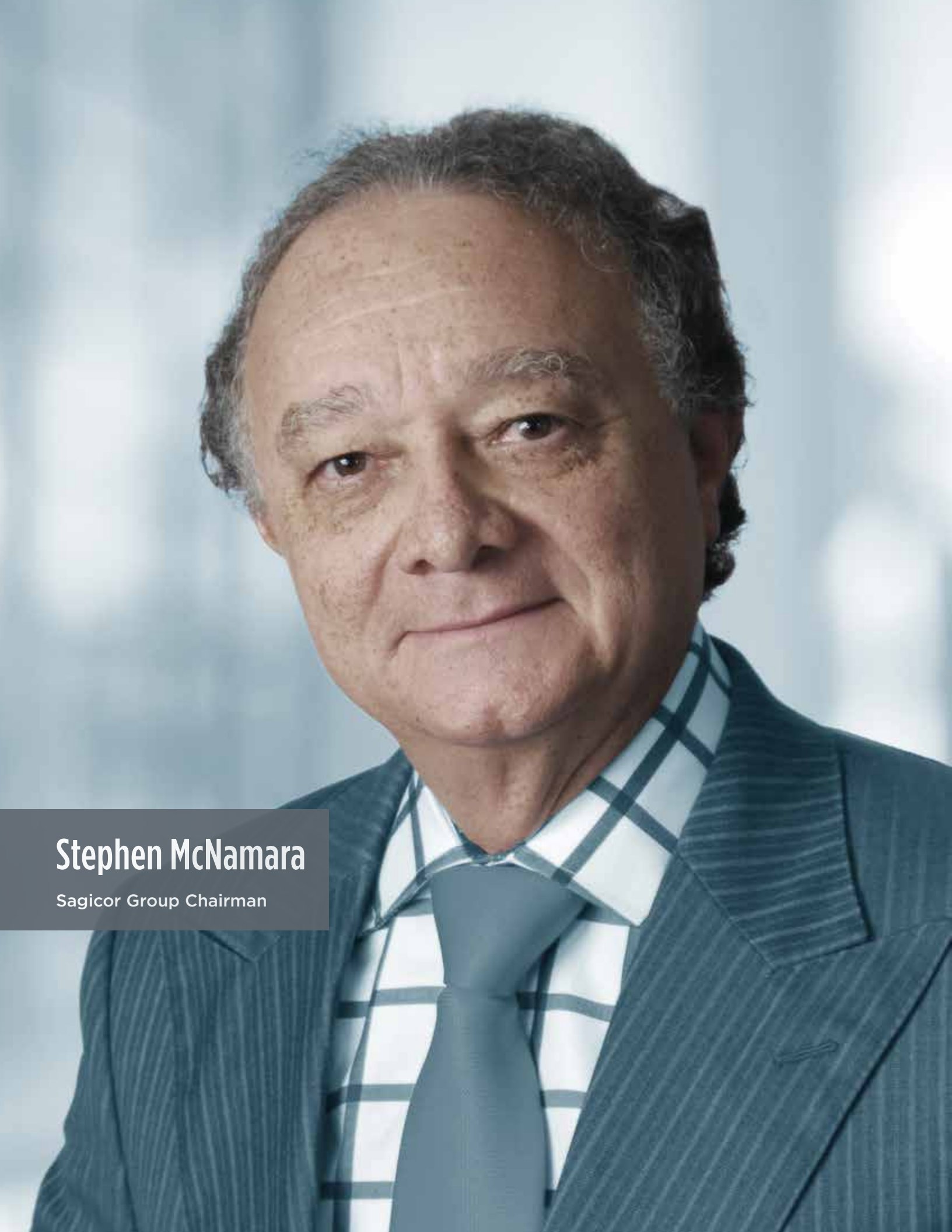
Sagicor International Balanced Fund Pension Policy

Under this policy, Sagicor manages and administers Pension Funds registered in the Eastern Caribbean and facilitates investments in a diversified portfolio of securities.

At Present, Pension Funds of 95 companies in the Eastern Caribbean amounting to approximately \$179.7 million are invested in this fund; all but nine of these Pension Plans are also administered by Sagicor. The total membership stood at 5,009 which includes 296 Pensioners.

| Sagikor International Balanced Fund | | | |
|-------------------------------------|-------------------------------|------------|--------|
| | Net Assets (EC\$ millions) | Unit Value | Change |
| 2009 | 75 | 1.590 | 6.70% |
| 2010 | 83 | 1.631 | 2.50% |
| 2011 | 94 | 1.641 | 0.61% |
| 2012 | 106 | 1.759 | 7.32% |
| 2013 | 117 | 1.815 | 3.41% |
| 2014 | 128 | 1.895 | 4.40% |
| 2015 | 137 | 1.949 | 2.63% |
| 2016 | 142 | 2.050 | 5.13% |
| 2017 | 179 | 2.180 | 6.34% |
| 2018 | 180 | 2.083 | -4.59% |





Stephen McNamara

Sagcor Group Chairman

Net Assets - \$180m

2018 was characterised by volatility in equity and debt markets as evidenced by the Government of Barbados (GOB) debt restructure and international equity market performance. The GOB debt restructure had the greatest negative impact on performance within the Fund as the Barbados dollar denominated holdings were written down by 30%. A debt restructure proposal has been offered to holders of US denominated debt, while the Government focuses on the next stage of the fiscal consolidation programme. This however will not impact the Fund's performance as the Sagicor International Balanced Fund is not invested in the GOB external debt.

International equity markets' momentum waned in the fourth quarter of 2018 with significant declines against the backdrop of persistent global trade tensions, lower global growth and continued monetary tightening in the US. On an absolute basis, key international indices ended the year in negative territory. However, US equities outperformed emerging market equities on a relative basis and was the best performing global equity segment. The S&P 500 Index declined 4.4% for the year while the MSCI Emerging market index declined by 14.6%.

Generally, global growth remained subdued for 2018 and was largely attributable to trade policy uncertainty across developed and emerging market economies as well as weakened investor sentiment. The World Bank estimated global growth at 3.1% for the year.

In the USA, GDP growth of 2.9% was estimated for 2018. The US economy benefited from the ongoing fiscal stimulus and the relatively higher level of consumption. The unemployment rate edged lower to the lowest level in eighteen years and stood at 3.9% in December 2018 down from 4.1% as at December 2017. The US Federal Reserve Bank continued tightening of its monetary policy as short-term interest rates were increased four times during the year from a range of 1.25% to 1.50% as at December 2017

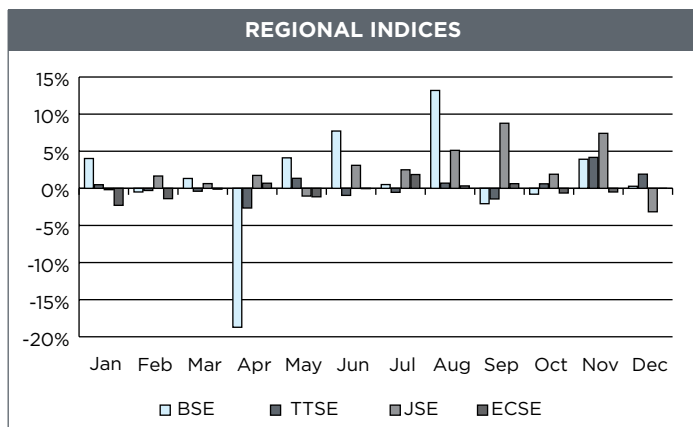
to a range of 2.25% - 2.50% as at December 2018. The moderate momentum in growth coupled with increased interest rates supported a relative strengthening of the US dollar against other major currencies.

Europe and Japan experienced growth of 1.9% and 0.8%, respectively as their respective Central Banks generally continued accommodative fiscal and monetary policies throughout 2018. The Bank of England raised its interest rates incrementally during the period from 0.50% to 0.75% while Japan's short-term rates remained unchanged.

Global equity markets declined during 2018 with US equity markets outperforming international and emerging market equities. The Nasdaq Composite Index was down 2.8% for the year, while the Dow Jones Industrial Average Index and the S&P 500 Index declined 3.5% and 4.4% respectively. The MSCI Emerging Market Index was down 14.6% for the year. Interest rate hikes saw the yield on 10- year treasury increased from 2.4% to 2.7%.

Economic growth within the Caribbean trended upwards for most islands except for Anguilla, Dominica and Sint Maarten as the aftermath from hurricanes Maria and Irma in 2017 continued to adversely impact these economies. Barbados' real gross domestic product also contracted due to fiscal consolidation and the fall in construction activity. Grenada was considered the fastest growing Caribbean economy in 2018 with growth of 5.2% according to the Caribbean Development Bank. Grenada's upward growth was a result of continued improvement of the fiscal position, which reflected strengthening expenditure management and tax compliance.

The year proved to be a challenging one for the Barbados economy. The worryingly low level of foreign reserves, the high fiscal deficit and the decreased level of investor confidence following multiple credit downgrades led to the engagement of the International Monetary Fund (IMF) for funding, which resulted in the island entering into a four-year Extended Fund Facility arrangement on October 1, 2018. Under the four-year economic adjustment programme with the IMF, through the Barbados Economic Recovery and Transformation (BERT) programme, the Government aims to deepen fiscal adjustment, stimulate medium-term economic growth and maintain the fixed exchange rate anchor. With the BERT plan, Barbados is provided with phased access to US \$290 million over the programme period, this is expected to further catalyzed funding from other multilateral financial institutions such as the Caribbean Development Bank and the Inter-American Development Bank.



In November 2018, Standard and Poor's(S&P) credit rating agency gave Barbados its first credit rating upgrade in several years. The completion of the domestic debt restructuring and the improved outlook for fiscal and debt sustainability contributed to S&P raising its credit ratings for domestic securities from Selective Default (SD) to B-. Unemployment for the four quarters ending September 2018 was 9.2%, slightly lower than it stood the prior year. However, layoffs in the public sector impacted unemployment in the fourth quarter of 2018.

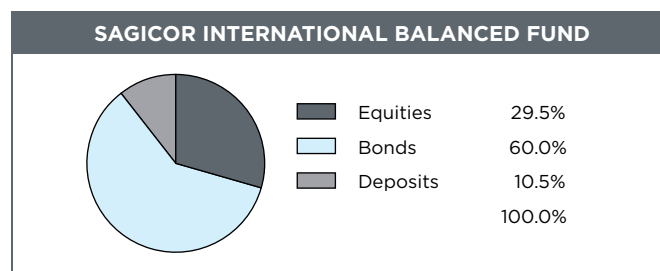
The Central Statistical Office estimates Trinidad and Tobago's economy expanded by 1.9% for 2018, up from the 1.9% contraction in 2017. Trinidad recorded an average unemployment rate of 4.6 per cent in 2017. Headline inflation declined to approximately 1.1% in December 2018. In December 2018, Central Bank of Trinidad and Tobago kept its main policy rate, the repo rate at 5% since its last 25 basis points increase in July 2018. At the end of September 2018, gross official reserves were approximately \$7,465.3 million or 8.1 months of prospective imports of goods and services. The domestic stock market recorded an increase of 2.9% for the year.

The Jamaica economy grew by approximately 1.7% in 2018. Moreover, S&P Global Ratings issued a revised outlook on Jamaica from stable to positive on September 25th, 2018. The Bank of Jamaica reduced the policy interest rate from 3.25% to 1.75% for the 2018 period. This monetary policy action supported greater credit expansion and job creation. The Bank was mandated to maintain inflation within the range of 4.0% to 6.0%; however, inflation fell below the lower bound on numerous occasions in 2018. The labour market also improved as the unemployment rate declined to 8.7% as at October 2018. Market interest rates also trended downwards, which was exhibited in the Government of Jamaica 180-day Treasury Bill declining to 2.07% at the end of 2018 from 4.63% at the end of 2017. At the end of 2018 the Jamaican Dollar depreciated by 2.2% on a year on year basis against the US dollar. This depreciation was primarily a consequence of the buoyant Jamaican dollar liquidity and the periodic increases in demand.

Regional equity markets continued to record moderate gains in the fourth quarter of 2018 except for Eastern Caribbean Stock exchange, which recorded a modest decline. During 2018 the Barbados and Jamaica stock exchanges returned 10.1% and 31.7% respectively. While the Trinidad & Tobago and Eastern Caribbean stock exchanges returned 2.9% and -2.6% respectively.

SAGICOR INTERNATIONAL BALANCED FUND

In 2018, the Sagicor International Balanced Fund benefited from the sustained efforts to diversify its bond portfolio



and steadfast commitment since 2013, to systematically unwinding its exposure to the Government of Barbados debt prior to the domestic debt restructure. At the beginning of 2018, exposure to the Government of Barbados domestic debt represented 18.5% of the Fund's net assets and totaled \$33.1 million. The conclusion of the domestic debt restructure terms included extension of maturity to 35 years and an average reduction in coupons, which resulted in a relative decline in the pre-restructure value of 30%. This impairment was fully incorporated in the Fund's performance for 2018 and adversely impacted the Fund's return for the year. It is notable that the Fund also previously recovered from other regional debt restructurings in Grenada and St. Kitts, which experienced haircuts in the region of 50% to bondholders albeit at varying exposure levels.

The global investment climate remained challenging for equity investors, which further constrained the Fund's performance for the year. Persistent geo-political headwinds led by the US-China trade war and Brexit as well as concerns surrounding a slowdown in global growth and the accelerated pace of monetary tightening in the US, dominated market sentiment and spurred heightened volatility. International equity market experienced significant decline during the fourth quarter of 2018 and eroded the gains experienced during for the better part of the year.

Developed international equity markets ended the year with moderate losses while emerging markets experienced double-digit declines. The lackluster performance of global equities outweighed the generally positive performance across selective regional holdings. Against this backdrop the Fund ended the year down 4.59% following a return of 6.34% for 2017. The Fund's NAV decreased to \$2.08 as at December 31, 2018 from \$2.18 at the end of 2017. Net assets attributable to unit holders increased slightly by 0.6% relative to the end of the prior year and totaled \$179.7 million as at December 31, 2018. The Fund's performance has shown recovery for the first quarter of 2019 and returned 3.5% for the year-to-date period ended March 31st, 2019.

The Fund remained principally allocated to bonds, which accounted for 60.0% of financial investments and totaled \$99.5 million at December 31, 2018. Investment in sovereign debt accounted for 87.4% of the bond portfolio while 12.6% was allocated to corporate issuances. As at December 31, 2018 the exposure to Government of Barbados debt represented 14.4% of financial investments and totaled \$23.9 million. Other significant debt holdings included government bonds issued by Bermuda, Trinidad, Panama, Bahamas and St. Lucia. Significant corporate bond exposures included debt issued by First Citizens Bank Limited. The yield on the bond portfolio trended lower to 6.0% for 2018 as compared with 6.5% for 2017.

Investment in equities totaled \$48.9 million, which accounted for 29.5% of financial investments as at December 31, 2018. The equity asset class remained well diversified with a relatively even split between local and regional equities (51.2%) and international equities (48.8%). The Fund's international portfolio remained well diversified and consisted of global equities, international fixed income strategies and alternative investment strategies to provide enhanced diversification, to mitigate downside risk and improve the Fund's overall expected long-term risk adjusted returns. Across major regional holdings there was price improvement. Goddard Enterprises Limited and CIBC First Caribbean International Bank experienced moderate appreciation in their respective share prices while shares of St. Lucia Electricity Services Limited experienced a modest decline and the price of S. L. Horsford & Co. Ltd shares remained relatively unchanged.

Net investment losses on financial investments totaled \$14.0 million, which was principally attributable to the Government of Barbados debt restructure and outweighed interest income and dividend income of \$7.9 million earned during the year. Net loss and total comprehensive loss attributable to unit holders amounted to \$8.1 million for the year.

OUTLOOK

Global growth is expected to moderate in 2019 from the 3.7% projected for 2018 due to a deceleration in economic activity out of the US and further softening in China as the ongoing trade dispute persists. In the Euro zone geopolitical uncertainty is expected to weigh on GDP growth and the single currency, while inflation is anticipated to remain below the European Central Bank target. Unemployment levels among developed markets are expected to fall even further from already historical lows, prompting higher interest rates and tighter financial conditions. Emerging markets could see some recovery from its recent underperformance as the US dollar is expected to weaken in 2019 coupled with stability of oil prices.

Regionally, debt to GDP ratios are estimated to remain stable across most territories with Barbados progressing further in its economic reform proposal (Barbados Economic Recovery and Transformation Program). The region remains vulnerable to external shocks and heavily reliant on the tourism sector and sustained global growth, which is expected to moderate on further trade tensions between the US and China. Traditional source market currencies such as the British pound is forecasted to depreciate against the US dollar, which has the potential to limit tourist spend.

US interest rates have been gradually increasing each quarter in 2018, however, the market expectation is for a pause in the Federal Reserve hiking cycle for 2019, maintaining a generally accommodative interest rate environment both locally and regionally. A short to medium term duration strategy would be favored in such an environment. Value style equities will be preferred over growth moving towards a more defensive position with market volatility forecasted to persist. As we navigate with prudence, we will pursue opportunities to tactically enhance the portfolios composition, credit profile and diversification. The international segment remains a substantial source of value as we work to optimize portfolios and increase Funds' value.

On behalf of the Board of Directors, I wish to thank our management, staff and advisors for their steadfast commitment and contribution throughout the year. I also extend my gratitude to our unit holders for their confidence and trust and pledge our unwavering commitment to the execution of our fiduciary duty in the pursuit of your interests.



Stephen McNamara
Chairman



One Team,
One Vision.

Transformational Leadership...
which will create opportunities
and value for all of our stakeholders,
and bring us closer
to our vision for the future.

DIRECTORS OF SAGICOR LIFE INC

Stephen McNamara – Chairman

Andrew Aleong, MBA

Professor Sir Hilary Beckles, PhD

Ian St Clair Carrington, MPA, FCGA

Peter Clarke, BA, LLB

Dr. L Jeannine Comma, Ed.D.

Dr. Marjorie Patricia Downes-Grant, CBE, MA, MBA, DBA, LLD (Hons)

William Lucie-Smith, MA (Oxon), FCA

Dodridge Miller, FCCA, MBA, LLM, LLD (Hon)

David Wright, FFA, FAIA

PENSION SERVICES DEPARTMENT MANAGEMENT

Stephen Robinson, BMath (Hons)
Patricia Greenidge, FCGA, ACIS, CSE
Donna Gibbs, MSc, FLMI, ALHC, HIA, ACS
Marcella Sobers, CERT, AAPA, AIAA, AIRC
Nadia Chandler-Guy, BSc (Hons), FCCA

Vice President
Vice President
Manager
Manager
Corporate Accountant

PORTFOLIO MANAGEMENT TEAM

Dexter Moe, BSc, MBA, ACIS, CFA
Michael Millar, BSc, MSc, CFA
Nicolette Blackett, BSc
Nicholas Neckles, BSc, CFA, OLY

Vice President
Assistant Vice President
Manager
Investment Analyst

AUDITORS

PricewaterhouseCoopers

Accountability to Stakeholders



Sagicor believes that the highest standards of financial management underpin the long-term success and sustainability of the company, creating trust between Sagicor and its stakeholders.



Independent auditors' report

To the Unitholders of Sagicor International Balanced Fund

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Sagicor International Balanced Fund (the Fund) as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Fund's financial statements comprise:

- the statement of financial position as at December 31, 2018;
- the statement of changes in net assets attributable to unitholders for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of 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 *Auditors' responsibilities for the audit of the 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 Fund 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.

Other information

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

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

In connection with our audit of the 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 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.

*PricewaterhouseCoopers East Caribbean, Unit 111 Johnsons Centre, No 2 Bella Rosa Road, P.O. Box BW 304,
Gros Islet, St. Lucia, West Indies
T: +758-727-6700, www.pwc.com/bb*

A full listing of the partners of PricewaterhouseCoopers East Caribbean Firm is available upon request.



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

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

In preparing the financial statements, management is responsible for assessing the Fund'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 Fund or to cease operations, or has no realistic alternative but to do so.

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

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 Fund'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 Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

PricewaterhouseCoopers

PricewaterhouseCoopers
Castries, St Lucia
July 3, 2019

Statement of Financial Position

As of December 31, 2018

Sagicor International Balanced Fund

Amounts expressed in Eastern Caribbean Dollars

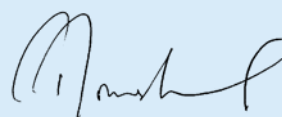
| | | Notes | 2018 | 2017 |
|---|---|-----------------------|------|-----------------------|
| ASSETS | | | | |
| Due from Sagicor (Equity) Fund | 4 | \$ 15,469 | \$ | 23,832 |
| Interest and other receivables | 5 | 1,337,571 | | 5,833,341 |
| Financial investments | 6 | 165,799,258 | | 161,382,526 |
| Cash resources | | 13,266,010 | | 19,122,747 |
| Total assets | | 180,418,308 | | 186,362,446 |
| LIABILITIES | | | | |
| Due to Sagicor Life Inc | 4 | 85,941 | | 7,046,038 |
| Due to Sagicor (Bonds) Fund | 4 | 59,688 | | 362,753 |
| Accounts payable | | 594,435 | | 338,051 |
| Total liabilities | | 740,064 | | 7,746,842 |
| Net assets attributable to unit holders | | \$ 179,678,244 | | \$ 178,615,604 |
| Represented by: | | | | |
| UNIT HOLDERS' EQUITY | | \$ 179,678,244 | | \$ 178,615,604 |
| No. of units outstanding at end of year | | 86,246,443 | | 81,854,920 |
| Net asset value per unit at end of year | | \$ 2.08 | | \$ 2.18 |
| (Decrease)/ Increase in net asset value per unit for year | | (4.59)% | | 6.34% |

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors on July 3, 2019.



Chairman



Director

| | 2018 | | 2017 | |
|---|--------------------|--------------|--------------------|--------------|
| | Number of Units | Total \$ | Number of Units | Total \$ |
| Balance, December 31, 2017 | 81,854,920 | 178,615,604 | 69,261,583 | 141,828,457 |
| Opening IFRS 9 ECL Term Deposits adjustment | - | (143,898) | - | - |
| Balance, January 1, 2018 | 81,854,920 | 178,471,706 | 69,261,583 | 141,828,457 |
| Proceeds from issue of units | 11,744,093 | 25,102,003 | 19,654,225 | 41,650,734 |
| Redemption of units | (7,352,570) | (15,774,473) | (7,060,888) | (14,876,112) |
| Net increase from unit transactions | 4,391,523 | 9,327,530 | 12,593,337 | 26,774,622 |
| Net (loss)/ profit and total comprehensive (loss)/ income for the year attributable to unit holders | - | (8,120,992) | - | 10,012,525 |
| Balance, end of year | 86,246,443 | 179,678,244 | 81,854,920 | 178,615,604 |

The accompanying notes are an integral part of these financial statements.

| | Notes | <u>2018</u> | <u>2017</u> |
|--|-------|-----------------------|----------------------|
| REVENUE | | | |
| Interest income | 8 | \$ 6,024,209 | \$ 6,169,651 |
| Dividend income | | 1,830,567 | 676,268 |
| Other income | | 2,462 | 527 |
| Net investment (losses)/gains | 9 | (13,985,113) | 5,456,831 |
| | | <u>(6,127,875)</u> | <u>12,303,277</u> |
| EXPENSES | | | |
| Management fee | 10 | 1,558,457 | 1,553,546 |
| Bank and interest charges | | 6,266 | 4,067 |
| Broker fees | | 216,161 | 414,569 |
| | | <u>1,780,884</u> | <u>1,972,182</u> |
| (LOSS)/ PROFIT BEFORE TAXES | | (7,908,759) | 10,331,095 |
| Withholding taxes | | (212,233) | (318,570) |
| NET (LOSS)/ PROFIT AND TOTAL COMPREHENSIVE (LOSS)/ INCOME FOR THE YEAR ATTRIBUTABLE TO UNIT HOLDERS | | <u>\$ (8,120,992)</u> | <u>\$ 10,012,525</u> |

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

For the year ended December 31, 2018

Sagicor International Balanced Fund

Amounts expressed in Eastern Caribbean Dollars

| | 2018 | 2017 |
|---|---------------------|---------------------|
| Cash flows from operating activities: | | |
| (Loss)/ Profit before taxes | (7,908,759) | 10,331,095 |
| Adjustments for: | | |
| Interest income | (6,024,209) | (6,169,651) |
| Dividend income | (1,830,567) | (676,268) |
| Net investment losses/ (gains) | 13,344,470 | (5,830,953) |
| Loss on bond restructure | 495,355 | 367,291 |
| Expected Credit Losses Movement | 109,840 | - |
| | <u>(1,813,870)</u> | <u>(1,978,486)</u> |
| Changes in operating assets and liabilities | | |
| Due from Sagicor (Equity) Fund | 8,363 | (4,878) |
| Other receivables | 4,514,315 | (4,378,350) |
| Due to Sagicor Life Inc | (6,960,097) | 2,395,672 |
| Due to Sagicor (Bonds) Fund | (303,065) | 358,248 |
| Accounts payable | 256,384 | (10,478) |
| Purchase of debt securities | (87,408,310) | (35,829,290) |
| Redemption of debt securities | 72,438,224 | 29,757,991 |
| Purchase of equity securities | (23,160,471) | (19,535,514) |
| Sale of equity securities | 21,001,366 | 9,795,796 |
| Amounts deposited | (20,358,860) | (21,273,774) |
| Deposits redeemed | 19,723,685 | 17,422,304 |
| Cash used in operations | <u>(22,062,336)</u> | <u>(23,280,759)</u> |
| Interest received | 5,249,941 | 6,053,950 |
| Dividends received | 1,840,361 | 666,816 |
| Taxes paid | (212,233) | (319,570) |
| Net cash used in operating activities | <u>(15,184,267)</u> | <u>(16,878,563)</u> |
| Cash flows from financing activities: | | |
| Proceeds from issue of units | 25,102,003 | 41,650,734 |
| Redemption of units | (15,774,473) | (14,876,112) |
| Net cash generated from financing activities | <u>9,327,530</u> | <u>26,774,622</u> |
| Net (decrease)/ increase in cash and cash equivalents carried forward | <u>(5,856,737)</u> | <u>9,896,059</u> |

| | <u>2018</u> | <u>2017</u> |
|--|----------------------|----------------------|
| Net (decrease)/increase in cash and cash equivalents brought forward | (5,856,737) | 9,896,059 |
| Cash and cash equivalents - beginning of year | <u>19,122,747</u> | <u>9,226,688</u> |
| Cash and cash equivalents - end of year | <u>\$ 13,266,010</u> | <u>\$ 19,122,747</u> |
| Cash and cash equivalents comprise: | | |
| Cash resources | <u>13,266,010</u> | <u>19,122,747</u> |
| | <u>\$ 13,266,010</u> | <u>\$ 19,122,747</u> |

The accompanying notes are an integral part of these financial statements.

1. REGISTRATION, PRINCIPAL ACTIVITY AND REGISTERED OFFICE

Sagicor (Eastern Caribbean) Fund (“The Fund”) was registered in St. Christopher and Nevis on March 26, 2001 as a Unit Trust, responsible for the management of investments of registered pension plans of Eastern Caribbean Companies.

The Fund has a balanced objective with a focus on income generation and long term capital growth.

Sagicor Life Inc acts as the Asset Manager and Trustee of the Fund. Sagicor Life Inc has subcontracted out certain asset management and custodian arrangements with Oppenheimer & Co. Inc. and Morgan Stanley Private Wealth Management. The registered office of the Fund is located at the Cecil F. de Caires Building, Wildey, St. Michael, Barbados.

If required, these financial statements can be amended after issue, at the recommendation of the Audit Committee and with the approval of the Board of Directors of the Trustee.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these 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 financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial investments held at fair value through profit or loss.

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

All amounts in these financial statements are shown in Eastern Caribbean dollars unless otherwise stated.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) Adoption of IFRS 9 and IFRS 15

Effective January 1, 2018, the Fund adopted IFRS 9 - Financial Instruments ("IFRS 9"). As a result of the application of this new standard, the Fund has adopted new accounting policies for financial assets which are set out in note 2.3. As permitted by the transition provisions in IFRS 9, the Fund 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 2.4). Adjustments to the carrying amounts of financial instruments as of January 1, 2018 were recognised in the statement of equity.

Effective January 1, 2018, the Fund 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.

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 Fund resulting from the implementation of the standard and consequently no transition adjustment has been recorded in the statement of equity.

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 financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) 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 Fund's financial statements are summarised in the following tables.

| IFRS 3 - Definition of a business, effective October 1, 2018 |
|--|
| 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. |

| Interpretation 22 - Foreign Currency Transactions and Advance Consideration, effective January 1, 2019 |
|--|
| Subject / Comments |
| <p>This interpretation clarifies how to determine the date of transaction for the exchange rate to be used on initial recognition of a related asset, expense or income where an entity pays or receives consideration in advance for foreign currency-denominated contracts.</p> <p>For a single payment or receipt, the date of the transaction should be the date on which the entity initially recognises the non-monetary asset or liability arising from the advance consideration (the prepayment or deferred income/contract liability).</p> <p>If there are multiple payments or receipts for one item, a date of transaction should be determined as above for each payment or receipt.</p> <p>Entities can choose to apply the interpretation:</p> <ul style="list-style-type: none"> • retrospectively for each period presented • prospectively to items in scope that are initially recognised on or after the beginning of the reporting period in which the interpretation is first applied, or • prospectively from the beginning of a prior reporting period • presented as comparative information. <p>The Fund is yet to assess the impact of this interpretation.</p> |

| IAS 1 and IAS 8 - The Definition of Materiality, effective October 1, 2018 |
|--|
| 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. |

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Foreign currency translation

(a) Functional and presentational currency

Items included in the financial statements of the Fund are measured using the currency of the primary economic environment in which it operates (the functional currency). The financial statements are presented in Eastern Caribbean dollars, which is the Fund's functional and presentational currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency assets and liabilities are translated into the functional currency using the exchange rate prevailing at the statement of financial position date.

Foreign exchange gains and losses which result from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Translation differences on debt securities and other monetary financial assets measured at fair value are included in under investment expenses. Translation differences on non-monetary items such as equities held at fair value through profit or loss are reported as part of the net investment gains or losses in the statement of comprehensive income.

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

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

| | 2018 closing rate | 2018 average rate | 2017 closing rate | 2017 average rate |
|--------------------------|----------------------|----------------------|----------------------|----------------------|
| Barbados dollar | 0.741 | 0.741 | 0.741 | 0.741 |
| Jamaica dollar | 47.1850 | 47.6556 | 46.1390 | 47.3310 |
| Trinidad & Tobago dollar | 2.5113 | 2.4990 | 2.5047 | 2.4978 |
| United States dollar | 0.370 | 0.370 | 0.370 | 0.370 |

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 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 Fund’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 Fund 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 Fund commits to purchase or sell the asset.

Financial assets 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 deposits, due from other funds and other loans, 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 transaction costs.

(b) Classification of debt instruments

Classification and subsequent measurement of debt instruments depend on:

- the Fund’s business model for managing the asset; and
- the cash flow characteristics of the asset.

Based on these factors, the Fund classifies its debt instruments into the following measurement category.

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 Fund 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 Fund 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 Fund intends to generate profits from holding a portfolio of assets;
- The historical and future expectations of asset sales within a portfolio.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Financial assets – policies under IFRS 9 (continued)

(b) Classification of debt instruments (continued)

Solely repayments 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 Fund assesses whether the financial instruments’ cash flows represent solely payments of principal and interest. In making this assessment, the Fund 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) Impairment of financial assets measured at amortized cost

IFRS 9 introduces an impairment model that requires the recognition of expected credit losses (“ECL”) on financial assets measured at amortised cost 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’).

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 so 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 Fund 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.

(d) 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 defined as POCI. This population includes the recognition of a new financial instrument following a renegotiation where concessions have been granted for economic or contractual reasons relating to the borrower’s financial difficulty that otherwise would not have been considered. The amount of change-in-lifetime ECL is recognised in profit or loss until the POCI is derecognised, even if the lifetime ECL is less than the amount of ECL included in the estimated cash flows on initial recognition.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Financial assets – policies under IFRS 9 (continued)

(e) Definition of default

The Fund 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.

(f) 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.

(g) 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.

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 Companying of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a Fund 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 Fund 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Financial assets – policies under IFRS 9 (continued)

(g) The general approach to recognising and measuring ECL (continued)

Measurement (continued)

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.

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 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Financial assets – policies under IFRS 9 (continued)

(h) Modification of loans

The Fund sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers and debt instruments. When this happens, the Fund assesses whether or not the new terms are substantially different to the original terms. The Fund 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 Fund 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 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. At this point the Fund will assess if the asset is POCL.

(i) Re-classified balances

The Fund 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.

(j) Classification of equity instruments

The Fund classifies and subsequently measures all equity investments at FVTPL.

(k) Presentation in the statement of comprehensive income

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Financial assets – policies under IAS 39

a) Classification

The Fund classifies its financial assets into two categories:

- financial assets at fair value through profit or loss;
- loans and receivables.

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

Financial assets in the category at fair value through profit or loss have been so designated by management at inception since the assets form part of a managed portfolio whose performance is evaluated on a fair value basis in accordance with a documented investment strategy.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, unless designated as fair value through profit or loss on initial recognition.

(b) Recognition, derecognition and measurement

Purchases and sales of financial investments are recognised on the trade date. Interest income arising on financial investments is accrued using the effective interest rate method.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards and rewards of ownership.

Loans and receivables are initially recorded at fair value and are subsequently carried at amortised cost less provision for impairment.

Financial assets in the category at fair value through profit or loss are measured initially at fair value and are subsequently re-measured at their fair value based on quoted prices or internal valuation techniques. Transaction costs are expensed in the statement of comprehensive income. Realised and unrealised gains and losses are recorded as net investment gains or losses in the statement of comprehensive income. Interest and dividend income are recorded under their respective headings in investment income.

(c) Fair value

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of financial assets traded in active markets is based on quoted market prices based on bid prices. In estimating the fair value of non-traded financial assets, the Fund uses a variety of methods such as obtaining dealer quotes and using discounted cashflow 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 according to the perceived additional risk of the non-government security. The fair value of mutual funds is based upon prices as determined by the investee fund managers and administrators.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Financial assets – policies under IAS 39 (continued)

(d) Impaired financial assets

Financial assets are assessed for impairment at each reporting date. A financial asset is considered impaired if its carrying amount exceeds its estimated recoverable amount.

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

If in a subsequent period, the amount of the impairment loss for a debt security 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 income.

2.5 Cash and cash equivalents

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

- cash balances,
- call deposits

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

2.6 Provisions

Provisions are recognised when the Fund 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.

2.7 Interest income and expenses

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.

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.

2.8 Taxation

The Fund is exempt from taxation within the Eastern Caribbean.

The Fund currently incurs withholding taxes imposed by certain countries or financial institutions on investment income. Such income is recorded gross of withholding tax in the statement of comprehensive income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Management fee

As a result of serving as Trustee and Manager of the Fund, Sagicor Life Inc receives a management fee based on the Net Asset Value of the Fund, calculated at a rate of 1.0% per annum.

2.10 Units

The Fund issues redeemable units which are redeemable at the holder's option. Units are carried at the redemption amount that is payable at the statement of financial position date should the holder exercise the right to redeem the shares. Units redeemed may be put back to the Fund for cash or transfer of assets representing the value of the units redeemed.

Units are classified as equity as they meet the following criteria:

- They entitle the holder to a pro-rata share of the net assets of the Fund.
- The total expected cash flows attributable to the units over their life are based substantially on the profits or loss of the Fund.
- The Fund is contractually obliged to deliver cash to unit holders on the repurchase of units or transfer of assets representing the value of units redeemed.
- The rights and features attached to each unit are identical.

2.11 Net asset value per unit

The consideration received or paid for units issued or repurchased respectively is based on the Fund's net asset value per unit for the preceding month.

The net asset value per unit is calculated by dividing the net assets by the number of units.

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 Fund's reported assets, liabilities, revenues and expenses. The items which may have the most effect on the Fund's financial statements are set out below.

3.1 Impairment of financial assets - policies under IFRS 9

In determining ECL (defined in note 2.3(c)), 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 the earlier sections 'Measurement' and 'Forward-looking information'.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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

(a) Establishing staging for debt securities and deposits

The Fund'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:

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

The Fund 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 instruments 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.

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.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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

(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.

(d) Impairment of Government of Barbados debt securities

As further disclosed in note 8.3 (b) 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 of financial assets – policies under IAS 39

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

The Fund 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. The Fund has assessed these instruments for impairment and concluded that based on all information currently available, that no impairment exists at December 31, 2017 in accordance with the accounting policies of the Fund.

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 Fund exercises judgement on the quality of pricing sources used. Where no market data is available, the Fund 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.

4. RELATED PARTY BALANCES

These balances are interest free, unsecured and have no fixed terms of repayment.

5. INTEREST AND OTHER RECEIVABLES

| | 2018 \$ | 2017 \$ |
|-------------------------------------|------------|------------|
| Debt securities interest receivable | 786,672 | 758,334 |
| Unsettled transactions | 333,576 | 332,562 |
| Other | 217,323 | 4,742,445 |
| Balance, end of year | 1,337,571 | 5,833,341 |

6. FINANCIAL INVESTMENTS

Analysis of financial investments

| | 2018 IFRS 9 basis | | 2017 IAS 39 basis | |
|---|-------------------------|---------------------|-------------------------|---------------------|
| | Carrying Value \$ | Fair Value \$ | Carrying Value \$ | Fair Value \$ |
| Investments at FVTPL | | | | |
| Fair value through profit and loss: | | | | |
| Bonds - Local | 39,488,438 | 39,488,438 | 36,494,870 | 36,494,870 |
| Bonds - Regional | 23,895,526 | 23,895,526 | 33,090,753 | 33,090,753 |
| Bonds - International listed | 36,031,500 | 36,031,500 | 25,731,111 | 25,731,111 |
| Treasury bills - Local | 99,436 | 99,436 | 100,222 | 100,222 |
| Total debt securities | 99,514,900 | 99,514,900 | 95,416,956 | 95,416,956 |
| Common shares - Regional unlisted | 2,451 | 2,451 | 2,451 | 2,451 |
| Common shares - Local listed | 19,841,966 | 19,841,966 | 19,832,504 | 19,832,504 |
| Common shares - Regional listed | 5,184,772 | 5,184,772 | 5,266,281 | 5,266,281 |
| Common shares - International listed | 14,983,826 | 14,983,826 | 16,193,853 | 16,193,853 |
| Preferred shares - International listed | 49,017 | 49,017 | 46,679 | 46,679 |
| Alternative investments - International unlisted | 8,826,726 | 8,826,726 | 7,631,614 | 7,631,614 |
| Total equity securities | 48,888,758 | 48,888,758 | 48,973,382 | 48,973,382 |

| | 2018 IFRS 9 basis | | 2017 IAS 39 basis | |
|--------------------------------------|-------------------------|---------------------|-------------------------|---------------------|
| | Carrying Value \$ | Fair Value \$ | Carrying Value \$ | Fair Value \$ |
| Investments at amortised cost | | | | |
| Deposits | 17,395,600 | 17,395,600 | 16,992,188 | 16,992,188 |
| Total financial investments | 165,799,258 | 165,799,258 | 161,382,526 | 161,382,526 |

6. FINANCIAL INVESTMENTS (continued)

Analysis of financial investments (continued)

Debt securities comprise:

| | 2018 \$ | 2017 \$ |
|--|------------|------------|
| Government debt securities - International | 27,470,632 | 21,664,035 |
| Government debt securities - Local | 35,563,228 | 36,595,092 |
| Government debt securities - Regional | 23,895,526 | 33,090,753 |
| Corporate debt securities - International | 8,560,868 | 4,067,076 |
| Corporate debt securities - | 4,024,646 | - |
| | 99,514,900 | 95,416,956 |

Debt securities classified at fair value through profit or loss and valued using internally developed valuation models amounted to \$63,483,400 (2017 - \$69,685,845).

Significant concentrations of equity securities, exceeding 2.5% of total exposures, are as follows:

| | 2018 | 2017 |
|--|----------------------|----------------------|
| | % of Total \$ | % of Total \$ |
| St. Lucia Electricity Services Limited | 33.02% 16,142,860 | 33.45% 16,382,580 |
| CIBC FirstCaribbean International Bank | 5.85% 2,859,303 | 6.47% 3,169,061 |
| Ironwood Intl Ltd | 5.66% 2,765,025 | 5.54% 2,710,974 |
| S.L. Horsford & Co. Ltd | 4.09% 2,000,000 | 4.08% 2,000,000 |
| JPMorgan Highbridge Steep A | - - | 2.81% 1,376,990 |
| AA Global Growth Ltd | 4.08% 1,993,741 | - - |
| Goddard Enterprises Ltd | 2.51% 1,228,500 | - - |

Significant concentrations of debt securities are disclosed in Note 7.1.

7. FINANCIAL RISK

Financial risk factors

The Fund's activities of accepting funds from unit holders and investing these funds in a variety of financial and other assets expose the Fund to various financial risks.

Financial risks include credit, liquidity and market risks. Market risks arise from changes in interest rates, equity prices, currency exchange rates or other market factors. The effects of these risks are disclosed in the sections below.

The fund is also exposed to operations such as custody risk. Custody risk is the risk of loss of securities held in custody occasioned by the insolvency or negligence of the custodian.

The overriding objective of the Fund's risk management framework is to enhance its capital base through a focus on income generation by investment in competitively yielding income securities, long term capital growth and protection of capital against inherent business risks. This means that the Fund accepts certain levels of risk in order to generate returns, and the Fund manages the levels of risk assumed through risk management policies and procedures. Identified risks are assessed as to their potential financial impact and as to their likelihood of occurrence.

The effects of financial risks are disclosed in the sections below.

7.1 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 Fund. Credit risks are primarily associated with financial investments held.

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

All transactions in listed securities are settled or paid for upon delivery using approved brokers. The risk of default is considered minimal, as the local and regional exchanges act as clearing facilitators, ensuring that monies are placed in the clearing accounts.

In accordance with the Fund's policy, the Fund Manager and the Board of Directors of the Trustee monitor the Fund's credit position on a quarterly basis.

Rating of financial assets

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

- Investment portfolios, comprising debt securities, deposits and cash;

In sections 7.2 and 7.3 below, we set out various credit risks and exposures in accordance of assets measured in accordance with IFRS 9. In section 7.4, we set out risks and exposures of assets measured in accordance with IAS 39.

7. FINANCIAL RISK (continued)

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

The maximum exposures of the Fund to credit risk are set out in the following table.

| | 2018 | |
|---|-------------|-----|
| | \$ | % |
| Bonds | 99,415,464 | |
| Deposits | 17,395,600 | |
| Treasury bills | 99,436 | |
| Investment portfolio | 116,910,500 | 89 |
| Due from Sagicor (Equity) Fund | 15,469 | |
| Interest receivable and other receivables | 1,337,571 | |
| Cash resources | 13,266,010 | |
| Other financial assets | 14,619,050 | 11 |
| Total balance sheet exposures | 131,529,550 | 100 |

Credit Risk Exposure – financial investments subject to impairment

Financial assets carried at amortized cost are subject to credit impairment losses which are recognised in the statement of income.

The following tables contain analyses of the credit risk exposure of financial investments for which an ECL allowance is recognised.

| | Term Deposits – amortized cost | | | | |
|-----------------------|--------------------------------|-----------------------------|-----------------------------|------|------------|
| | 2018 | | | | |
| | ECL Staging | | | POCI | Total |
| | Stage 1 12-month ECL | Stage 2 life-time ECL | Stage 3 life-time ECL | | |
| December 31: | | | | | |
| Credit grade: | | | | | |
| Investment | 8,788,888 | - | - | - | 8,877,888 |
| Non-Investment | 1,651,426 | - | - | - | 1,651,426 |
| Watch | 7,209,024 | - | - | - | 7,209,024 |
| Unrated | - | - | - | - | - |
| Gross carrying amount | 17,649,338 | - | - | - | 17,649,338 |
| Loss allowance | (253,738) | - | - | - | (253,738) |
| Carrying amount | 17,395,600 | - | - | - | 17,395,600 |

7. FINANCIAL RISK (continued)

7.3 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;

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.

| | Term Deposits – amortized cost | | | | |
|--|--------------------------------|-----------------------------|---|------|-----------|
| | 2018 | | | | |
| | ECL Staging | | | POCI | Total |
| Stage 1 12-month ECL | Stage 2 life-time ECL | Stage 3 life-time ECL | | | |
| Loss allowance at January 1, 2018 | (143,898) | - | - | - | (143,898) |
| Changes to inputs used in ECL calculation | (109,840) | - | - | - | (109,840) |
| Loss allowance at December 31, 2018 | (253,738) | - | - | - | (253,738) |
| Credit impairment recorded in income | | | | | (109,840) |

(a) Economic variable assumptions

The Fund 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 | 2019 | 2020 | 2021 |
| Unemployment rate (USA) | | | | | | |
| Base | 4.2% | 4.3% | 4.4% | 4.7% | 4.2% | 4.3% |
| Upside | 4.0% | 4.2% | 4.3% | 4.4% | 4.0% | 4.2% |
| Downside | 4.4% | 4.7% | 4.8% | 5.2% | 4.4% | 4.7% |
| World GDP | | | | | | |
| Base | 3.7% | 3.7% | 3.6% | 3.7% | 3.7% | 3.7% |
| Upside | 5.4% | 5.4% | 5.4% | 5.6% | 5.4% | 5.4% |
| Downside | 2.8% | 2.8% | 2.7% | 2.8% | 2.8% | 2.8% |

7. FINANCIAL RISK (continued)

7.3 Credit impairment losses - financial assets subject to impairment (IFRS 9 basis) (continued)

(b) 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.

As at September 30, 2018 the negotiations of the new bond were materially completed and on October 3, 2018 Sagicor signed an agreement with the Government of Barbados which outlined the terms of the debt exchange. In exchange for its debt, the Fund has accepted the following securities:

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.

7. FINANCIAL RISK (continued)

7.3 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 |

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 |
|---|----------------------|
| Gross carrying value prior to default | 31,090,500 |
| Fair value adjustment prior to default | (8,883,000) |
| Net carrying value prior to default | 22,207,500 |
| Accrued interest, ECL and other adjustments | 790,079 |
| Carrying value as of October 3, 2018 | 22,997,579 |
| Fair value on recognition of replacement securities | 22,502,224 |
| Loss on de-recognition of original securities | (495,355) |

7. FINANCIAL RISK (continued)

7.4 Credit risk – financial investments measured on IAS 39 basis

The maximum exposures of the Fund to credit risk without taking into account any collateral or credit enhancements are set out below.

| | 2017 | |
|---|-------------|-----|
| | \$ | % |
| Bonds | 95,316,734 | |
| Deposits | 16,992,188 | |
| Treasury bills | 100,222 | |
| Investment portfolio | 112,409,144 | 82 |
| Due from Sagicor (Equity) Fund | 23,832 | |
| Interest receivable and other receivables | 5,833,341 | |
| Cash resources | 19,122,747 | |
| Other financial assets | 24,979,920 | 18 |
| Total balance sheet exposures | 137,389,064 | 100 |

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

| | | Investment portfolios | |
|-----------------------|-----------------|-----------------------|----------------|
| | | 2017 | |
| Risk rating | Classification | Exposure \$000 | Exposure \$000 |
| 1 | Minimal risk | 61,078 | 0% |
| 2 | Low risk | 4,671,113 | 4% |
| 3 | Moderate risk | 19,592,978 | 17% |
| 4 | Acceptable risk | 12,963,695 | 12% |
| 5 | Average risk | 33,947,148 | 30% |
| 6 | Higher risk | 39,898,453 | 36% |
| 7 | Special mention | 1,274,679 | 1% |
| 8 | Substandard | - | 0% |
| 9 | Doubtful | - | 0% |
| 10 | Loss | - | 0% |
| TOTAL RATED EXPOSURES | | 112,409,144 | 100% |
| UN-RATED EXPOSURES | | - | 0% |
| TOTAL | | 112,409,144 | 100% |

7. FINANCIAL RISK (continued)

7.4 Credit risk – financial investments measured on IAS 39 basis (continued)

The Fund's largest exposures to individual counterparty credit risks exceeding 2.5% of total exposures as of December 31 as rated by Standard & Poors or equivalent, with their comparative amounts are set out below.

| | Risk rating | 2018 \$ | Risk rating | 2017 \$ |
|---|----------------|------------|----------------|------------|
| Debt securities: | | | | |
| Government of Barbados – denominated in Barbados dollars | B- | 23,895,526 | CCC | 33,090,753 |
| Commonwealth of Bahamas – denominated in United States dollars | BB+ | 9,685,106 | BB+ | 9,961,385 |
| Government of Bermuda – denominated in United States dollars | A+ | 9,693,172 | A+ | 2,769,959 |
| Government of St. Lucia – denominated in Eastern Caribbean dollars | - | 19,166,659 | - | 19,497,957 |
| Government of St. Lucia – denominated in Eastern Caribbean dollars | - | 12,382,275 | - | 12,890,664 |
| Government of Trinidad and Tobago – denominated in United States dollars | BBB+ | 7,451,549 | BBB+ | 8,275,444 |
| First Citizens Bank Ltd – denominated in United States dollars | BBB | 4,024,646 | - | - |
| Deposits: | | | | |
| Barbados Public Workers Co-Op | CCC+ | 2,902,859 | - | 2,882,602 |
| Capital Financial Service Inc | CCC+ | 4,066,191 | - | - |
| First Citizens Investment Services (Barbados) Limited | BBB | 3,559,182 | BBB | 7,287,811 |
| Cash resources: | | | | |
| CIBC FirstCaribbean International Bank | - | 2,565,232 | - | 8,588,557 |

7. FINANCIAL RISK (continued)

7.4 Credit risk – financial investments measured on IAS 39 basis (continued)

(a) Past due and impaired financial investments

A financial asset is past due when a counterparty has failed to make payment when contractually due.

The Fund is most exposed to the risk of past due assets with respect to their financial investments namely debt securities. 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.

The following tables set out the carrying values of debt securities analysed by past due or impairment status.

| | 2017 |
|--|-------------------|
| | Debt |
| | securities |
| | \$ |
| | <hr/> |
| Neither past due nor impaired | 93,387,502 |
| Past due up to | 1,079,154 |
| Past due up to 12 months, but not impaired | 950,300 |
| Past due up to 5 years, but not impaired | - |
| Past due over 5 years, but not impaired | - |
| Total past due but not impaired | <hr/> 2,029,454 |
| Impaired assets | - |
| Total carrying value | <hr/> 95,416,956 |

(b) Renegotiated assets

The Fund 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 Fund classifies these amounts as past due, unless the original agreement is formally revised, modified or substituted, in which case, the financial investment is classified as renegotiated.

7. FINANCIAL RISK (continued)

7.5 Liquidity risk

The Fund is exposed to daily calls on its available cash resources for redemptions and operating expenses. Liquidity risk is the exposure that the Fund may have insufficient cash resources to meet these obligations as they become due. Liquidity risk also arises when excess funds accumulate resulting in the loss of opportunity to increase investment returns.

In order to manage liquidity risks, management seeks to maintain levels of cash and deposits which are sufficient to meet reasonable expectations of its short term obligations. If necessary, the Fund's secondary source of liquidity is its highly liquid instruments in its investment portfolio.

In accordance with the Fund's policy, the Fund Manager and the Board of Directors of the Trustee monitor the Fund's liquidity position on a quarterly basis.

Contractual cash flow obligations of the Fund in respect of its financial liabilities 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.

(a) Financial liabilities

As of December 31, 2018 and 2017, all of the Fund's financial liabilities are due on demand.

7. FINANCIAL RISK (continued)

7.5 Liquidity risk (continued)

(b) Financial assets

The Fund's monetary financial assets mature in periods which are summarised in the following tables. Amounts are stated at their carrying values recognised in the financial statements and are analysed by their contractual maturity dates.

| As of December 31, 2018 | Maturing within 1 year \$ | Maturing within 1 to 5 years \$ | Maturing after 5 years \$ | Total \$ |
|--------------------------------|------------------------------------|--|------------------------------------|--------------------|
| Due from Sagicor (Equity) Fund | 15,469 | - | - | 15,469 |
| Interest and other receivables | 1,337,571 | - | - | 1,337,571 |
| Debt securities | 10,788,092 | 16,276,998 | 72,449,810 | 99,514,900 |
| Deposits | 17,395,600 | - | - | 17,395,600 |
| Cash resources | 13,266,010 | - | - | 13,266,010 |
| Total | 42,802,742 | 16,276,998 | 72,449,810 | 131,529,550 |

| As of December 31, 2017 | Maturing within 1 year \$ | Maturing within 1 to 5 years \$ | Maturing after 5 years \$ | Total \$ |
|--------------------------------|------------------------------------|--|------------------------------------|--------------------|
| Due from Sagicor (Equity) Fund | 23,832 | - | - | 23,832 |
| Interest and other receivables | 5,833,341 | - | - | 5,833,341 |
| Debt securities | 10,687,513 | 34,838,309 | 49,891,134 | 95,416,956 |
| Deposits | 16,992,188 | - | - | 16,992,188 |
| Cash resources | 19,122,747 | - | - | 19,122,747 |
| Total | 52,659,621 | 34,838,309 | 49,891,134 | 137,389,064 |

7. FINANCIAL RISK (continued)

7.5 Liquidity risk (continued)

Redeemable units are redeemed at the option of the holder. However, the Board of Directors of the trustee does not envisage that unit holders will redeem their units as they typically hold them for the long-term. At December 2017, one individual unit holder held more than 9.7% of the fund's units. The fund manages its liquidity risk by investing in security that it expects to be able to liquidate within a short period.

The following table shows the ordinary redemption periods of the Investee Funds held.

| As of December 31, 2018 | Less than 7 Days | Monthly | Quarterly | Semi Annually | 1-5 Years | More than 5 years |
|--------------------------------------|---------------------|-----------|-----------|------------------|-----------|----------------------|
| Funds and Alternative Investments | 2,144,370 | 2,708,902 | 746,969 | 2,765,025 | 461,460 | - |
| As of December 31, 2017 | Less than 7 Days | Monthly | Quarterly | Semi Annually | 1-5 Years | More than 5 years |
| Funds and Alternative Investments | 1,775,920 | 1,183,367 | 1,438,943 | 2,710,974 | - | 522,410 |

7. FINANCIAL RISK (continued)

7.6 Market risk

Interest Rate Risk

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

The Fund 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.

In accordance with the Fund's policy, the Fund Manager and the Board of Directors of the Trustee monitor and review the Fund's overall interest sensitivity on a quarterly basis.

Financial liabilities

As of December 31, 2018 and 2017, all of the Fund's financial liabilities were non-interest bearing and therefore not exposed to interest rate risk.

7. FINANCIAL RISK (continued)

7.6 Market risk (continued)

Interest Rate Risk (continued)

(b) Financial assets

The table below summarises the exposures to interest rate risks of the Fund's financial assets. It includes assets at carrying amounts categorised by the earlier of contractual repricing or maturity dates.

| As of December 31, 2018 | Exposure within 1 year \$ | Exposure of 1 to 5 years \$ | Exposure after 5 years \$ | Not exposed to interest \$ | Total \$ |
|--------------------------------|------------------------------|--------------------------------|------------------------------|-------------------------------|-------------|
| Due from Sagicor (Equity) Fund | - | - | - | 15,469 | 15,469 |
| Interest and other receivables | - | - | - | 1,337,571 | 1,337,571 |
| Debt securities | 10,602,392 | 16,056,995 | 71,564,558 | 1,290,955 | 99,514,900 |
| Equity securities | - | - | - | 48,888,758 | 48,888,758 |
| Deposits | 17,123,669 | - | - | 271,931 | 17,395,600 |
| Cash resources | - | - | - | 13,266,010 | 13,266,010 |
| Total | 27,726,061 | 16,056,995 | 71,564,558 | 65,070,694 | 180,418,308 |
| As of December 31, 2017 | Exposure within 1 year \$ | Exposure of 1 to 5 years \$ | Exposure after 5 years \$ | Not exposed to interest \$ | Total \$ |
| Due from Sagicor (Equity) Fund | - | - | - | 23,832 | 23,832 |
| Interest and other receivables | - | - | - | 5,833,341 | 5,833,341 |
| Debt securities | 10,548,706 | 34,469,853 | 49,041,317 | 1,357,080 | 95,416,956 |
| Equity securities | - | - | - | 48,973,382 | 48,973,382 |
| Deposits | 16,742,233 | - | - | 249,955 | 16,992,188 |
| Cash resources | - | - | - | 19,122,747 | 19,122,747 |
| Total | 27,290,939 | 34,469,853 | 49,041,317 | 75,560,337 | 186,362,446 |

7. FINANCIAL RISK (continued)

7.6 Market risk (continued)

Interest Rate Risk (continued)

(b) Financial assets (continued)

The table below summarises the average interest yields on financial assets held during the year.

| | 2018 | 2017 |
|-----------------|-------------|-------------|
| Debt securities | 6.0% | 6.5% |
| Deposits | 2.1% | 2.5% |

Sensitivity

The effect of a 1% change in interest rates, with all other variables remaining constant, to the fair value of the interest bearing financial assets at the date of the financial statements is as follows.

| As of December 31, 2018 | | \$ |
|---|--|-------------|
| Total interest bearing financial assets carried at fair value | | 98,223,945 |
| The fair value impact of an increase in interest rates of: | | (6,162,282) |
| The fair value impact of a decrease in interest rates of: | | 7,053,080 |

7. FINANCIAL RISK (continued)

7.6 Market risk (continued)

Foreign exchange risk

The Fund is exposed to foreign exchange risk as a result of fluctuations in exchange rates since its financial assets are denominated in a number of different currencies. In order to manage foreign exchange risk, the Fund monitors the fluctuation in foreign exchange rates on a periodic basis. The Fund's exposure to foreign exchange risk is however not considered to be significant.

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

| As of December 31, 2018 | Balances denominated in | | | | | Total \$ |
|-----------------------------------|-------------------------|-------------------|---------------|-------------------|----------------|--------------------|
| | EC \$ | Barbados \$ | Jamaica \$ | US \$ | TT \$ | |
| ASSETS | | | | | | |
| Due from Sagicor (Equity) Fund | 1,428 | - | - | 14,041 | - | 15,469 |
| Interest and other receivables | 1,237,574 | 63,679 | - | 36,318 | - | 1,337,571 |
| Financial investments | 47,440,142 | 40,021,292 | - | 77,389,595 | 948,229 | 165,799,258 |
| Cash resources | 2,565,232 | 1,126,478 | - | 9,574,300 | - | 13,266,010 |
| Total assets | 51,244,376 | 41,211,449 | - | 87,014,254 | 948,229 | 180,418,308 |
| LIABILITIES | | | | | | |
| Due to Sagicor Life Inc | 85,941 | - | - | - | - | 85,941 |
| Due to Sagicor (Bonds) Fund | 59,688 | - | - | - | - | 59,688 |
| Accounts payable | 544,463 | - | - | 49,972 | - | 594,435 |
| Total liabilities | 690,092 | - | - | 49,972 | - | 740,064 |
| Net position | 50,554,284 | 41,211,449 | - | 86,964,282 | 948,229 | 179,678,244 |

7. FINANCIAL RISK (continued)

7.6 Market risk (continued)

Foreign exchange risk (continued)

| As of December 31, 2017 | Balances denominated in | | | | | Total \$ |
|-----------------------------------|-------------------------|-------------------|---------------|-------------------|-----------------|--------------------|
| | EC \$ | Barbados \$ | Jamaica \$ | US \$ | TT \$ | |
| ASSETS | | | | | | |
| Due from Sagicor (Equity) Fund | 10,049 | - | - | 13,783 | - | 23,832 |
| Interest and other receivables | 5,750,471 | 72,351 | - | - | 10,519 | 5,833,341 |
| Financial investments | 50,334,725 | 46,504,758 | - | 63,644,746 | 898,297 | 161,382,526 |
| Cash resources | 8,588,557 | 2,349,419 | - | 8,184,771 | - | 19,122,747 |
| Total assets | 64,683,802 | 48,926,528 | - | 71,843,300 | 908,816 | 186,362,446 |
| LIABILITIES | | | | | | |
| Due to Sagicor Life Inc | 7,046,038 | - | - | - | - | 7,046,038 |
| Due to Sagicor (Bonds) Fund | 362,753 | - | - | - | - | 362,753 |
| Accounts payable | 337,258 | - | - | 793 | - | 338,051 |
| Total liabilities | 7,746,049 | - | - | 793 | - | 7,746,842 |
| Net position | 56,937,753 | 48,926,258 | - | 71,842,507 | 908,8016 | 178,615,604 |

7. FINANCIAL RISK (continued)

7.6 Market risk (continued)

Foreign exchange risk (continued)

Sensitivity

The Fund is exposed to currency risk in respect of financial investments denominated in currencies whose values have noticeably fluctuated against the Eastern Caribbean dollar.

The exposure to currency risk may arise in relation to the future cash flows of a financial instrument.

The most common example of this occurring in the Fund is a financial investment which is denominated in a currency other than the functional currency. In this instance, a change in currency exchange rates results in the financial investment being retranslated and the exchange gain or loss is taken to income and is included in note 9.

The currency whose value has noticeably fluctuated against the Eastern Caribbean dollar (ECD) is the Trinidad dollar (TTD). The theoretical impact of the TTD on reported results is considered below.

The effect of a 10% depreciation in the TTD relative to the ECD arising from TTD financial investments as of December 31, 2018 and for the year then ended is considered below.

| | Balances denominated in TTD \$ | Effect of a 10% depreciation on income as of Dec 31, 2018 \$ |
|--------|---|--|
| Assets | 948,229 | (94,822) |

7. FINANCIAL RISK (continued)

7.6 Market risk (continued)

Price Risk

The Fund is exposed to other price risk arising from changes in equity prices. The Fund mitigates this risk by holding a diversified portfolio and by selection of securities and other financial instruments within specified limits set by the Board of Directors of the Trustee.

The Fund's policy also limits individual equity securities to no more than 10% of the full portfolio.

The majority of the Fund's equity investments are publicly traded. The Fund's policy requires that the overall market position is monitored on a daily basis by the Fund Manager and reviewed on a quarterly basis by the Board of Directors of the Trustee.

Sensitivity

The effects of an across the board 20% decline in equity prices of the Fund's fair value through profit or loss equity securities, at balance sheet date is set out below.

| | Fair value \$ | Effect of a 20% decline at Dec 31, 2018 \$ |
|---|------------------|---|
| Fair value through profit or loss equity securities: | | |
| Common and preference shares - listed | 40,059,581 | (8,011,916) |
| Common shares - unlisted | 2,451 | (490) |
| Alternative investments - unlisted | 8,826,726 | (1,765,345) |
| | 48,888,758 | (9,777,751) |

7. FINANCIAL RISK (continued)

7.7 Fair value of financial instruments

Financial instruments carried at fair value in the financial statements are measured in accordance with a fair value hierarchy. This hierarchy is as follows:

(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 Fund 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 market trading of the instrument.

In assessing the fair value of non-traded financial liabilities, the Fund 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.

(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 inputs that are not based on observable market data.

Level 3 financial assets designated at fair value through profit or loss comprise primarily of corporate and government agency debt instruments issued in the Caribbean. 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 techniques and methods described in Note 2.3 (c) for non traded financial assets and liabilities are used in the determination of the fair values of Level 3 instruments.

7. FINANCIAL RISK (continued)

7.7 Fair value of financial instruments (continued)

The following table shows the financial assets carried at fair value as of December 31 on a recurring basis by level of the fair value hierarchy.

| 2018 | Level 1 | Level 2 | Level 3 | Total |
|--|-------------------|-------------------|-------------------|--------------------|
| Financial assets at fair value through profit and loss: | \$ | \$ | \$ | \$ |
| Debt securities | 8,136,071 | 27,895,429 | 63,483,400 | 99,514,900 |
| Common shares | 20,168,598 | 19,841,966 | 2,451 | 40,013,015 |
| Alternative investments | - | 3,888,816 | 4,937,910 | 8,826,726 |
| Preferred shares | 49,017 | - | - | 49,017 |
| Total assets | 28,353,686 | 51,626,211 | 68,423,761 | 148,403,658 |
| Total assets by percentage | 19% | 35% | 46% | 100% |

| 2017 | Level 1 | Level 2 | Level 3 | Total |
|--|-------------------|-------------------|-------------------|--------------------|
| Financial assets at fair value through profit and loss: | \$ | \$ | \$ | \$ |
| Debt securities | 4,067,076 | 21,664,035 | 69,685,845 | 95,416,956 |
| Common shares | 21,460,134 | 19,832,504 | 2,451 | 41,295,089 |
| Alternative investments | - | 3,284,524 | 4,347,090 | 7,631,614 |
| Preferred shares | 46,679 | - | - | 46,679 |
| Total assets | 25,573,889 | 44,781,063 | 74,035,386 | 144,390,338 |
| Total assets by percentage | 18% | 31% | 51% | 100% |

7. FINANCIAL RISK (continued)

7.7 Fair value of financial instruments (continued)

The table below provides information about the fair value measurements using significant unobservable inputs (level 3).

| Description | Fair Value at December 31 | | Valuation Technique | Unobservable Inputs | Range of Inputs | | Relationship of Unobservable Inputs to fair value |
|-------------------------|---------------------------|------------|-----------------------|---|----------------------------|----------------------------|---|
| | 2018 \$ | 2017 \$ | | | 2018 | 2017 | |
| Debt securities | 63,483,400 | 69,685,845 | Discounted Cash Flows | Risk Adjusted Market Yields | 2.8% - 11.3% Avg (5.4%) | 3.0% - 17.6% Avg (6.0%) | The effect of a 1% increase in interest rates would decrease the fair value by (\$3,852,593) and a 1% decrease in interest rates would increase the fair values by \$4,478,518. |
| Common shares | 2,451 | 2,451 | Book Value Per Share | Net Assets divided by number of shares issued | \$0.01 | \$0.01 | The higher the Net Assets, the higher the book value. |
| Alternative investments | 4,937,910 | 4,347,090 | Third Party Valuation | Share of Partners' Equity | N/A | N/A | Reliance is placed on third party information, which is not readily available for disclosure. |

The fair values of the equities securities in Level 3 are based upon prices determined by the investee fund managers and administrators.

7. FINANCIAL RISK (continued)

7.7 Fair value of financial instruments (continued)

The following table presents the movement in Level 3 instruments for the year:

| | 2018 \$ | 2017 \$ |
|---------------------------------------|-------------------|-------------------|
| Balance, beginning of year | 74,035,386 | 68,153,809 |
| Fair value changes recorded in income | (9,004,458) | (114,713) |
| Additions | 35,295,724 | 30,303,158 |
| Transfers in | - | - |
| Disposals | (31,688,266) | (24,355,258) |
| Effect of accrued interest | (214,625) | 48,390 |
| Balance, end of year | 68,423,761 | 74,035,386 |

Unrealised gains/(losses) of \$157,350 (2017 - \$(182,561)) on level 3 assets held at the end of the period are included in Net investment gains on financial investments.

7.7 Capital risk management

The capital of the Fund is represented by unit holders' equity. Unit holders' equity changes on a daily basis as the Fund is subject to the redemption and issue of units at the discretion of unit holders. The Fund's objective when managing capital is to safeguard the Fund's ability to continue as a going concern in order to provide returns for unit holders and to maintain a strong capital base to support the development of the investment activities of the Fund.

In order to maintain or adjust the capital structure, the Fund's policy is to redeem and issue units in accordance with the terms of the trust deed which includes the ability to restrict redemptions.

The Board of Directors of the Trustee and Fund Manager monitor capital on the basis of unit holders' equity.

8 INTEREST INCOME

The Fund manages its financial investments by the type of financial instrument (i.e. debt securities, equity securities, deposits, etc) and the income there-from is presented accordingly.

| | 2018 \$ | 2017 \$ |
|-----------------------|------------------|------------------|
| Debt securities | 5,637,251 | 5,786,559 |
| Deposits | 386,958 | 383,092 |
| Total interest income | 6,024,209 | 6,169,651 |

9. NET INVESTMENT GAINS

| | 2018 \$ | 2017 \$ |
|---|--------------|------------|
| Foreign exchange losses | (35,448) | (6,831) |
| Loss on bond restructure | (495,355) | (367,291) |
| Net (losses)/gains on financial investments | (13,344,470) | 5,890,777 |
| ECL Movement | (109,840) | - |
| Net investment (losses)/ gains | (13,985,113) | 5,456,831 |

10. RELATED PARTY TRANSACTIONS

(a) Material related party transactions

| | 2018 \$ | 2017 \$ |
|-----------------------------------|------------|------------|
| Management fee - Sagicor Life Inc | 1,558,457 | 1,553,546 |

(b) Units held by related parties

Parties related to the Fund held units in the Fund during the year as follows:

| Sagicor Finance Inc. | 2018 \$ | 2017 \$ |
|--|------------|------------|
| Value of units held at January 1 | 210,038 | 184,662 |
| Net value of transactions for the year | 8,009 | 25,376 |
| Value of units at December 31 | 218,047 | 210,038 |

11. COMMITMENTS

At December 31, 2018, the Fund's total committed capital to private equity strategies was \$1,026,000 (2017 - \$1,026,000). At that date, \$291,875 (2017 - \$381,513 of this commitment remained undrawn.



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