Sagicor
GENERAL

2018
SAGICOR GENERAL ANNUAL REPORT

Ensuring Growth

CORPORATE

Sagicor GENERAL
Wise Financial Thinking for Life

OVERVIEW

We have been in existence for 130 years offering a comprehensive range of general insurance solutions to individuals and companies. In July 2003, a Special Resolution was passed by the shareholders authorising an amendment to the Articles of Incorporation to change the name of the company from Barbados Fire and Commercial Insurance Company Limited to Sagicor General Insurance Inc.

Sagicor General has a financial rating of A - (Excellent) issued by A. M. Best after a thorough quantitative and qualitative review of the company, taking into consideration financial performance, balance sheet strength, as well as underwriting and claims philosophies.

Our product lines include Commercial Fire, Residential, Motor, Engineering, Bonds, Marine, Liability and various Miscellaneous classes.

Our main premium revenue is realised from the Property portfolio which accounts for approximately 49% of revenue. Motor is 38% while the Marine and Accident portfolios account for 13%.

Sagicor General is continuing on an expansion drive to increase its market share, either through organic growth or by way of mergers or acquisitions. We will also extend our reach into other territories.

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MISSION

Our mission is to become the leading P&C provider in the Caribbean. We will achieve this by crafting a customer centric organization driven by inspired and engaged people.

VISION

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

CHAIRMAN & CEO'S REPORT

While the region experienced a relatively inactive hurricane season, 2018 presented a number of new challenges to the regional general insurance industry. Notwithstanding these challenges and the continuation of tough economic conditions in the markets in which we operate, we are pleased to report an improved operating performance in 2018.

Economic growth within the Caribbean trended upwards for most islands except for Anguilla, Dominica and Saint 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.

2018 was particularly challenging for the Barbados economy. The worrisome 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. This engagement included the suspension of commercial external debt payments and the restructuring of its domestic debt portfolio.

Under the four-year economic adjustment programme with the IMF, the Government aims to deepen fiscal adjustment, stimulate medium-term economic growth and maintain the fixed exchange rate anchor. The programme provides phased access to US $290 million over the

DR M. PATRICIA DOWNES-GRANT

Chairman

KESTON HOWELL

President and Chief Executive Officer

CHAIRMAN & CEO'S REPORT

programme period and is expected to further catalyze 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.

Trinidad, our largest market saw growth of about 1.9% during 2018, however the historic flooding in October 2018 along with the earthquake impacted the local general insurance industry in excess of US$30 million in claims. 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, the 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.

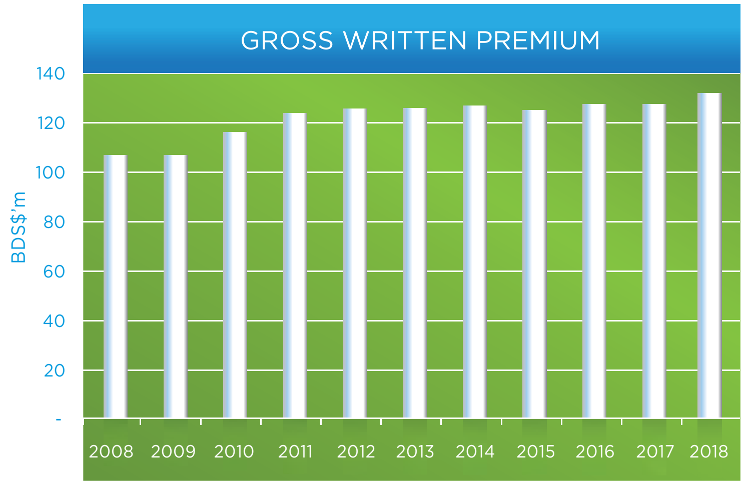
The Eastern Caribbean experienced growth of about 3% overall. The key markets in which we operate had mixed levels of economic growth. In St. Lucia economic growth decelerated to 0.6% in 2018 from 3.7% in 2017. Dominica recorded negative GDP growth of approximately 5% as the country continues to rebuild after Hurricane Maria. Antigua showed growth of 7% driven by increased construction activity and the growth in tourism.

The continuation of sluggish economic growth in key markets, a major debt restructure in Barbados, intense market competition, irrational market pricing which belies the reality of the high risk of natural disasters, and the accompanying increasing reinsurance costs provide the backdrop to our report on an encouraging 2018 financial performance.

Underwriting

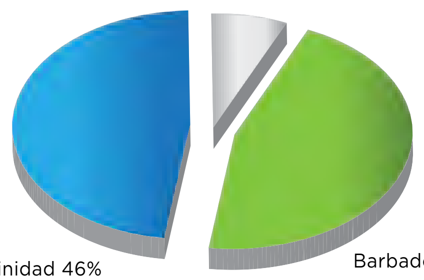
Gross written premium (GWP) grew by 3.2% to $132.5 million with the growth being positively impacted by the acquisition of Harmony General on September 1, 2018. The markets continue to be intensely competitive with downward pressure on average rates in most markets.

Enhanced service levels and client experience were the key drivers, which resulted in improved renewal retention rates as well as new business when compared to the prior year.



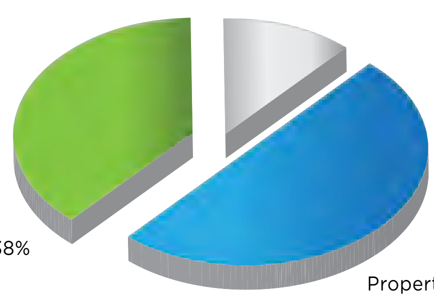
Trinidad and Tobago continues to be our leading market, generating 46% of GWP, while Barbados grew to 44% of GWP following the acquisition of Harmony General during the year. The operations in St. Lucia, Antigua, Dominica and Bahamas accounted for 10% of GWP

2018 GROSS WRITTEN PREMIUM BY TERRITORY



Regarding revenue by class of business, our property portfolio is the largest contributor accounting for 50% of total GWP. Our Motor portfolio accounts for 38% of GWP with Accident and Liability contributing the remaining 12%.

GROSS WRITTEN PREMIUM BY BUSINESS CLASS



Net premiums increased by 17% over the prior year. We continue to see the impact of the adjustment to the company's reinsurance program as we assume more risk on the motor portfolio, thus retaining more of its gross written premium.

Overall Total Revenue increased by $4.4 million or 5.28% to $88.1 million.

Claims

The loss ratio for 2018 started trending back to normal levels from the 91.9% recorded in 2017 in the wake of Hurricane Maria. The 2018 loss ratio of 55.9% was higher than expected as a result of the level of claims from the flooding and earthquake in Trinidad during Q4 as well as an overall increase in motor claims reported in the Barbados market.

Operating Income

Operating income increased from $14.6 million in 2017 to $35.1 million in 2018. This performance was encouraging given the decline of average premium rates over the last several years. The

B$'000	2018	2017
Gross Premiums	132,545	128,466
Reinsurance Expense	(64,920)	(70,470)
Net Premiums	67,625	57,996
Fees and other revenue	17,722	21,873
Total Revenue- Insurance Operations	85,347	79,869
Investment Income	3,745	4,376
Total Revenue	89,092	84,245
Claims incurred	(37,773)	(53,497)
Acquisition Expenses	(16,217)	(16,131)
Operationg Income	35,102	14,617

higher than budgeted loss ratio of 55.8% and depressed investment income thwarted what could have been one of our stronger operational performances in recent years. Exclusion of the claims arising from the floods and earthquake in Trinidad and Tobago would have led to a loss ratio of 53% and an operating income of B$36.7 million. This higher than budgeted loss ratio, even with the exclusion of these "catastrophe like" claims emphasizes the negative impact of the deteriorating claims performance on the Barbados motor book. This portfolio will receive additional focus in 2019.

Investments

Investment income for 2018 was impacted by the Government of Barbados (GOB) debt restructuring which saw the average interest rate declining from around 7% per annum to 1%.

SGI's investment philosophy remains conservative. The restrictions placed by the regulators on the type of investments that can be held largely dictates the composition of our existing portfolio which comprises mainly government bonds, cash and short-term deposits. The income stream from investments continues to provide earnings diversification for the company.

Expenses

Total expenses for 2018 were $55.7 million. Administrative expenses totaled $30.9 million which was $2.4 million over 2017. A little over $1 million of this increase is related to administrative expenses from Harmony General for the period September to December 2018, given the completion of the amalgamation on August 31 2018. The other portion is related to one off costs of $2.3 million, attributed to the Harmony General acquisition ($0.5 million), severance payments ($1 million) based on the organizational restructure completed during the year and professional fees ($0.8 million) incurred on strategic due diligence exercises. Total expenses were also impacted by interest expense on the shareholder's loan and credit losses of $2.932 million resulting from the implementation of IFRS 9 and the GoB restructuring.

Net Income/Comprehensive Income

Net losses before taxes totaled $5.3 million. Excluding the net results from our associated company Globe Finance as well as the one-off expenses and credit losses referred to above, the company would have generated a pre-tax profit of $0.9 million.

After tax losses were $11.3 million after taxes of $6 million. During the year the Government of Barbados reduced the corporation tax rate for 2019 onwards from 30% to 2% for insurance companies and this resulted in a reduction of the deferred tax asset by $3.0 million, in addition current taxes inclusive of corporation tax, levies and tax on assets totalled $3.0 million. Comprehensive losses of $13.7 million were incurred after losses arising from retranslation of foreign currency operations and losses on the defined benefit pension plans.

Financial Position

The company's financial position remains strong. Shareholders' equity declined from $53.0 million to $38.7 million given the net comprehensive loss for the year of $13.7 million.

Total assets now stand at over $241.3 million, an increase of 6.0% over the prior year reaffirming the company's financial strength and stability.

During the year, A.M. Best conducted their annual review and has reaffirmed the company's A- (Excellent) financial rating. This rating is the outcome of a due diligence on the company's financial and operating performance and reflects the rater's assessment of the company's financial strength, inclusive of the backing of its main shareholder Sagicor Life Inc along with strong brand name recognition. The rating also takes into consideration the structure of our comprehensive reinsurance program backed by quality reinsurers.

Organisational & Leadership Changes

2018 also saw the company restructure its operations in order to flatten the organization structure and improve operational efficiencies. In Barbados, Mark Prescott was appointed Vice President Insurance operations for Barbados and Dexter McKnight was appointed Vice President Insurance operations for Trinidad and Tobago.

Sagicor Life Inc also completed the acquisition of 45% of the company's outstanding shares from Goddard Enterprises Limited. Sagicor Life Inc now owns 98% of the outstanding shares of the company.

Looking forward

We anticipate that our business environment will continue to be challenging. Major challenges include low economic growth, declining corporate profits, falling disposable income, intense competition, uneconomic premium rates and another active hurricane season.

It will be important in this environment to remain disciplined and retain our focus on the proper execution of our key strategic initiatives. We will resist the temptation to compete on price and ensure appropriate risk selection and pricing. We will improve operational efficiencies and our expense ratio through organizational restructure, process mapping and the strategic use of technology. We will retain a laser sharp focus on ensuring that we continually improve our customer experience. We will develop our leadership and our people to ensure that we maintain our cultural standards of integrity, accountability, urgency, teamwork and service excellence. We will remain vigilant to acquisition opportunities to achieve improved economies of scale, risk diversification and increased market share. We will achieve all this while ensuring that we comply with the strict regulatory and compliance framework which govern our industry.

We are confident that we are on the right path to building a strong and profitable company that will live up to the high expectations of our various stakeholders. On behalf of the Board of Sagicor General, we wish to thank our policyholders, clients, management, staff, insurance advisors and business partners for their continued and valued support to Sagicor General.

Sagicor General Insurance Inc.

BOARD OF DIRECTORS

BOARD OF DIRECTORS

DR. M. PATRICIA DOWNES-GRANT
CHAIRMAN

Dr. Downes-Grant, joined Sagicor Life Inc. in 1991 where she held several senior positions, including Group Chief Operating Officer; and Treasurer and Executive Vice President (Finance and Investments) before being appointed as Chief Executive Officer and President on January 1, 2006. She holds an MBA in Finance, an MA in Economics, and a Doctorate in Business Administration (Finance). Prior to joining Sagicor, Dr. Downes-Grant was a Senior Manager in the Management, Consulting and Insolvency Division of Coopers & Lybrand (now PricewaterhouseCoopers).

Dr. Downes-Grant has more than 20 years of work experience in insurance, banking and asset management. She is a former Chairman of the Barbados Stock Exchange and Barbados Central Securities Depository and a Director of several companies within the Sagicor Group and within the private sector of Barbados. In 2014, Dr. Downes-Grant was honored for her services to the financial industry and was awarded a Commander of the British Empire (CBE).

Dr. Downes-Grant was conferred with an Honorary Doctor of Laws degree by the University of the West Indies.

KESTON HOWELL
DIRECTOR

Mr. Keston Howell has been selected to assume the role of President and Chief Executive Officer of Sagicor General Insurance Inc effective October 1, 2017.

Mr. Howell has been a member of Sagicor Life Inc's (SLI) executive management team since 2005. Recently he held the post of Executive Vice President and General Manager, SLI with responsibility for the Dutch Caribbean, (Aruba, Curacao, St. Maarten) Belize and Panama. He currently serves as a Director on the Boards of Sagicor Finance Inc, Sagicor Asset Management Inc, and Sagicor Funds Inc.

His career includes key roles in the Financial Services Sector in Trinidad and Tobago where, as a member of the leadership team of RBTT Merchant Bank Limited, he served as Vice President - Risk & Control, and as an Assistant General Manager Syndication. Other appointments included senior roles at Scotiabank Trinidad & Tobago Limited and The Royal Bank of Trinidad and Tobago Limited. He is a Past President of the Securities Dealers Association of Trinidad & Tobago.

Mr. Howell has over 18 years in the banking and insurance industry.

Mr. Howell holds a B.Sc. Management Studies (Hons.) from The University of the West Indies, St. Augustine Campus, and an MBA Banking (Merit), from the University of London, London, England.

He is an avid Jazz enthusiast and an audiophile, who also enjoys gardening.

BOARD OF DIRECTORS

JOHN EDWARD CLARKE
DIRECTOR

Edward Clarke was appointed to the position of Chief Operating Officer for Sagicor Life Inc in September, 2010. Prior to this, he held the position of Group Internal Auditor. Mr. Clarke is a Fellow of the Association of Chartered Certified Accountants and is a Certified Internal Auditor with more than 25 years' experience in the field of auditing and finance.

Mr. Clarke began his accounting career at Pannell Fitzpatrick & Company Chartered Accountants (now Ernst & Young). He later joined Texaco and served as a senior member of its finance team in Barbados, Nigeria and the USA. Before joining Sagicor, Mr. Clarke was the Chief Finance Officer of Goddard Enterprises Limited.

Mr. Clarke is currently the Chairman of the Barbados Private Sector Association and the Immediate Past President of the Barbados Chamber of Commerce, a member of the UWI Campus Council and the National Non-Communicable Disease Commission; in this capacity, he advocates private enterprise to adopt Wellness progammes in their respective organisations with a view of encouraging healthier lifestyles not only among employees but also the wider public, thereby reducing the cost of healthcare in Barbados as it relates to NCDs.

In furthering this commitment, Sagicor Life Inc has been a strong supporter of the Healthy Caribbean Coalition.

Additionally, Mr. Clarke is a Director of the following companies: Barbados Farms Ltd., Sagicor Funds Inc, Sagicor Asset Management Inc, Sagicor General Insurance Inc and the Insurance Association of the Caribbean Inc., as well as Co-Chair of the Barbados Economic Recovery and Transformation (BERT) Monitoring Committee.

C. NATASHA SMALL
DIRECTOR

Mrs. Small was appointed to the position of Chief Financial Officer of Goddard Enterprises Limited effective January 1, 2008 after having acted in the post from April 1st, 2007. Previously she served as Group Financial Officer from April 1, 2006. Mrs. Small joined the Group on September 4, 2000 as Financial Controller of Hipac Limited. She held this position for five and a half years before being promoted to Head Office. Her activities involve planning and coordinating the Group' financial and investment activities as well as developing and coordinating the financial strategy of the Group; ensuring that adequate financial resources are available to accomplish the Group's business objectives; managing the corporate finance and accounting functions, managing cash flow investments and credit lines to maximise the productivity of the Group's financial resources.

Mrs. Small was educated at Queens College and the Barbados Community College. She attended the University of the West Indies, Cave Hill Campus where she obtained a Bachelor of Science degree with First Class Honours in Accounting. She is a fellow of the Association of Chartered Certified Accountants (FCCA), having qualified in September 2000. Prior to joining Goddard Enterprises Limited Group, Mrs. Small worked with Ernst & Young. She is currently a part-time lecturer at the University of the West Indies Cave Hill Campus. She was born in 1977.

BOARD OF DIRECTORS

RAVI RAMBARRAN
DIRECTOR

Mr. Rambarran is the Group Chief Operating Officer and the Head of the Southern Caribbean operations of Sagicor Financial Corporation Limited.

Mr. Rambarran is a Director of Sagicor Costa Rica, Sagicor USA, Sagicor General and a member of the executive committee that runs Sagicor Financial Corporation Limited.

Mr. Rambarran, an Open Mathematics Scholar, has a BSc Actuarial Science (First Class Honours) from The City University, London and MSc Finance from the University of London and is a Fellow of the Institute and Faculty of Actuaries.

Mr. Rambarran's experience spans over twenty years in the insurance, pensions and asset management industries. Mr. Rambarran's experiences include rehabilitating distressed insurance companies, raising capital in the international capital markets, mergers and acquisitions in the insurance space and developing insurance business extra regionally.

Mr. Rambarran has led and participated in committees for the reform of the insurance and pensions sectors in Jamaica. Ravi was a part time lecturer at the University of the West Indies, a former executive of the Caribbean Actuarial Association and representative for the Caribbean on the insurance committee of the International Actuarial Association.

He is a frequent speaker at regional and international conferences on insurance and pensions.

SAGICOR GENERAL INSURANCE INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2018

Independent auditor's report

To the Shareholders of Sagicor General Insurance Inc.

Our opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Sagicor General Insurance Inc. (the Company) 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 Company's financial statements comprise:

- the statement of financial position as at December 31, 2018;
- the statement of income for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity 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 *Auditor's 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 Company 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 obtained at the date of this auditor's report is comprised of the Annual Report (but does not include the financial statements and our auditor's report thereon).

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 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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

PricewaterhouseCoopers SRL, The Financial Services Centre, Bishop's Court Hill, P.O. Box 111, St. Michael, BB14004, Barbados, West Indies
T: +246-626-6700, F:+246-436-1275, www.pwc.com/bb

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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company 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.

Other Matter

This report is made solely to the Company's shareholders, as a body, in accordance with Section 147 of the Companies Act of Barbados. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law and subject to any enactment or rule of law to the contrary, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinion we have formed.

PricewaterhouseCoopers SRL

Bridgetown, Barbados
May 31, 2019

As at December 31, 2018 Amounts expressed in Barbados dollars $000's

	Notes	2018	2017
ASSETS			
Property, plant and equipment	5	10,522	11,913
Property held-for-sale	31	2,750	3,150
Investment in associated company	6	-	3,156
Intangible Assets	7	6,025	-
Financial investments	9	96,831	76,365
Reinsurance assets	10	52,428	54,628
Income tax assets	11	1,997	6,000
Premiums receivable and deferred acquisition costs	12	33,611	32,446
Provisions	15	245	245
Miscellaneous assets and receivables	13	2,465	1,403
Cash and cash equivalents		34,431	38,178
Total assets		**241,305**	**227,484**
LIABILITIES			
Policyholders' liabilities	14	141,761	134,262
Due to reinsurers, deferrals and premium tax payable	16	18,417	27,602
Amounts payable to related parties	30	24,136	5,093
Accounts payable and accrued liabilities		18,320	7,499
Total liabilities		**202,634**	**174,456**
EQUITY			
Share capital	17	3,705	3,705
Reserves	18	26,161	27,384
Retained earnings		8,805	21,939
Total equity		**38,671**	**53,028**
Total equity and liabilities		**241,305**	**227,484**

These financial statements have been approved for issue by the Board of Directors on May 23, 2019.

Director

Director

For the year ended December 31, 2018 Amounts expressed in Barbados dollars $000's

	Notes	2018	2017
REVENUE			
Premium revenue	19	132,545	128,466
Reinsurance expense	19	(64,920)	(70,470)
Net premium revenue		67,625	57,996
Investment income	20	3,745	4,376
Share of operating loss of associated company	6	(1,181)	(517)
Fees and other revenue	21	17,722	21,873
Gain on disposal of associated company		240	-
Total revenue		**88,151**	**83,728**
CLAIMS INCURRED			
Claims incurred	22	50,400	76,244
Claims reinsured	22	(12,627)	(22,747)
Net claims incurred		**37,773**	**53,497**
EXPENSES			
Administrative expenses		30,984	28,565
Commissions and related compensation	12	16,217	16,131
Net premium taxes		1,437	936
Interest expense		942	-
Credit losses	32.3	2,932	-
Depreciation and amortisation		3,135	2,830
Total expenses		**55,647**	**48,462**
LOSS BEFORE TAXES		(5,269)	(18,231)
Income taxes	25	(6,019)	197
NET LOSS FOR THE YEAR		**(11,288)**	**(18,034)**

For the year ended December 31, 2018 Amounts expressed in Barbados dollars $000's

	Notes	2018	2017
NET LOSS FOR THE YEAR		**(11,288)**	**(18,034)**
OTHER COMPREHENSIVE INCOME			
Items net of tax that may be reclassified subsequently to income:	28		
Available for sale financial assets			
Unrealised losses arising on revaluation		-	(96)
Retranslation of foreign currency operations		(1,800)	(279)
		(1,800)	(375)
Items net of tax that will not be reclassified subsequently to income:	28		
Unrealised gain arising on revaluation of property		-	280
Losses on defined benefit plans		(642)	(110)
		(642)	170
Other comprehensive loss for the year		**(2,442)**	**(205)**
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(13,730)**	**(18,239)**

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

For the year ended December 31, 2018 Amounts expressed in Barbados dollars $000's

	Share capital Note 17	Reserves Note 18	Retained earnings	Total
Balance, December 31, 2017	**3,705**	**27,384**	**21,939**	**53,028**
Transition adjustment on adoption of IFRS 9 (note 9)	-	-	(627)	(627)
Balance, January 1, 2018	**3,705**	**27,384**	**21,312**	**52,401**
Total comprehensive loss	-	(1,800)	(11,930)	(13,730)
Transfer from investment reserve	-	(696)	696	-
Transfer to catastrophe reserve	-	1,273	(1,273)	-
Balance, December 31, 2018	**3,705**	**26,161**	**8,805**	**38,671**

	Year ended December 31, 2017			
	Share capital Note 17	Reserves Note 18	Retained earnings	Total
Balance, December 31, 2016	**3,705**	**26,293**	**41,269**	**71,267**
Total comprehensive loss	-	(95)	(18,144)	(18,239)
Transfer to catastrophe reserve	-	1,186	(1,186)	-
Balance, December 31, 2017	**3,705**	**27,384**	**21,939**	**53,028**

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

For the year ended December 31, 2017 Amounts expressed in Barbados dollars $000's

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before taxes		(5,269)	(18,231)
Adjustments for non-cash items, interest and dividends	29	3,887	14,521
Interest and dividends received		3,474	3,133
Interest received from Sagicor Group companies		497	572
Income taxes paid		(1,609)	(2,700)
Changes in operating assets	29	(13,422)	(3,907)
Changes in operating liabilities	29	15,560	23,401
Net cash from operating activities		**3,118**	**16,789**
CASH FLOWS FROM INVESTING ACTIVITIES			
Property, plant and equipment	29	(1,512)	(1,593)
Acquisition of subsidiary, net of cash & cash equivalents	8	(5,398)	-
Proceeds from disposal of associated company	6	1,012	-
Net cash used in investing activities		**(5,898)**	**(1,593)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to shareholders		(1,567)	-
Net cash used in financing activities		(1,567)	**-**
Effects of exchange rate differences		**600**	**(279)**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(3,747)**	**14,917**
Cash and cash equivalents, beginning of year		38,178	23,261
CASH AND CASH EQUIVALENTS, END OF YEAR	29	**34,431**	**38,178**

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

1. INCORPORATION AND PRINCIPAL ACTIVITIES

The company is incorporated in Barbados and carries on general insurance business in Barbados and certain other Caribbean Islands. The company's parent company is Sagicor Life Inc. which is incorporated in Barbados. Its ultimate parent company is Sagicor Financial Corporation Limited, which on July 20, 2017 continued as an exempt company under the Laws of Bermuda and as an external company, under the Companies Act of Barbados.

2. 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 International Financial Reporting Standards (IFRS) under the historical cost convention except as modified by the revaluation of land and buildings and available for sale investments.

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

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

(a) Amendments to IFRS

A number of new standards or amendments to standards and interpretations are effective for annual periods beginning after January 1, 2018 and have not been applied in preparing these financial statements. There are no new standards, amendments to standards and interpretations effective for this financial year that have a significant effect on the financial statements.

(b) Future accounting developments

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 company's financial statements are summarised in the following table.

2. ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Adoption of IFRS 9 and IFRS 15

Effective January 1, 2018, the company adopted IFRS 9 - Financial Instruments (IFRS 9). As a result of the application of this new standard, the company has adopted new accounting policies for financial assets which are set out in note 2.9. As permitted by the transition provisions in IFRS 9, the company 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 2.8). 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 company adopted IFRS 15 – Revenue from Contracts with Customers (IFRS 15). This standard clarifies revenue recognition principles and provides a framework for recognising revenue and cash flows from service contracts from customers. IFRS 15 does not apply to the Company's primary activities of insurance and banking which are governed by IFRS 4 – 'Insurance Contracts' and IFRS 9 – 'Financial Instruments'.

In accordance with the transition provisions in IFRS 15, the standard has been implemented using the modified-retrospective method with no restatement of comparative information. There was no significant impact on the Company 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 (see note 2.27).

2. ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

2. ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

IFRS (Effective date)	Subject/ Comments
Interpretation 22 Foreign Currency Transactions and Advance Consideration (January 1, 2019)	The 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. 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). If there are multiple payments or receipts for one item, a date of transaction should be determined as above for each payment or receipt. Entities can choose to apply the interpretation: • 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. The Company is yet to assess the impact of this interpretation.

2. ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

IFRS 17 Insurance Contracts (January 1, 2022)	IFRS 17 was issued in May 2018 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of: • discounted probability-weighted cash flows an explicit risk adjustment, and; • a contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the coverage period. The standard allows a choice between recognising changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining *coverage* for short duration contracts, which are often written by non-life insurers. There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity's share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features. The Company is yet to assess the impact of IFRS 17.

2. ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28	The IASB has made limited scope amendments to IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures. The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non- monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 Business Combinations). Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's investors in the associate or joint venture. The amendments apply prospectively. ** In December the IASB decided to defer the application date of this amendment until such time as the IASB has finalised its research project on the equity method.

2. ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

IFRS 3 – Definition of a business (January 1, 2018)	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 (January 1, 2019)	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. 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). If there are multiple payments or receipts for one item, a date of transaction should be determined as above for each payment or receipt. Entities can choose to apply the interpretation: • 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. The Company is yet to assess the impact of this interpretation.
Interpretation 23 – Uncertainty over Income tax treatments. (January 1, 2019)	This interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 – Income Taxes. The interpretation specifically addresses: • whether an entity considers uncertain tax treatments separately; • the assumptions an entity makes about the examination of tax treatments by taxation authorities; • how an entity determines taxable income, tax bases, unused tax losses, unused tax credits and tax rates; • how an entity considers changes in facts and circumstances. An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that provides a more likely resolution of the uncertainty should be followed. The Company is yet to assess the impact of this interpretation.

2. ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

IAS 1 and IAS 8 – The Definition of Material (October 1, 2018)	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.
IAS 19 – Employee Benefits: amendments. (January 1, 2019)	The amendments to IAS 19 Employee Benefits address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to: • Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event • Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset) The amendments clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income. This clarification provides that entities might have to recognise a past service cost, or a gain or loss on settlement, that reduces a surplus that was not recognised before. Changes in the effect of the asset ceiling are not netted with such amounts. The Company is yet to assess the impact of this interpretation.

2. ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

IAS 28 – Annual Improvements to IFRS (January 1, 2019)	IFRS 3 – Business Combinations	Previously held Interests in a joint operation
	IFRS 11 – Joint Arrangements	Previously held Interests in a joint operation
	IAS 12 – Income Taxes	Income tax consequences of payments on financial instruments classified as equity
	IAS 23 – Borrowing Costs	Borrowing costs eligible for capitalisation
	The Company does not expect the adoption of these improvements to have any material impact.	

2.2 Investment in associated company

The investment in associated company, which is not majority-owned or controlled, is included in these financial statements under the equity method of accounting. The investment was initially recorded at cost and includes intangible assets identified on acquisition.

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

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

2.3 Foreign currency translation

(a) Functional and presentational currency

Items included in the financial statements of each branch of the company are measured using the currency of the primary economic environment in which the branch operates (the functional currency).

These financial statements are presented in thousands of Barbados dollars, which is the company's presentational currency.

2. ACCOUNTING POLICIES (continued)

2.3 Foreign currency translation (continued)

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

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

(b) Transactions and balances

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

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

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

2. ACCOUNTING POLICIES (continued)

2.4 Property, plant and equipment

Property, plant and equipment are recorded initially at cost.

Owner-occupied property is re-valued at least every three years to its fair value as determined by independent valuers. Movements in fair value are reported in other comprehensive income. Accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the re-valued amount of the asset. On disposal of owner-occupied property, the amount included in the fair value reserve is transferred to retained earnings.

Depreciation is calculated on the straight-line method to write down the cost or fair value of assets to their residual values over their estimated useful lives. The rates used are as follows:

Asset	Rates
Buildings	2%
Furnishings	10%
Software	15%
Office equipment	20%
Motor vehicles	20%
Computers	33.33%

Land is not depreciated.

The carrying amount of an asset is written down immediately through the depreciation account if the carrying amount is greater than its estimated recoverable amount.

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

2.5 Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash balances, call deposits and other liquid balances with original maturities of three months or less from the acquisition date. Cash and cash equivalents do not include balances principally of an investment nature or funds held to meet statutory requirements. Cash equivalents are subject to an insignificant risk of change in value.

2. ACCOUNTING POLICIES (continued)

2.6 Insurance contracts

(a) Classification
The company issues contracts that transfer insurance risk. Insurance contracts transfer insurance risk and may also transfer financial risk. The company defines insurance risk as an insured event which could cause an insurer to pay significant additional benefits in a scenario that has a discernible effect on the economics of the transaction.

(b) Recognition and measurement
The insurance contracts issued by the company are summarised below.

(i) Property and casualty insurance contracts

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

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

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

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

Claims and loss adjustment expenses are recorded as incurred. Claim reserves represent estimates of future payments of reported and unreported claims and related expenses with respect to insured events that have occurred up to the balance sheet date.

Reserving involves uncertainty and the use of statistical techniques of estimation. These techniques generally involve projecting from past experience the development of claims over time to form a view of the likely ultimate claims to be experienced, having regard to variations in business written and the underlying terms and conditions. The claim reserve is not discounted and is included in policyholders' liabilities.

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

2. ACCOUNTING POLICIES (continued)

2.6 Insurance contracts (continued)

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

Commission income and expense are recognised on the same basis as earned premiums ceded to reinsurers and earned premiums respectively. Deferred commission income includes commission on the unexpired portion of reinsurance ceded and deferred acquisition costs include commission on the unexpired portion of premiums written.

Premium tax and premium tax recovered are recognised as premiums are earned and reinsurance premiums are expensed respectively. Premium tax is deferred on the unexpired portion of reinsurance ceded and the unexpired portion of premiums written.

(ii) Reinsurance contracts held

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

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

Reinsurance balances are measured consistently with the insurance liabilities to which they relate. Reinsurance is recorded gross in the balance sheet unless a right of offset exists.

2. ACCOUNTING POLICIES (continued)

2.8 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 company'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 company 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 company commits to purchase or sell the asset.

(b) Classification of debt instruments

Classification and subsequent measurement of debt instruments depend on:
- the company's business model for managing the asset; and
- the cash flow characteristics of the asset.

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

Measured at amortised cost

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

Measured at fair value through other comprehensive income (FVOCI)

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

2. ACCOUNTING POLICIES (continued)

2.8 Financial assets – policies under IFRS 9 (continued)

Measured at fair value through profit and loss (FVTPL)

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

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

Business model assessment

Business models are determined at the level which best reflects how the company 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 Company intends to generate profits from holding a portfolio of assets;
- The historical and future expectations of asset sales within a portfolio.

Solely payments of principal and interest ("SPPI")

Where the business model is hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the company assesses whether the financial instruments' cash flows represent solely payments of principal and interest. In making this assessment, the company 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.

2. ACCOUNTING POLICIES (continued)

2.8 Financial assets – policies under IFRS 9 (continued)

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

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

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

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

To determine whether the life-time credit risk has increased significantly since initial recognition, the Company 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. ACCOUNTING POLICIES (continued)

2.8 Financial assets – policies under IFRS 9 (continued)

(e) Definition of default

The company 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 grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

2. ACCOUNTING POLICIES (continued)

2.8 Financial assets – policies under IFRS 9 (continued)

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 company has been unable to make these comparisons. Therefore, the underlying models and their calibration, including how they react to forward-looking economic conditions remain subject to review and refinement. This is particularly relevant for lifetime PDs, which have not been previously used in regulatory modelling and for the incorporation of 'downside scenarios' which have not generally been subject to experience gained through stress testing. The exercise of judgement in making estimations requires the use of assumptions which are highly subjective and sensitive to the risk factors, and particularly to changes in economic and credit conditions across wide geographical areas. Many of the factors have a high degree of interdependency and there is no single factor to which loan impairment allowances are sensitive. Therefore, sensitivities are considered in relation to key portfolios which are particularly sensitive to a few factors and the results should not be further extrapolated.

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

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

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

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

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

2. ACCOUNTING POLICIES (continued)

2.8 Financial assets – policies under IFRS 9 (continued)

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. ACCOUNTING POLICIES (continued)

2.8 Financial assets – policies under IFRS 9 (continued)

(h) Re-classified balances

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

(i) Classification of equity instruments

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

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

Debt and equity instruments measured at FVTPL

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

Debt instruments measured at amortized cost

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

Debt instruments measured at FVOCI

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

2. ACCOUNTING POLICIES (continued)

2.8 Financial assets – policies under IFRS 9 (continued)

Equity instruments measured at FVOCI

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

2.9 Financial investments – policies under IAS 39

The company classifies its financial investments into two categories:
- available for sale securities;
- loans and receivables.

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are carried at amortised cost less provision for impairment.

Available for sale financial assets are non-derivative financial instruments intended to be held for an indefinite period of time and which may be sold in response to liquidity needs or changes in interest rates, exchange rates and equity prices. These assets are measured initially at cost and are subsequently re-measured at their fair value based on quoted bid prices or internal valuation techniques. Unrealised gains and losses, net of deferred income taxes, are reported in other comprehensive income. The previously recorded unrealised gain or loss is transferred to investment income either on the disposal of the asset or if the asset is determined to be impaired. Discounts and premiums on available for sale securities are amortised using the effective interest method.

Purchases and sales of financial investments are recognised on the trade date. Cost of purchases includes transaction costs. Interest income arising on investments is accrued using the effective yield method.

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

2. ACCOUNTING POLICIES (continued)

2.9 Financial investments – policies under IAS 39 (continued)

In estimating the fair value of non-traded financial assets, the company uses a variety of methods such as obtaining dealer quotes and using discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are discounted at market derived rates for government securities in the same country of issue as the security; for non-government securities, an interest spread is added to the derived rate for a similar government security according to the perceived additional risk of the non-government security.

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 impairment losses.

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

For an available for sale equity security, an impairment loss is recognised in income if there has been a significant or prolonged decline in its fair value below its cost. Determination of what is significant or prolonged requires judgement which includes consideration of the volatility of the fair value, and the financial condition and financial viability of the investee. In this context, management considers a 40% decline in fair value below cost to be significant and a decline that has persisted for more than 12 months to be prolonged. Any subsequent increase in fair value occurring after the recognition of an impairment loss is reported in other comprehensive income.

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

2. ACCOUNTING POLICIES (continued)

2.10 Financial liabilities

During the ordinary course of business, the company assumes financial liabilities that expose it to financial risk. The recognition and measurement of the company's financial liabilities are disclosed in the following paragraphs.

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

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

The estimated fair values of financial liabilities are based on market values of quoted securities as at December 31 where available. In assessing the fair value of non-traded financial liabilities, the company 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.

2.11 Provisions

Provisions are recognised when the company 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. ACCOUNTING POLICIES (continued)

2.12 Fees and other revenue

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

2.13 Interest income and interest expense

<u>Policies under IFRS 9</u>

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 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.

<u>Policies under IAS 39</u>

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 income includes coupons earned on fixed income investment securities, loans and deposits and accrued discount and premium on discounted instruments. Dividends are recorded in revenue when due.

2.14 Employee pension benefits

The company maintains a defined benefit plan for its employees, the assets of which are held in a fund administered by the parent company, Sagicor Life Inc.

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

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

2. ACCOUNTING POLICIES (continued)

2.15 Taxes

(a) Premium taxes

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

Barbados	4% - 4.75%
Eastern Caribbean	3% - 5%

(b) Income taxes

The company is subject to taxes on income in the jurisdictions in which business operations are conducted. Rates of taxation in the principal jurisdictions for income year 2018 are as follows:

Barbados	30% of net income
Trinidad and Tobago	25% of net income
Eastern Caribbean	30% - 40% of net income
The Bahamas	0%

(i) Current income taxes

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

(ii) Deferred income taxes

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to do so.

Deferred tax, related to fair value re-measurement of available for sale investments which are recorded in other comprehensive income, is recorded in other comprehensive income and is subsequently recognised in income together with the deferred gain or loss.

2. ACCOUNTING POLICIES (continued)

2.15 Taxes (continued)

<u>(c) Tax on Assets</u>

The company is subject to a tax on assets in Barbados. The tax on assets is 0.35% of adjusted assets held at the end of the period.

2.16 Dividend distributions

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

2.17 Statutory reserves

Statutory reserves consist of the surplus account and the catastrophe reserve fund.

In accordance with Section 152 of the Insurance Act 1996-32, the company is required to appropriate towards surplus at least 25% of net income until such time as the surplus of the company equals or exceeds the liability in respect of unearned premiums.

In accordance with Section 155(1)(b) of the Insurance Act 1996-32, the company established a catastrophe reserve fund for the purpose of settling claims in the event of a catastrophe. The company may transfer 25% of the net written premiums from the company's property insurance business annually which is accounted for as an appropriation of retained earnings. The appropriation made in respect of the current year is $1,273 (2017 - $1,186).

2.18 Presentation of current and non-current assets and liabilities

In note 31.2, the maturity profiles of financial and insurance assets and liabilities are identified. For other assets and liabilities, balances presented in notes 5, 6, 9, 13 and 14 are non-current unless otherwise stated in those notes.

2.19 Property held for resale

Property held for resale are stated at the lower of carrying value or fair value less cost to sell. Any gain or loss on the disposal of the property held for resale is recognised in income at the time of the sale.

2. ACCOUNTING POLICIES (continued)

2.20 Intangible Assets

(a) Goodwill

Goodwill (defined in note 2.2(a)) arising from an acquisition of an insurance business is allocated to appropriate cash generating unit.

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

On the disposal of an insurance business, the associated goodwill is de-recognised and is included in the gain or loss on disposal.

(b) Other intangible assets

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

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

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

Class of intangible asset	Asset	Estimated useful life
Customer related	Customer relationships	5 years

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

3.1 Claims in the course of settlement

Claim liabilities are based on estimates due to the fact that the ultimate disposition of claims incurred prior to the date of the financial statements, whether reported or not, is subject to the outcome of events that may not yet have occurred. Significant delays are experienced in the notification and settlement of certain types of claims, particularly in respect of casualty contracts. Events which may affect the ultimate outcome of claims include inter alia, jury decisions, court interpretations, legislative changes and changes in the medical condition of claimants.

Any estimate of future losses is subject to the inherent uncertainties in predicting the course of future events. The two most critical assumptions made to determine claim liabilities are that the past is a reasonable predictor of the likely level of claims development and that the statistical estimation models used are fair reflections of the likely level of ultimate claims to be incurred. Consequently, the amounts recorded in respect of unpaid losses may change significantly in the short term.

Management engages independent actuaries either to assist in making or to confirm the estimate of claim liabilities. The ultimate liability arising from claims may be mitigated by recovery arising from reinsurance contracts held.

3.2 Impairment of financial assets – policies under IFRS 9

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

(a) Establishing staging for debt securities and deposits

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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

Category		Sagicor Risk Rating	Classification	S&P	Moody's	Fitch	AM Best
Non-default	Investment grade	1	Minimal risk	AAA, AA	Aaa, Aa	AAA, AA	aaa, aa
		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			DDD	
		9	Doubtful	D	C	DD	d
		10	Loss			D	

The company 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.

(a) 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:

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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

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.

(b) 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 The Bahamas. 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.

(b) Impairment of Government of Barbados debt securities

As further disclosed in note 32.3 (c) during the year, the company 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 1% / 2%.

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.3 Impairment/Fair Value of financial assets – policies under IAS 39 (continued)

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

3.4 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 company exercises judgement on the quality of pricing sources used. Where no market data is available, the company may value positions using its own models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. The inputs into these models are primarily discounted cash flows.

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

3.5 Recognition and measurement of intangible assets

The recognition and measurement of intangible assets, other than goodwill, in a business combination involve the utilisation of valuation techniques which may be very sensitive to the underlying assumptions utilised. These intangibles include customer listings.

3.6 Impairment of intangible assets

(a) Goodwill

The assessment of goodwill impairment involves the determination of the value of the cash generating business units to which the goodwill has been allocated. Determination of the value involves the estimation of future cash flows or of income after tax of these business units and the expected returns to providers of capital to the business units

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.6 Impairment of intangible assets (continued)

The company updates its business unit financial projections annually and applies discounted cash flow or earnings multiple models to these projections to determine if there is any impairment of goodwill. The assessment of whether goodwill is impaired can be highly sensitive to the inputs of cash flows, income after tax, discount rate, growth rate or capital multiple, which are used in the computation. Further details of the inputs used are set out in note 7.

(b) Other intangible assets

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

4. STATUTORY RESTRICTIONS ON ASSETS

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

To satisfy the above requirements, invested assets totalling $85,406 (2017 - $64,858) have been deposited with or are held in trust to the order of the insurance regulators.

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

Amounts expressed in Barbados dollars $000's

5. PROPERTY, PLANT AND EQUIPMENT

	2018				
	Freehold land and building	**Office furnishings**	**Software and Computer Equipment**	**Motor vehicles**	**Total**
Net book value, beginning of year	-	3,344	7,710	859	11,913
Additions at cost	-	84	921	519	1,524
Additions from acquisition	-	32	-	-	32
Disposals / reclassifications	-	(23)	(53)	(308)	(384)
Depreciation charge	-	(750)	(1,757)	(398)	(2,905)
Depreciation on disposals	-	-	53	289	342
Net book value, end of year	**-**	**2,687**	**6,874**	**961**	**10,522**
Represented by:					
Cost or valuation	-	10,502	18,724	2,494	31,720
Accumulated depreciation	-	(7,815)	(11,850)	(1,533)	(21,198)
	-	**2,687**	**6,874**	**961**	**10,522**

	2017				
	Freehold land and building	**Office furnishings**	**Software and Computer Equipment**	**Motor vehicles**	**Total**
Net book value, beginning of year	2,870	3,843	8,087	1,238	16,038
Additions at cost	-	239	1,247	193	1,679
Disposals / reclassifications	(3,000)	(139)	(230)	(558)	(3,927)
Depreciation charge	-	(738)	(1,620)	(472)	(2,830)
Depreciation on disposals	130	139	226	458	953
Net book value, end of year	**-**	**3,344**	**7,710**	**859**	**11,913**
Represented by:					
Cost or valuation	-	10,409	17,856	2,283	30,548
Accumulated depreciation	-	(7,065)	(10,146)	(1,424)	(18,635)
	-	**3,344**	**7,710**	**859**	**11,913**

Included under Software and Computer Equipment is software with a cost of $10,436 (2017 - $9,898) and accumulated depreciation of $3,970 (2017 - $2,403). Depreciation expense for the year was $1,567 (2017 - $1,405).

Amounts expressed in Barbados dollars $000's

6. INVESTMENT IN ASSOCIATED COMPANY

The company held 1,000,000 Class A common shares in Globe Finance Inc., a company incorporated in Barbados, which represented a 20% ownership interest and 25% voting interest. The aggregate balances and results in respect of the associated company for the year are as follows

	2018	2017
Assets		
Financial investments	-	154,776
Cash resources	-	16,171
Other assets	-	15,474
Total assets	-	186,421
Liabilities		
Deposit liabilities	-	163,474
Other liabilities	-	7,153
Total liabilities	-	170,627
Net assets	-	15,794
Reconciliation to carrying amounts		
Investment, beginning of year	-	3,673
Share of operating loss of associated company	-	(517)
Investment, end of year	-	3,156
Summarised Statement of Comprehensive Income up to date of disposal		
Revenue		
Investment income	6,438	11,078
Fees and other revenue	3,915	5,285
Total revenue	10,353	16,363
Expenses		
Interest expense	3,119	5,258
Other expenses	12,737	13,312
Total expenses	15,856	18,570
Loss before taxes	(5,503)	(2,207)
Income taxes	(403)	104
Net loss for the year	(5,906)	(2,103)
Other comprehensive loss for the period / year	-	9
Total comprehensive loss for the period / year	(5,906)	(2,094)
Dividends received	-	-

For the year ended December 31, 2018 Amounts expressed in Barbados dollars $000's

6. INVESTMENT IN ASSOCIATED COMPANY (continued)

On September 4, 2018 the company disposed of its 20% investment in Globe Finance Inc., the carrying amount of its net assets and the consideration receivable was as follows:

Net assets	1,975
Total consideration	(2,215)
Gain on disposal	(240)

At year end proceeds of $1,012 were received for the disposal of Globe Finance, the balance of $1,203 is included in Miscellaneous assets and receivables.

7. INTANGIBLE ASSETS

	Goodwill	Customer relationships	Total
Net book value, beginning of year	-	-	-
Identified on acquisition			
Harmony General Insurance Company Ltd	2,793	3,463	6,256
Amortisation	-	(231)	(231)
Net book value, end of year	2,793	3,232	6,025
Represented by:			
Cost or valuation	2,793	3,463	6,256
Accumulated depreciation	-	(231)	(231)
	2,793	3,232	6,025

The company recognised goodwill on the acquisition of Harmony General Insurance Company Ltd. during the year (note 8). The value in use methodology has been used to test goodwill impairment. The pre-tax discount factor was 24.78% which was derived from an after-tax factor of 21.2% using an iterative method. The residual growth rate was 2.5%.

<u>Sensitivity</u>

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

For the year ended December 31, 2018 Amounts expressed in Barbados dollars $000's

7. INTANGIBLE ASSETS (continued)

	2018 test		
	Scenario 1	Scenario 2	Scenario 3
After tax discount factor	21.2	21.2	25.4
Residual growth rate	2.5	2.1	2.1
Reduction in residual growth rate	n/a	16%	16%
Increase in after tax discount factor	n/a	n/a	20%
Excess of recoverable amount	17,456	11,022	6,658
Impairment	Nil	Nil	Nil

8. ACQUISITION OF HARMONY GENERAL INSURANCE COMPANY LTD.

On September 1, 2018 the company acquired 100% of the shareholding of Harmony General Insurance Company Ltd., a general insurance company incorporated and operating in Barbados. The acquisition was by way of legal amalgamation, and Sagicor General Insurance Inc. continued as the amalgamated entity.

The summary of net assets acquired were as follows:

	Fair Value	Acquiree's carrying value
Net assets acquired:		
Property, plant and equipment	32	32
Intangible assets	3,463	-
Financial investments	8,754	12,194
Reinsurance assets	7,665	7,665
Income tax assets	368	368
Miscellaneous assets and receivables	5,166	5,166
Cash resources	4,102	4,102
Other insurance liabilities	(19,220)	(19,220)
Provisions	(233)	(233)
Accounts payable and accrued liabilities	(3,390)	(3,390)
Total net assets	6,707	6,684
Share of net assets acquired	6,707	
Purchase consideration	9,500	
Goodwill arising on acquisition	2,793	

Amounts expressed in Barbados dollars $000's

9. FINANCIAL INVESTMENTS

	2018 IFRS 9 Basis		2017 IAS 39 Basis	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Investments at Amortised Cost				
Equity securities	1,365	1,365	1,293	1,293
Debt securities	74,249	71,738	66,410	69,069
Mortgage loans	1,270	1,294	1,484	1,412
Deposits	19,947	19,947	7,178	7,178
Total financial investments	96,831	94,344	76,365	78,952

Debt securities comprise:	**2018**	**2017**
Government and government-guaranteed debt securities	40,309	53,528
Other securities	33,940	12,882
	74,249	66,410

Amounts expressed in Barbados dollars $000's

9. FINANCIAL INVESTMENTS (continued)

Reconciliation of financial investment balances from IAS 39 to IFRS 9

Measurement basis	IAS 39 carrying value	Reclass-ifications	Remeasurements		IFRS 9 carrying value
			ECL	Other	
FVOCI (available for sale):					
Equity securities	1,293	(1,293)	-	-	-
	1,293	(1,293)	-	-	-
FVTPL (fair value through income):					
Equity securities	-	1,293	-	-	1,293
	-	1,293	-	-	1,293
Amortised cost (loans and receivables):					
Debt securities	66,410	-	(587)	-	65,823
Mortgage loans	1,484	-	(31)	-	1,453
Deposits	7,178	-	(9)	-	7,169
	75,072	-	(627)	-	74,445
Total financial investments	**76,365**	**-**	**(627)**	**-**	**75,738**

10. REINSURANCE ASSETS

	2018	2017
Claim recoveries from reinsurers (note 14)	25,772	33,431
Unearned premiums ceded to reinsurers (note 14)	26,656	21,197
	52,428	54,628

11. INCOME TAX ASSETS

	2018	2017
Income and withholding taxes recoverable	1,828	2,836
Deferred income tax assets (note 26)	169	3,164
	1,997	6,000

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

For the year ended December 31, 2018 Amounts expressed in Barbados dollars $000's

12. PREMIUMS RECEIVABLE AND DEFERRED ACQUISITION COSTS

	2018	2017
Premiums in the course of collection	24,117	24,364
Deferred commission expense	8,055	6,898
Deferred premium tax	1,439	1,184
	33,611	32,446

The movement in deferred balances for the year is as follows:

	2018	2017
Deferred commission expense		
Balance, beginning of year	6,898	7,634
Commission paid	17,374	15,395
Commissions and related compensation expense	(16,217)	(16,131)
Balance, end of year	8,055	6,898

	2018	2017
Deferred premium tax		
Balance, beginning of year	1,184	1,102
Premium tax paid	3,012	2,382
Premium tax expense	(2,757)	(2,300)
Balance, end of year	1,439	1,184

13. MISCELLANEOUS ASSETS AND RECEIVABLES

	2018	2017
Prepaid expenses	498	179
Other accounts receivable	1,967	1,224
	2,465	1,403

14. POLICYHOLDERS' LIABILITIES

	2018	2017
Claims in the course of settlement	72,458	74,267
Provision for unearned premiums	69,303	59,995
	141,761	134,262

Amounts expressed in Barbados dollars $000's

14. POLICYHOLDERS' LIABILITIES (continued)

14.1 Claims in the course of settlement

(a) Analysis of claims in the course of settlement

	2018	2017
Property business	13,614	26,226
Motor business	42,407	31,670
Accident and liability business	16,437	16,371
	72,458	74,267

Claims in the course of settlement include $16,095 (2017- $18,835) in provisions for claims incurred but not yet reported.

The associated reinsurance recoveries from claims in the course of settlement are in respect of:

	2018	2017
Property business	11,463	18,427
Motor business	8,404	7,738
Accident and liability business	5,905	7,266
	25,772	33,431

(b) Movement in claims in the course of settlement

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

	2018	2017
Balance, beginning of year	74,267	44,216
Amounts assumed on acquisition	12,243	-
Claims incurred (note 22)	50,400	76,244
Claims paid	(64,956)	(46,193)
Effect of exchange rate changes	504	-
Balance, end of year	72,458	74,267

For the year ended December 31, 2018 Amounts expressed in Barbados dollars $000's

14. POLICYHOLDERS' LIABILITIES (continued)

14.1 Claims in the course of settlement (continued)

The movement in claims in the course of settlement includes the following amounts which are recoverable from reinsurers:

	2018	2017
Balance, beginning of year	33,431	21,188
Amounts assumed on acquisition	4,662	-
Ceded in year (note 22	12,627	22,747
Claim recoveries	(27,057)	(10,504)
Effect of exchange rate changes	2,109	-
Balance, end of year (note 10)	25,772	33,431

The valuation of claims liabilities is sensitive to the underlying assumptions used which are based on historical development patterns for incurred and paid to date claims. A 10% increase in development would result in an increase in gross reserves and reinsurance recoveries of $1,125 and $308 (2017 - $1,220 and $524) respectively and a $817 (2017 - $696) decrease in income from ordinary activities. A 10% decrease in development would result in a decrease in gross reserves and reinsurance recoveries of $1,149 and $313 (2017 - $1,239 and $531) respectively and a $836 (2017 - $708) increase in income from ordinary activities.

The development of claims in the course of settlement provides a measure of the company's ability to estimate the ultimate value of claims incurred. The top half of the tables below illustrate how the estimate of total claims incurred for each year has changed at successive year ends. The bottom half of the table reconciles the cumulative claims incurred to the liability included in the current statement of financial position. The disclosures are by accident year which is the financial period in which the claim is incurred.

Amounts expressed in Barbados dollars $000's

14. POLICYHOLDERS' LIABILITIES (continued)

14.1 Claims in the course of settlement (continued)

Gross

	2011	2012	2013	2014	2015	2016	2017	2018
Estimate of ultimate claims incurred:								
At the end of financial reporting year	39,717	35,563	34,471	39,909	48,330	43,475	74,752	54,412
One year later	38,520	34,539	34,396	43,337	45,946	45,007	81,907	
Two years later	38,429	34,893	33,017	43,232	47,121	42,029		
Three years later	38,091	34,644	33,189	42,913	44,338			
Four year later	36,823	33,412	34,293	41,480				
Five year later	35,884	33,288	33,006					
Six year later	35,855	33,643						
Seven year later	35,883							
Current estimate of ultimate claims incurred	35,883	33,643	33,006	41,480	44,338	42,029	81,907	54,412
Cumulative payments to date	34,788	32,161	30,796	37,446	37,692	35,237	65,901	28,446
Liability recognised in the balance sheet	1,095	1,482	2,210	4,033	6,646	6,792	16,006	25,966
Liability in respect of prior years & adjustments								5,338
Liability for unallocated loss adjustment expenses								2,890
Total liability included in the balance sheet								**72,458**

Reinsurance

	2011	2012	2013	2014	2015	2016	2017	2018
Reinsurance								
Estimate of ultimate claims incurred:								
At the end of financial reporting year	20,396	16,586	15,873	19,213	25,570	22,643	21,394	8,040
One year later	19,265	15,904	16,684	20,764	24,011	22,936	29,441	
Two years later	19,448	16,316	15,715	20,626	24,526	21,381		
Three years later	19,367	16,045	15,662	20,516	23,065			
Four year later	18,769	15,349	16,252	19,747				
Five year later	18,164	15,194	15,577					
Six year later	18,115	15,384						
Seven year later	18,142							
Current estimate of ultimate claims incurred	18,142	15,384	15,577	19,747	23,065	21,381	29,441	8,040
Cumulative payments to date	17,644	14,909	14,665	17,902	19,374	18,394	21,509	3,523
Liability recognised in the balance sheet	498	475	912	1,845	3,691	2,987	7,932	4,517
Liability in respect of prior years & adjustments								2,915
Total asset included in the balance sheet								**25,772**

Amounts expressed in Barbados dollars $000's

14. POLICYHOLDERS' LIABILITIES (continued)

14.2 Provision for unearned premiums

(a) Analysis of provision for unearned premiums

	2018	2017
Property business	31,810	27,233
Motor business	28,852	24,902
Accident and liability business	8,641	7,860
	69,303	59,995

The associated unearned premiums ceded to reinsurers:

Property business	25,180	19,632
Motor business	56	130
Accident and liability business	1,420	1,435
	26,656	21,197

(b) Movement in provision for unearned premiums

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

	2018	2017
Balance, beginning of year	59,995	60,905
Amounts assumed on acquisition	6,977	-
Premiums written	134,876	127,556
Premium revenue (note 19)	(132,545)	(128,466)
Balance, end of year	69,303	59,995

The movement in unearned premiums ceded to reinsurers is as follows:

	2018	2017
Balance, beginning of year	21,197	38,528
Amounts assumed on acquisition	3,003	-
Reinsurance on premiums written	65,376	53,139
Reinsurance expense (note 19)	(64,920)	(70,470)
Effect of exchange rate changes	2,000	-
Balance, end of year (note 10)	26,656	21,197

For the year ended December 31, 2018 Amounts expressed in Barbados dollars $000's

15. PROVISIONS

	2018	2017
Pensions plan asset (note 24)	245	245

16. DUE TO REINSURERS, DEFERRALS AND PREMIUM TAX PAYABLE

	2018	2017
Amounts due to reinsurers	5,627	16,412
Deferred commission income	8,504	7,702
Premium tax payable	3,658	2,940
Deferred premium tax	628	548
	18,417	27,602

The movement in deferred balances for the year is as follows:

	2018	2017
Deferred commission income		
Balance, beginning of year	7,702	16,244
Commission received	14,351	11,388
Commission earned (note 21)	(13,549)	(19,930)
Balance, end of year	8,504	7,702
Deferred premium tax		
Balance, beginning of year	548	751
Premium tax recoveries	1,400	1,162
Premium taxes earned	(1,320)	(1,365)
Balance, end of year	628	548

For the year ended December 31, 2018 Amounts expressed in Barbados dollars $000's

17. SHARE CAPITAL

The company is authorised to issue an unlimited number of common shares with no par value.

	2018	2017
Issued 2,018,000 shares, with no par value	3,705	3,705

18. RESERVES

	2018	2017
Fair value reserve - available for sale investment securities:		
Balance, beginning of year	696	792
Transfer to retained earnings	(696)	-
Total comprehensive income (note 28)	-	(96)
Balance, end of year	-	696
Fair value reserve – property held for sale:		
Balance, beginning of year	2,254	1,974
Unrealised gain arising on revaluation (note 5)	-	280
Balance, end of year	2,254	2,254
Currency translation reserve:		
Balance, beginning of year	(2,279)	(2,000)
Retranslation of foreign currency operation	(1,800)	(279)
Balance, end of year	(4,079)	(2,279)
Statutory reserves:		
Balance, beginning of year	26,713	25,527
Transfer to catastrophe reserve	1,273	1,186
Balance, end of year	27,986	26,713
Reserves, end of year	26,161	27,384

Amounts expressed in Barbados dollars $000's

19. PREMIUM REVENUE

	Premium revenue		Reinsurance expense	
	2018	2017	2018	2017
Property business	65,439	62,806	59,884	58,841
Motor business	50,916	48,346	1,494	6,010
Accident and liability business	16,190	17,314	3,542	5,619
	132,545	128,466	64,920	70,470

20. INVESTMENT INCOME

	2018	2017
Interest income:		
Debt securities	3,157	3,378
Mortgage loans	65	73
Deposits	205	429
Other	262	131
Dividend income	176	50
Gains on disposal of financial investments	72	443
Loss on de-recognition of original GoB bonds (note 32.3)	(132)	-
Amortisation on bonds	(60)	(128)
	3,745	4,376

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

21. FEES AND OTHER REVENUE

	2018	2017
Commission income on insurance ceded to reinsurers (note 16)	13,549	19,930
Fees, other revenue and profit commission	3,990	1,060
Miscellaneous income	183	883
	17,722	21,873

Amounts expressed in Barbados dollars $000's

22. CLAIMS INCURRED

	Claims incurred 2018	Claims incurred 2017	Claims reinsured 2018	Claims reinsured 2017
Property business	17,660	36,202	16,179	19,237
Motor business	30,783	33,256	(1,505)	1,140
Accident and liability business	1,957	6,786	(2,047)	2,370
	50,400	76,244	12,627	22,747

23. EMPLOYEE COSTS

Included in administrative expenses are the following:

	2018	2017
Administrative staff salaries, directors' fees and other short-term benefits	13,352	13,152
Employer's contributions to social security schemes	975	884
Employer's contribution to group health and life	660	571
Costs - defined benefit pension scheme (note 24)	(67)	229
	14,920	14,836

24. EMPLOYEE RETIREMENT BENEFITS

The company has contributory defined benefit pension schemes in place for eligible administrative staff. The plan provides defined benefits based on final salary and number of years active service.

The assets of the pension plans are held under deposit administration contracts with Sagicor Life Inc.

The plan was valued on December 31, 2018.

(a) The amounts recognised in the financial statements are as follows:

	2018	2017
Present value of funded pension obligations	19,539	15,492
Fair value of pension plan assets	(19,784)	(15,737)
Net asset	(245)	(245)
Represented by:		
Asset balances (note 15)	(245)	(245)

For the year ended December 31, 2018 Amounts expressed in Barbados dollars $000's

24. EMPLOYEE RETIREMENT BENEFITS (continued)

(b) Movements in balances:

	2018			2017		
	Retirement obligations	Retirement plan assets	Total	Retirement obligations	Retirement plan assets	Total
Net liability/(asset), beginning of year	15,492	(15,737)	(245)	15,898	(15,442)	456
Current service cost	221	-	221	313	-	313
Interest expense/ (income)	117	(429)	(312)	1,050	(1,134)	(84)
Past service costs	24	-	24	-	-	-
Net expense recognised in income	362	(429)	(67)	1,363	(1,134)	229
Losses from changes in assumptions						
Gains from changes in experience	225	1,019	1,244	(856)	-	(856)
Return on plan assets	-	200	200	-	966	966
Change in asset ceiling	-	(802)	(802)	-	-	-
Net (gains)/ losses recognised in other comprehensive income	225	417	642	(856)	966	110
Contributions made by the company	-	(890)	(890)	-	(1,127)	(1,127)
Contributions made by employees	364	(364)	-	374	(374)	-
Benefits paid	(443)	443	-	(1,287)	1,287	-
Assumed on acquisition	2,999	(2,766)	233	-	-	-
Other items	540	(458)	82	-	87	87
Other movements	3,460	(4,035)	(575)	(913)	(127)	(1,040)
Net liability/(asset), end of year	19,539	(19,784)	(245)	15,492	(15,737)	(245)

(c) The significant actuarial assumptions used were as follows:

	Barbados	Trinidad
Discount rate	7.8%	5.0%
Expected return on plan assets	7.8%	5.0%
Future salary increases	2.0%	2.0%
Future pension increases	2.0%	0.0%
Portion of employees opting for early retirement	0.0%	0.0%

For the next financial year, the total contributions to be made by the company are estimated at $852.

For the year ended December 31, 2018 Amounts expressed in Barbados dollars $000's

24. EMPLOYEE RETIREMENT BENEFITS (continued)

(d) The sensitivity of the pension retirement benefit obligations to individual changes in actuarial assumptions is as follows:

	Barbados	**Trinidad**
Base pension obligation	13,367	3,319
	Effect on pension obligations	
Decrease discount rate by 1.0%	1,925	349
Increase discount rate by 1.0%	(1,532)	(273)
Decrease salary growth rate by 0.5%	(312)	(74)
Increase salary growth rate by 0.5%	353	77
Increase average life expectancy by 1 year	574	127
Decrease average life expectancy by 1 year	(561)	(33)

25. INCOME TAXES

The income tax expense is comprised of:

	2018	**2017**
Current tax	2,956	1,893
Deferred tax	3,063	(2,090)
	6,019	(197)

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

	2018	**2017**
Loss subject to tax	(5,269)	(18,231)
Tax calculated at a tax rate of 30% (2017 – 25%)	(1,581)	(4,557)
Different tax rates in other countries	7	(2)
Income taxed at different rates	(71)	(72)
Over (under) provision of current deferred tax	485	(272)
Movement in deferred tax asset not recognised	83	3,908
Transfer to catastrophe reserve deductible for tax	(261)	(178)
Tax allowances	(66)	(8)
Expenses not deductible for tax	2,596	1,097
Income not subject to tax	(92)	(281)
Tax effect of remeasurement	3,101	-
Difference between theoretical rate and deferred tax rate	1,447	-
Other taxes	371	168
	6,019	(197)

Amounts expressed in Barbados dollars $000's

26. DEFERRED INCOME TAXES

Analysis of net deferred income tax asset

	2018	2017
Defined benefits liability	(180)	61
Unused tax losses	320	2,732
Accelerated tax depreciation	29	371
	169	3,164

Expiry period for unused tax losses

	2018	2017
2019	1,283	1,283
2020	2,117	2,117
2022	7,709	7,526
2023	4,914	-
	16,023	10,926

The company has not recognised the deferred tax asset in the amount of $4,125 (2017 - $3,954). These losses expire between 2019 and 2024 (2017 – 2018 and 2021).

2018	Accelerated tax depreciation	Defined benefits liability	Unused tax losses	Total
Balance, beginning of year	371	61	2,732	3,164
Assumed on acquisition	-	68	-	68
Charge to profit or loss	(342)	(309)	(2,412)	(3,063)
Balance, end of year	29	(180)	320	169
2017				
Balance, beginning of year	471	(28)	631	1,074
(Charge)/credit to profit or loss	(100)	89	2,101	2,090
Balance, end of year	371	61	2,732	3,164

Amounts expressed in Barbados dollars $000's

27. DIVIDENDS PER COMMON SHARE

No dividends were declared in respect of 2018 or 2017.

28. OTHER COMPREHENSIVE INCOME

	2018			2017		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Items that may be reclassified subsequently to income:						
Available for sale assets:						
Losses arising on revaluation	-	-	-	(96)	-	(96)
Retranslation of foreign currency operations	(1,800)	-	(1,800)	(279)	-	(279)
	(1,800)	-	(1,800)	(375)	-	(375)

	2018			2017		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Items that will not be reclassified subsequently to income:						
Unrealised gain arising on revaluation of property	-	-	-	280	-	280
Defined benefit losses	(642)	-	(642)	(110)	-	(110)
	(642)	-	(642)	170	-	170
Other comprehensive loss for the year	(2,442)	-	(2,442)	(205)	-	(205)

For the year ended December 31, 2018 Amounts expressed in Barbados dollars $000's

29. CASH FLOWS

29.1 Operating activities

	2018	2017
Adjustments for non-cash items, interest and dividends		
Decrease in provision for unearned premiums, net of reinsurance	(127)	16,921
Interest income	(3,426)	(3,812)
Impairment losses	2,932	-
Loss on de-recognition of Government of Barbados securities	132	-
Dividend income	(176)	(50)
Net gains on disposal of financial investments	(72)	(443)
Share of operating loss of associated company	1,181	517
Interest expense	942	-
Gain on disposal of associated company	(240)	-
Movement in recognised employee retirement benefits	(642)	(811)
Depreciation	2,905	2,830
Amortisation of intangibles	231	-
Write-down of property held-for-sale	400	-
Loss on disposal of property, plant and equipment	30	18
Amortisation on bonds	-	128
Exchange gain	(183)	(777)
	3,887	14,521

For the year ended December 31, 2018 Amounts expressed in Barbados dollars $000's

29. CASH FLOWS (continued)

	2018	2017
Changes in operating assets		
Debt securities	(5,701)	(3,260)
Equity securities	-	582
Mortgage loans	191	352
Deposits	(12,159)	(2,888)
Receivables and other assets	4,247	1,307
	(13,422)	(3,907)
Debt securities		
Purchases	(40,323)	(18,493)
Proceeds on maturities and disposals	34,622	15,233
	(5,701)	(3,260)
Equity securities		
Disposal proceeds	-	582
Changes in operating liabilities		
Claims in the course of settlement, net of reinsurance	(1,729)	18,587
Amounts payable to related parties	19,043	3,348
Other liabilities and payables	(1,754)	4,466
	15,560	23,401

29.2 Investing activities

	2018	2017
Property, plant and equipment		
Purchases	(1,524)	(1,679)
Disposal proceeds	12	86
	(1,512)	(1,593)

	2018	2017
Cash resources	23,659	28,476
Term deposits and T Bills with original maturities of less than 90 days	10,772	9,702
	34,431	38,178

For the year ended December 31, 2018 Amounts expressed in Barbados dollars $000's

30. RELATED PARTY TRANSACTIONS

30.1 Key management

Key management comprises directors and senior management of the company. Key management includes those persons at or above the level of Vice-President or its equivalent. Compensation of and loans to these individuals were as follows:

	2018	2017
Compensation		
Salaries, directors' fees and other short-term benefits	1,274	1,759
Pension and other retirement benefits	81	79
	1,355	1,838
Mortgage and staff loans		
Balance, beginning of year	383	734
Repayments	(54)	(351)
Balance, end of year	329	383

Mortgage loans bear interest at the rate of 4.5% to 5.5%. Other staff loans bear interest at 7.5% to 8%.

30.2 Other related party transactions

Balances at year end and transactions for the year with related parties are as follows:

	2018	2017
Premium income	2,542	8,062
Management fees	(152)	(152)
Investment income	410	501
Interest expense	(941)	-
Rental expense	(95)	(95)

Amounts payable to related parties amounted to $24,136 (2017 - $5,093) and are interest free with no stated terms of repayment. Premiums receivable amounted to $545 (2017 - $763).

During the year the company entered into a loan agreement with Sagicor Life Inc., its parent company for $20,000. The loan is unsecured and bears interest at the rate of 9% per annum and has no fixed terms of repayment.

For the year ended December 31, 2018 Amounts expressed in Barbados dollars $000's

31. PROPERTY HELD FOR SALE

Property held-for-sale is carried at fair value as determined by an independent valuation less estimated selling costs. Direct sales comparisons, when such data is available, and income capitalisation methods, when appropriate, are included in the assessment of fair values. The highest and best use of a property may also be considered in determining its fair value.

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

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

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

	Level 1	Level 2	Level 3	Total
Property held-for-sale	-	-	2,750	2,750

	Land and buildings
Balance, beginning of year	3,150
Decrease in fair value	(400)
Balance, end of year	2,750

The land and building situated at Beckwith Place, Bridgetown, were independently valued at December 31, 2018 at $3,000 by a professional real estate valuer, Management has estimated selling costs to be $250. The decrease in the fair value has been booked to the statement of income.

32. FINANCIAL RISK

The company's activities of issuing insurance contracts, investing insurance premium and deposit receipts in a variety of financial and other assets, exposes the company to various insurance and financial risks. Financial risks include credit default, liquidity and market risks. Market risks arise from changes in interest rates, equity prices, currency exchange rates or other market factors. The principal insurance risks are identified in notes 32 and 33.

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

32.1 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 company. Credit risks are associated primarily with financial investments and reinsurance assets.

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

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

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

For mortgage loans, the collateral is real estate property, and the approved loan limit is 75% to 95% of collateral value.

The company may foreclose on overdue mortgage loans by repossessing the pledged asset and seek to dispose of the pledged asset by sale.

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32. FINANCIAL RISK (continued)
32.1 Credit risk (continued)

Rating of financial assets

The company's credit rating model (note 3.1) applies a rating scale to three categories of exposures:
- Investment portfolios, comprising debt securities, deposits, securities purchased for re-sale, and cash;
- Lending portfolios, comprising mortgage loans;
- Reinsurance exposures, comprise realistic disaster scenarios for property and casualty insurance (see note 32.3).

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

In sections 31.2 and 31.3 below, we set out various credit risks and exposures in accordance of assets measured in accordance with IFRS 9. In section 31.3, we set out risks and exposures of assets measured in accordance with IAS 39.

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

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

	2018
Investment portfolios:	
Debt securities at amortised cost	74,249
Deposits at amortised cost	19,947
	94,196
Lending portfolios:	
Mortgage loans at amortised cost	1,270
	1,270
Cash	34,431
Reinsurance assets	25,772
Receivables (premium, accounts and miscellaneous)	26,084
Total financial statement exposures	**181,753**

For the year ended December 31, 2018 Amounts expressed in Barbados dollars $000's

32. FINANCIAL RISK (continued)
32.2 Credit risk (continued)
Financial assets carried at amortised cost or FVOCI are subject to credit impairment losses which are recognised in the statement of income.

The following tables contain analyses of the credit risk exposure of financial investments subject to an ECL allowance.

Debt securities – Amortised Cost

	2018					2017
	ECL Staging					
	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL	POCI	Total	
December 31:						
Credit grade:						
Investment	32,356	-	-	-	32,356	28,995
Non-investment	8,149	15,600	-	15,345	39,094	23,300
Watch	152	2,583	-	531	3,266	13,528
Default	-	-	476	-	476	-
Unrated	-	-	-	-	-	-
Gross carrying amount	40,657	18,183	476	15,876	75,192	65,823
Loss allowance	(43)	(724)	(100)	(76)	(943)	-
Carrying amount	40,614	17,459	376	15,800	74,249	65,823

For the year ended December 31, 2018 Amounts expressed in Barbados dollars $000's

32. FINANCIAL RISK (continued)
32.2 Credit risk exposure – financial assets subject to impairment (IFRS 9 basis) (continued)

	Mortgage loans – amortised cost					
	2018					2017
	ECL Staging					
	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL	POCI	Total	
December 31:						
Credit grade:						
Non-investment	1,277	-	16	-	1,293	1,484
Gross carrying amount	1,277	-	16	-	1,293	1,484
Loss allowance	(22)	-	(1)	-	(23)	-
Carrying amount	1,255	-	15	-	1,270	1,484

	Deposits – amortised cost					
	2018					2017
	ECL Staging					
	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL	POCI	Total	
December 31:						
Credit grade:						
Investment	18,828	-	-	-	18,828	5,757
Non-investment	1,144	-	-	-	1,144	1,421
Gross carrying amount	19,972	-	-	-	19,972	7,178
Loss allowance	(25)	-	-	-	(25)	-
Carrying amount	19,947	-	-	-	19,947	7,178

32. FINANCIAL RISK (continued)

32.3 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;

For the year ended December 31, 2018 Amounts expressed in Barbados dollars $000's

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

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

	Debt securities – amortised 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	53	474	-	60	587
Transfers:					
Transfer from Stage 2 to Stage 3	-	(9)	9	-	-
Debt securities originated or purchased	22	-	-	-	22
Debt securities fully derecognised	(27)	(229)	-	-	(256)
Changes to inputs used in ECL calculation	(5)	488	91	16	590
Loss allowance at December 31, 2018	43	724	100	76	943
Credit impairment loss recorded in statement of income					2,921

Amounts expressed in Barbados dollars $000's

32. FINANCIAL RISK (continued)

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

	Mortgage loans – amortised 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	29	1	-	-	30
Transfers:					
Transfer from Stage 2 to Stage 3	-	(1)	1	-	-
Changes to inputs used in ECL calculation	(6)	-	(1)	-	(7)
Effect of exchange rate changes	-	-	-	-	-
Loss allowance at December 31, 2018	23	-	-	-	23
Credit impairment gain recorded in statement of income					(5)

Amounts expressed in Barbados dollars $000's

32. FINANCIAL RISK (continued)

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

	Deposits - amortised 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	9	-	-	-	9
Deposits originated or purchased	2	-	-	-	2
Deposits fully derecognised	-	-	-	-	-
Changes to inputs used in ECL calculation	14	-	-	-	14
Effect of exchange rate changes	-	-	-	-	-
Loss allowance at December 31, 2018	25	-	-	-	25
Credit impairment loss recorded in statement of income					16

Amounts expressed in Barbados dollars $000's

32. FINANCIAL RISK (continued)

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

(a) Economic variable assumptions

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

	As of December 31,			As of January 1,		
	2018	2019	2020	2018	2019	2020
Unemployment rate (USA)						
Base	4.20%	4.30%	4.40%	4.7%	4.5%	4.5%
Upside	4.00%	4.20%	4.30%	4.4%	3.7%	3.8%
Downside	4.40%	4.70%	4.80%	5.2%	5.5%	5.7%
World GDP						
Base	3.70%	3.70%	3.60%	3.7%	3.7%	3.7%
Upside	5.40%	5.40%	5.40%	5.6%	5.6%	5.6%
Downside	2.76%	2.76%	2.68%	2.8%	2.8%	2.85%
WTI Oil Prices/10						
Base	4.80%	5.05%	5.15%	$5.72	$5.42	$5.23
Upside	9.48%	9.48%	9.48%	$1.96	$1.96	$1.96
Downside	2.95%	3.10%	3.16%	$9.52	$9.52	$9.52

Amounts expressed in Barbados dollars $000's

32. FINANCIAL RISK (continued)

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

(b) Loss given default (LGD)

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

Loss Given Default	Actual value applied	Change in threshold	ECL impact of Increase in value	ECL impact of Decrease in value
Investments - Corporate Debts	52%	(- /+ 5) %	73	(73)
Investments - Sovereign Debts (excluding Government of Barbados)	45%	(- /+ 5) %	11	(11)
Investments - Sovereign Debts (Government of Barbados)	27%	(- /+ 5) %	53	(5)

Weighting for downside scenario	Actual value applied	Change in value	ECL impact of Increase in value	ECL impact of Decrease in value
Investments - excluding Government of Barbados	10% (80% for base scenario and 10% for downside scenario)	(- /+ 5) % - keep the weighting for base scenario and adjust the weighting for upside scenario accordingly	15	(15)
Lending products	10% (80% for base scenario and 10% for downside scenario)	(- /+ 5) % - keep the weighting for base scenario and adjust the weighting for upside scenario accordingly	2	(1)

32. FINANCIAL RISK (continued)

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

(c) 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 company has accepted the following securities:

Series C

A 15-year amortising bond with interest rates ranging from 1.0% for the first 3 years to 3.75% for years 5 through to maturity. Interest on these bonds is to be paid quarterly with the first payment due on December 31, 2018. The principal will be repaid in four equal quarterly instalments commencing one year prior to maturity.

Series D
A 35-year amortising bond with interest rates ranging from 1.5% for the first 5 years to 7.5% for years 16 through to maturity. Interest on these bonds is paid quarterly with the first payment due on November 30, 2018. The principal will be repaid in three equal instalments commencing one year prior to maturity with the final payment on August 31, 2053.

External Debt
The restructuring of the external debt is yet to be finalised. Credit impairment loss and de-recognition of original domestic debt securities

For the year ended December 31, 2018 Amounts expressed in Barbados dollars $000's

32. FINANCIAL RISK (continued)

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

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	17,825
Loss allowance prior to default	(2,572)
Carrying value prior to default	15,253
Credit impairment loss arising from the default	-
Carrying value as of October 3, 2018	15,253
Fair value on recognition of replacement securities	15,121
Loss on de-recognition of original securities	132

32. FINANCIAL RISK (continued)

32.4 Credit risk - financial investments measured on IAS 39 basis

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

The company has developed an internal credit rating standard. The internal rating is a 10 point scale which allows for distinctions in risk characteristics and is referenced to the rating scales of international credit rating agencies. The scale is set out in the following table.

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

The company applies this rating scale to three categories of exposures:

- Investment portfolios, comprising debt securities, deposits and cash balances;
- Lending portfolios comprising mortgages; and
- Reinsurance exposures comprising realistic disaster scenarios (see note 33.3).

The 3 default grades are used for lending portfolios while investment portfolios and reinsurance exposures use one default grade: 8.

For the year ended December 31, 2018 Amounts expressed in Barbados dollars $000's

32. FINANCIAL RISK (continued)

32.4 Credit risk - financial investments measured on IAS 39 basis (continued)

The maximum exposures of the company to credit risk without taking into account any collateral or any credit enhancements are set out in the following table:

	2017	
	$	%
Debt securities	66,410	38.5
Mortgage loans	1,484	0.9
Deposits	7,178	4.2
Reinsurance assets	33,431	19.4
Premiums in the course of collection	24,364	14.1
Miscellaneous assets and receivables	1,403	0.8
Cash resources	38,178	22.1
Total exposure	172,448	100.0

The company's largest exposures to individual counterparty credit risks as of December 31 are set out below. The individual ratings reflect the rating of the counterparty listed while the amounts include exposures with subsidiaries of the counterparty.

	Sagicor Risk Rating	2017
Debt securities:		
Government of Trinidad and Tobago	3	42,473
Government of Barbados	6	12,338
Sagicor Financial Corporation Limited	5	6,139
Deposits & cash:		
RBTT Bank Limited	1	4,070
CIBC First Caribbean	2	18,138
The Bank of Nova Scotia	2	3,111
Claim recoveries		
Munich Reinsurance Company	1	14,805

Amounts expressed in Barbados dollars $000's

32. FINANCIAL RISK (continued)

32.4 Credit risk - financial investments measured on IAS 39 basis (continued)

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

Category		Sagicor Risk Rating	Classification	2017 Exposure $	2017 Exposure %
Non-default	Investment grade	1	Minimal risk	5,677	5.0
		2	Low risk	23,665	20.9
		3	Moderate risk	43,203	38.1
	Non-investment grade	4	Acceptable risk	15,356	13.6
		5	Average risk	11,120	9.8
	Watch	6	Higher risk	13,260	11.7
		7	Special mention	-	-
Default		8	Substandard	968	0.9
		9	Doubtful	-	-
		10	Loss	-	-
			TOTALS	113,249	100.0

Exposure to credit risk is also managed in part by obtaining collateral for mortgage loans. The collateral is real estate property, and the approved loan limit is 95% of collateral value. The collateral for vehicle loans to staff is the vehicle and the approved loan limit is 95% to 100% of the collateral value.

All mortgage loans relate to properties in Barbados.

For insurance premiums receivable, the company frequently provides settlement terms to customers and intermediaries which extend up to 11 months.

(a) Past due and impaired financial assets

A financial asset is past due when a counterparty has failed to make payment when contractually due. The company is most exposed to the risk of past due assets with respect to its premiums receivable and its financial investments namely its debt securities and mortgage loans.

Debt securities are assessed for impairment when amounts are past due, when the borrower is experiencing cash flow difficulties, or when the borrower's credit rating has been downgraded. Mortgage loans less than 90 days past due are not assessed for impairment unless other information is available to indicate the contrary.

For the year ended December 31, 2018 Amounts expressed in Barbados dollars $000's

32. FINANCIAL RISK (continued)

32.4 Credit risk - financial investments measured on IAS 39 basis (continued)

The assessment for impairment includes a review of the collateral. If the past due period is less than the trigger for impairment review, the collateral is not normally reviewed and re-assessed. Accumulated allowances for impairment reflect the company's assessment of total individually impaired assets at the date of the financial statements. The following tables set out the carrying values of financial assets analysed by past due or impairment status.

2017	Debt securities	Mortgage loans	Premiums in the course of collection
Neither past due nor impaired	66,410	1,449	-
Past due up to 12 months, but not impaired	-	35	23,511
Past due up to 5 years, but not impaired	-	-	-
Total past due but not impaired	-	35	23,511
Impaired assets	-	-	853
Total carrying value	66,410	1,484	24,364
Accumulated allowances on impaired assets	-	-	853

Premiums in the course of collection are considered to be impaired if the balance has been outstanding for more than 365 days. Under the terms of insurance contracts, insurers can usually lapse an insurance policy for non-payment of premium, or if there is a claim, recover any unpaid premiums from the claim proceeds.

Amounts expressed in Barbados dollars $000's

32. FINANCIAL RISK (continued)

32.5 Liquidity risk

Liquidity risk is the exposure that the company may encounter difficulty in meeting obligations associated with financial or insurance liabilities. Liquidity risk also arises when excess funds accumulate resulting in the loss of opportunity to increase investment returns. The company monitors cash inflows and outflows in each operating currency. Through experience and monitoring, the company is able to maintain sufficient liquid resources to meet current obligations.

The company is exposed to daily calls on its available cash resources to pay claims, and for operating expenses and taxes. The company does not maintain cash resources to meet all these needs as experience shows that a minimum level of revenue flows and maturing investments can be predicted with a high level of certainty.

(a) Financial liabilities and commitments

The maturity profiles of the company's financial liabilities and commitments are summarised in the following tables. Amounts are analysed by their earliest contractual maturity dates and consist of the contractual un-discounted cash flows. Where the interest rate of an instrument for a future period has not been determined as of the date of the financial statements, it is assumed that the interest rate then prevailing continues until final maturity.

2018	**On demand or within 1 year**	**1 to 5 years**	**Total**
Financial liabilities:			
Due to re-insurers and premium tax	9,284	-	9,284
Amounts payable to related parties	24,136	-	24,136
Accounts payable and accrued liabilities	18,320	-	18,320
Total financial liabilities	51,740	-	51,740

2017	**On demand or within 1 year**	**1 to 5 years**	**Total**
Financial liabilities:			
Due to re-insurers and premium tax	19,352	-	19,352
Amounts payable to related parties	5,093	-	5,093
Accounts payable and accrued liabilities	7,499	-	7,499
Total financial liabilities	31,944	-	31,944

Amounts expressed in Barbados dollars $000's

32. FINANCIAL RISK (continued)

32.5 Liquidity risk

(b) Insurance liabilities

The maturity profiles of the company's monetary policyholders' liabilities are summarised in the following tables. Amounts are stated at their carrying values recognised in the financial statements and are analysed by their expected due periods, which have been estimated by actuarial or other statistical methods.

	Maturing within 1 year	Maturing 1 to 5 years	Maturing after 5 years	Total
2018				
Policyholders' liabilities	41,846	28,668	1,944	72,458
2017				
Policyholders' liabilities	42,657	31,610	-	74,267

(c) Financial and insurance assets

The contractual maturity periods of monetary financial assets and the expected maturity periods of monetary insurance assets are summarised in the following table. Amounts are stated at their carrying values recognised in the financial statements.

2018	Maturing within 1 year	Maturing 1 to 5 years	Maturing after 5 years	Total
Debt securities	20,017	13,260	41,672	74,949
Mortgage loans	16	196	1,058	1,270
Deposits	19,262	685	-	19,947
Reinsurance assets	25,772	-	-	25,772
Premiums in the course of collection	24,117	-	-	24,117
Miscellaneous assets and receivables	1,967	-	-	1,967
Cash resources	34,431	-	-	34,431
Total	125,582	14,141	42,730	182,453

Amounts expressed in Barbados dollars $000's

32. FINANCIAL RISK (continued)

32.5 Liquidity risk (continued)

2017	Maturing within 1 year	Maturing 1 to 5 years	Maturing after 5 years	Total
Debt securities	11,666	37,260	17,484	66,410
Mortgage loans	221	500	763	1,484
Deposits	7,178	-	-	7,178
Reinsurance assets	33,431	-	-	33,431
Premiums in the course of collection	24,364	-	-	24,364
Miscellaneous assets and receivables	1,403	-	-	1,403
Cash resources	38,178	-	-	38,178
Total	116,441	37,760	18,247	172,448

32.5 Interest rate risk

The company is exposed to interest rate risks. Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates. The occurrence of an adverse change in interest rates on invested assets may result in financial loss to the company in fulfilling the contractual returns on insurance and financial liabilities.

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

For financial liabilities, returns are usually contractual and may only be adjusted on contract renewal or contract re-pricing.

The company is therefore exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase or decrease as a result of such changes. Interest rate changes may also result in losses if asset and liability cash flows are not closely matched with respect to timing and amount.

The company manages its interest rate risk by a number of measures, including where feasible the selection of assets which best match the maturity of liabilities.

For the year ended December 31, 2018 Amounts expressed in Barbados dollars $000's

32. FINANCIAL RISK (continued)

32.6 Interest rate risk (continued)

The table below summarises the exposures to interest rate risks of the company's monetary insurance and financial liabilities. It includes liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. Insurance liabilities are categorised by their expected maturities.

2018	**Exposure within 1 year**	**Exposure 1 to 5 years**	**Exposure after 5 years**	**Not exposed to interest**	**Total**
Policyholders' liabilities	-	-	-	72,458	72,458
Due to re-insurer and premium tax	-	-	-	9,284	9,284
Payable to related parties	-	18,940	-	5,196	24,136
Accounts payable and accrued liabilities	-	-	-	18,120	18,120
Total	-	18,940	-	105,058	123,998
2017					
Policyholders' liabilities	-	-	-	74,267	74,267
Due to re-insurer and premium tax	-	-	-	19,352	19,352
Payable to related parties	-	-	-	5,093	5,093
Accounts payable and accrued liabilities	-	-	-	7,499	7,499
Total	-	-	-	106,211	106,211

The table below summarises the exposures to interest rate and reinvestment risks of the company's monetary insurance and financial assets. It includes assets at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. Reinsurance assets are categorised by their expected maturities

2018	**Exposure within 1 year**	**Exposure 1 to 5 years**	**Exposure after 5 years**	**Not exposed to interest**	**Total**
Debt securities	18,895	13,260	41,672	1,122	74,949
Mortgage loans	16	196	1,058	-	1,270
Deposits	19,173	685	-	89	19,947
Reinsurance assets	-	-	-	25,772	25,772
Premiums in the course of collection	-	-	-	24,117	24,117
Miscellaneous assets and receivables	-	-	-	1,967	1,967
Cash resources	-	-	-	34,431	34,431
Total	38,084	14,141	42,730	87,498	182,453

For the year ended December 31, 2018 Amounts expressed in Barbados dollars $000's

32. FINANCIAL RISK (continued)

32.6 Interest rate risk (continued)

2017	Exposure within 1 year	Exposure 1 to 5 years	Exposure after 5 years	Not exposed to interest	Total
Debt securities	10,488	37,260	17,484	1,178	66,410
Mortgage loans	221	500	763	-	1,484
Deposits	7,085	-	-	93	7,178
Reinsurance assets	-	-	-	33,431	33,431
Premiums in the course of collection	-	-	-	24,364	24,364
Miscellaneous assets and receivables	379	257	-	767	1,403
Cash resources	13,440	-	-	24,738	38,178
Total	31,613	38,017	18,247	84,571	172,448

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

	2018	2017
Debt securities	4.9%	4.9%
Mortgage loans	4.5%	4.5%
Deposits	1.7%	2.4%

Sensitivity

The company's operations are not exposed to a significant degree of interest rate risk.

32.7 Foreign exchange risk

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

In order to manage the risk associated with movements in currency exchange rates, the company seeks to maintain investments and cash in each operating currency, which are sufficient to match liabilities denominated in the same currency. A limited proportion is invested in United States dollar assets which management considers diversifies the range of investments available, and in the long-term are likely to either maintain capital value and/or provide satisfactory returns.

32. FINANCIAL RISK (continued)

32.7 Foreign exchange risk (continued)

Monetary assets and liabilities by currency are summarised in the following tables.

	Barbados$ 000 equivalents of balances denominated in:			
2018	**Barbados $**	**Trinidad $**	**Other currencies**	**Total**
ASSETS				
Financial investments	27,288	41,961	26,217	95,466
Reinsurance assets	9,625	9,973	6,174	25,772
Receivables	14,183	8,791	3,509	26,483
Cash resources	12,170	13,473	8,788	34,431
Total financial and insurance assets	63,266	74,198	44,688	182,152
LIABILITIES				
Policyholders' liabilities	35,097	29,085	8,276	72,458
Payable to related parties	22,675	925	536	24,136
Payables	20,779	14,580	1,502	36,861
Total financial and insurance liabilities	78,551	44,590	10,314	133,455
Net position	(15,285)	29,608	34,374	48,697
2017				
ASSETS				
Financial investments	13,410	35,851	25,811	75,072
Reinsurance assets	5,782	12,363	15,286	33,431
Receivables	11,863	9,473	4,431	25,767
Cash resources	7,451	12,284	18,443	38,178
Total financial and insurance assets	38,506	69,971	63,971	172,448
LIABILITIES				
Policyholders' liabilities	17,736	33,078	23,453	74,267
Payable to related parties	4,662	280	151	5,093
Payables	5,222	2,075	19,557	26,854
Total financial and insurance liabilities	27,620	35,433	43,161	106,214
Net position	10,886	34,538	20,810	66,234

32. FINANCIAL RISK (continued)

32.7 Foreign exchange risk (continued)

Sensitivity

The exposure to currency risk results primarily from currency risk relating to the future cash flows of monetary financial instruments. This occurs when a financial instrument is denominated in a currency other than the functional currency of the unit to which it belongs. In this instance, a change in currency exchange rates results in the financial instrument being retranslated at the year-end date and the exchange gain or loss is taken to income.

Financial instruments held by branches are predominantly denominated in the branches' functional currency and as such branches are not exposed to significant exposure from fluctuations in exchange rates.

32.8 Fair value of financial instruments

The fair value of financial instruments is measured according to a fair value hierarchy which reflects the significance of market inputs in the valuation. The hierarchy is described and discussed in sections (i) to (iii) below.

(i) Level 1 – unadjusted quoted prices in active markets for identical instruments.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other independent source, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The company considers that market transactions should occur with sufficient frequency that is appropriate for the particular market, when measured over a continuous period preceding the date of the financial statements. If there is no data available to substantiate the frequency of market transactions of a financial instrument, then the instrument is not classified as Level 1.

(ii) Level 2 – inputs that are observable for the instrument, either directly or indirectly

A financial instrument is classified as Level 2 if:

- The fair value is derived from quoted prices of similar instruments which would be classified as Level 1; or
- The fair value is determined from quoted prices that are observable but there is no data available to substantiate frequent market trading of the instrument.

In estimating the fair value of non-traded financial assets, the company uses a variety of methods such as obtaining dealer quotes and using discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are discounted at market derived rates for government securities in the same country of issue as the security; for non-government securities, an interest spread is added to the derived rate for a similar government security rate according to the perceived additional risk of the non-government security.

For the year ended December 31, 2018 Amounts expressed in Barbados dollars $000's

32. FINANCIAL RISK (continued)

32.8 Fair value of financial instruments (continued)

In assessing the fair value of non-traded financial liabilities, the company 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 quoted prices of similar instruments that are observable and which would be classified as Level 2; or
- The fair value is derived from inputs that are not based on observable market data.

Level 3 available for sale securities comprise primarily corporate equity instruments issued in Barbados.

Level 3 assets designated include mortgage loans. These assets are valued with inputs other than observable market data.

The techniques and methods described in the preceding section (ii) for non-traded financial assets and liabilities may also be used in determining the fair value of Level 3 instruments.

(a) Financial instruments carried at fair value

Available for sale securities:	**Level 1**	**Level 2**	**Level 3**	**Total**
2018				
Equity securities	1,365	-	-	1,365
	1,365	-	-	1,365

Available for sale securities:	**Level 1**	**Level 2**	**Level 3**	**Total**
2017				
Equity securities	1,293	-	-	1,293
	1,293	-	-	1,293

There were no transfers occurring in 2018 or 2017 between levels 1, 2 and 3.

Amounts expressed in Barbados dollars $000's

32. FINANCIAL RISK (continued)

32.8 Fair value of financial instruments (continued)

b) Financial instruments carried at amortised cost

Loans and receivables:	**Level 1**	**Level 2**	**Level 3**	**Total**
2018				
Debt securities	-	17,580	57,540	75,120
Mortgage loans	-	-	1,270	1,270
	-	17,580	58,810	76,390

Loans and receivables:	**Level 1**	**Level 2**	**Level 3**	**Total**
2017				
Debt securities	-	20,209	48,860	69,069
Mortgage loans	-	-	1,412	1,412
	-	20,209	50,272	70,481

The company is exposed to equity price risk arising from changes in the market values of its equity securities. The company mitigates this risk by holding a diversified portfolio and by minimising the use of equity securities to back its insurance and financial liabilities.

Sensitivity

The sensitivity to fair value changes in equity securities arises from those instruments classified as available for sale.

The effect of an across the board 20% change in equity prices of the company's available for sale equity securities as of the financial statement date on total comprehensive income before tax is as follows:

	Carrying value	**Effect of a 20% change**
Available for sale equity securities:		
Listed on Caribbean stock exchanges and markets	1,365	273

The effect of the fluctuation on available for sale debt securities would not be material to these financial statements.

33. INSURANCE RISK

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

A proportion of risks assumed are written by third parties under delegated underwriting authorities. The third parties are assessed in advance and are subject to authority limits and reporting procedures. The performance of contracts written by each delegated authority is monitored periodically.

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

The principal risks arising from short-term insurance contracts are underwriting, claims, availability of reinsurance and claims liability estimation and credit risk in respect of reinsurance counterparties.

33.1 Underwriting risk

Risks are priced to achieve an adequate return on capital on the business as a whole. This return is expressed as a premium target return. Budgeted expenses and reinsurance costs are included in the pricing process. Various pricing methodologies including benchmark exposure rates and historic experience are used and are generally applied by class of insurance. All methods produce a technical price, which is compared against the market to establish a price margin.

Pricing techniques are subject to constant review from independent pricing audits, claims patterns, underwriters' input, market developments and actuarial best practice. There are minimum pricing margins for each class of business.

Annually, the overall risk appetite is reviewed and approved. The risk appetite is defined as the maximum loss the company is willing to incur from a single event or proximate cause. Risks are only underwritten if they fall within the risk appetite. Individual risks are assessed for their contribution to aggregate exposures by nature of risk, by geography, by correlation with other risks, before acceptance. Underwriting a risk may include specific tests and enquiries which determine the company's assessment of the risk. The company may also establish deductibles, exclusions, and coverage limits which will limit the potential losses incurred. Inaccurate pricing or inappropriate underwriting of insurance contracts, which may arise from poor pricing or lack of underwriting control, can lead to either financial loss or reputational damage to the insurer.

Amounts expressed in Barbados dollars $000's

33. INSURANCE RISK (continued)

33.2 Claims risk

Incurred claims are triggered by an event and may be categorised as:

- Attritional losses, which are expected to be of reasonable frequency and are less than established threshold amounts;
- Large losses, such as major fires and accidents, which are expected to be relatively infrequent, are greater than established threshold amounts;
- Catastrophic losses, which are an aggregation of losses arising from one incident or proximate cause such as hurricanes or earthquakes, affecting one or more classes of insurance. These losses are infrequent and are generally very substantial.

The company records claims based on submissions made by claimants. In certain instances additional information is obtained from loss adjustors, medical reports and other specialist sources. However, the possibility exists that claim submissions are either fraudulent or are not covered under the terms of the policy. The initial claim recorded may only be an estimate, which has to be refined over time until final settlement occurs. In addition, from the pricing methodology used for risks, it is assumed that at any particular date, there are claims incurred but not reported (IBNR).

Claims risk is the risk that incurred claims may exceed expected losses. Claim risk may arise from:

- Invalid claim submissions;
- The frequency of incurred claims;
- The severity of incurred claims;
- The development of incurred claims.

The company carries significant insurance risks concentrated in certain countries within the Caribbean. Significant concentration of insurance risk occurs in Barbados, Trinidad and Tobago and St. Lucia.

Total insurance coverage on insurance policies quantify some of the risk exposures. Typically, claims arising in any one year are a very small proportion in relation to the total insurance coverage provided.

The total sums insured before and after reinsurance on property and casualty risks are summarised below.

	Gross	Net
2018		
Property business	17,219,999	2,839,044
Motor business	898,933	898,933
Accident and liability business	6,351,739	5,807,630
Sums insured	**24,470,671**	**9,545,607**

Amounts expressed in Barbados dollars $000's

33. INSURANCE RISK (continued)

33.2 Claims risk (continued)

	Gross	Net
2017		
Property business	16,690,950	2,821,356
Motor business	866,982	866,982
Accident and liability business	5,538,908	4,507,699
Sums insured	**23,096,840**	**8,196,037**

The net amounts disclosed are inclusive of the reinsurance applicable on proportional treaties. The retentions on the excess of loss treaties have not been included.

Concentration of risk is mitigated through risk selection, event limits, quota share reinsurance and excess of loss reinsurance. Levels of reinsurance cover are summarised in note 32.3.

The company assesses its exposures by modelling realistic disaster scenarios of potential catastrophic events. Claims arising from wind storms, earthquakes, floods, terrorism, failure or collapse of a major corporation (with liability insurance cover) and events triggering multi coverage corporate liability claims are considered to be the potential sources of catastrophic losses arising from insurance risks.

Realistic disaster scenarios modelled for 2018 resulted in estimated gross and net losses as follows:

Scenario:	**Gross loss**	**Net loss**
Hurricane affecting Barbados and St. Lucia:		
Used assumption of this event having a 200 year return period	423,981	10,000
Earthquake of magnitude 5.0 on the Richter scale affecting Trinidad:		
Used assumption of this event having a 250 year return period	940,936	10,000

Therefore, the occurrence of one or more catastrophic events in any year may have a material impact on the reported net income of the company.

33.3 Reinsurance risk

To limit its exposure of potential loss on an insurance policy, the company may cede certain levels of risk to a reinsurer. Reinsurance, however, does not discharge the company's liability. Reinsurance risk is the risk that reinsurance is not available to mitigate the potential loss on an insurance policy. The risk may arise from:

- The credit risk of holding a recovery from a reinsurer;
- The failure of a reinsurance layer upon the occurrence of a catastrophic event.

For the year ended December 31, 2018 Amounts expressed in Barbados dollars $000's

33. INSURANCE RISK (continued)

33.3 Reinsurance risk (continued)

The company selects reinsurers which have well established capability to meet their contractual obligations and which generally have a Sagicor credit risk rating of 1 or 2. The company also places reinsurance coverage with various reinsurers to limit its exposure to any one reinsurer. The credit ratings of reinsurers are monitored frequently.

For its property risks, the company uses quota share and excess of loss catastrophe reinsurance treaties to obtain reinsurance cover. Catastrophe reinsurance is obtained for multiple claims arising from one event or occurring within a specified time period. However, treaty limits may apply and may expose the company to further claim exposure. Under some treaties, when treaty limits are reached, the company may be required to pay an additional premium to reinstate the reinsurance coverage. For other insurance risks, the company limits its exposure by event or per person by excess of loss or quota share treaties.

Retention limits represent the level of risk retained by the company. Coverage in excess of these limits is ceded to reinsurers up to the treaty limit. Claim amounts in excess of reinsurance treaty limits revert to the insurer. Principal features of retention programs used are summarised in the tables below.

Type of risk	Retention by company
Property risks	• maximum retention of $9,000 (2017 - $9,000) for a single non-catastrophic event; • maximum retention of $10,000 (2017 - $15,000) for a catastrophic event; • quota share retention to a maximum of 20% in respect of the treaty limits; • quota share retention is further reduced to a maximum of $750 (2017 - $750) per risk.
Motor and liability risks	• maximum retention of $1,500 for a single event; • quota share retention to maximum of 50% in respect of the treaty limits; • treaty limits apply.
Miscellaneous accident risks	• maximum retention of $150 for a single event; • treaty limits apply.
Engineering business risks	• maximum retention of $1,000 for a single risk; • treaty limits apply for material damage and for liability claims.
Marine risks	• maximum retention of $150 for a single event; • treaty limits apply.
Bond risks	• maximum retention of $600 for a single risk; • quota share retention to maximum of 15% in respect of the treaty limits; • treaty limits apply.
Property, motor, marine, and engineering risk	• catastrophic excess of loss reinsurance cover is available per event for amounts in excess of treaty limits for property, motor, marine and engineering risks; • treaty limits apply to catastrophic excess of loss coverage

For the year ended December 31, 2018 Amounts expressed in Barbados dollars $000's

33. INSURANCE RISK (continued)

33.3 Reinsurance risk (continued

Reinsurance balances and the effects of reinsurance ceded on income are disclosed at notes 8, 12.1, 12.2, 15, 18, 21 and 31.1.

In order to assess the potential reinsurance recoveries on the occurrence of a catastrophic insurance event, the Sagicor credit risk ratings of the reinsurance recoverable are assessed using the following realistic disaster scenarios:

- Hurricane with a 200 year return period affecting Barbados and St. Lucia; and
- Earthquake with a 250 year return period affecting Trinidad all within a 24 hour period.

The reinsurance recoveries derived from the above are assigned internal credit ratings as follows:

Category		Sagicor Risk Rating	Classification	Exposure $	Exposure %
Non-default	Investment grade	1	Minimal risk	732,157	53.7
		2	Low risk	631,164	46.3
		3	Moderate risk	-	-
	Non-investment grade	4	Acceptable risk	-	-
		5	Average risk	-	-
	Watch	6	Higher risk	-	-
		7	Special mention	-	-
Default		8	Substandard	-	-
		9	Doubtful	-	-
		10	Loss	-	-
			TOTALS	1,363,321	100.0

33.4 Estimation of claim liabilities

Due to the inherent uncertainties in estimating claim liabilities described above and in note 3.1, the development of the company's claims in the course of settlement provides a measure of its ability to estimate the ultimate value of claims incurred. The tables in note 12.1 outline the estimates of total ultimate claims incurred and recoverable from reinsurers for each year at successive year ends.

33.5 Sensitivity of incurred claims

The impact on gross claims of a 10% increase and decrease in development is outlined in note 12.1.

Amounts expressed in Barbados dollars $000's

34. CAPITAL MANAGEMENT

34.1 Capital resources

The company manages its capital resources according to the following objectives:

- To comply with capital requirements established by insurance regulatory authorities;
- To safeguard its ability as a going concern and to provide adequate returns to shareholders by pricing insurance contracts commensurately with the level of risk;
- To maintain a strong capital base to support the future development of company operations.

The principal capital resource of the company at the financial statement date is as follows:

	2018	**2017**
Equity	38,671	53,028
Total capital resources	38,671	53,028

The company deploys its capital resources through its operating activities. These operating activities are carried out by branches which are insurance operations. The capital is deployed in such a manner as to ensure that branches have adequate and sufficient capital resources to carry out their activities and to meet regulatory requirements.

34.2 Capital adequacy

Management monitors the adequacy of the company's capital to ensure compliance with the solvency requirements of the territories in which it operates and to safeguard its ability as a going concern to continue to provide benefits and returns to shareholders. At year-end the company was in compliance with all of its regulatory capital requirements in all territories, with the exception of Barbados and Dominica.

The company's Barbados operations were impacted by the Government of Barbados debt restructuring exercise. The Financial Services Commission of the Government of Barbados, issued an announcement dated October 1 2018, advising its decision to exercise regulatory forbearance by allowing all entities up to five (5) years to fully make up any resulting deficits or breaches of caps of certain types of instruments.

35 SUBSEQUENT EVENT

Subsequent to the year-end the company entered into loan agreement with FirstCaribbean International Bank (Barbados) Limited for $24,000. The proceeds from the loan will be used to paydown intercompany debt. The loan bears interest at the rate of 3.50% which is accrued and paid quarterly along with equal quarterly principal instalments of $857 over five years.

The loan is secured by a guarantee and postponement of claim from Sagicor Life Inc., the parent company for the principal amount of $24,000.

ADVISORS AND BANKERS

APPOINTED ACTUARY

Eckler Ltd.

AUDITOR

PricewaterhouseCoopers SRL

SENIOR COUNSEL

Sir Richard Cheltenham, QC, Ph.D.

BANKERS

CIBC FirstCaribbean International Bank Limited

First Citizens

The Bank of Nova Scotia

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the TWENTY THIRD GENERAL MEETING of the Shareholders of SAGICOR GENERAL INSURANCE INC. will be held at Cecil F de Caires Building, Wildey, St. Michael, Barbados, on Thursday, July 25, 2019 at 4:00 p.m. for the following purposes:

1. To receive and consider the Financial Statements of the Company and the Reports of the Directors and Auditors for the year ended December 31, 2018.
2. To elect Directors:-
   Dr. M. Patricia Downes-Grant and Mr. J. Edward Clarke are the Directors whose terms of office expire at the close of this meeting and being eligible offer themselves for re-election for terms expiring at the close of the third annual meeting following this meeting.
3. To re-appoint the incumbent Auditors for the ensuing year and to authorise the Directors to fix their remuneration.
4. To transact such other business as may properly come before the meeting and at any adjournment thereof.

BY ORDER OF THE BOARD

Althea C. Hazzard
Corporate Secretary
June 17, 2019

PROXIES

A shareholder who is entitled to attend and vote at the meeting may appoint a proxy to attend and vote in his stead. A proxy need not be a shareholder. Proxy forms must be lodged at the Company's Registered Office, Cecil F de Caires Building, Wildey, St. Michael, Barbados, not less than twenty-four hours before the meeting. A form of Proxy is enclosed for your convenience.

SAGICOR GENERAL INSURANCE INC.
COMPANY NO. 42724

MANAGEMENT PROXY CIRCULAR

Management is required by the Companies Act Cap. 308 of the Laws of Barbados (hereinafter called "The Companies Act") to send with the Notice convening the meeting, forms of proxy. By complying with the Companies Act management is deemed to be soliciting proxies within the meaning of the Companies Act.

This Management Proxy Circular accompanies the Notice of the Twenty Third Annual General Meeting of the Shareholders of Sagicor General Insurance Inc. (hereinafter called the "Company") to be held on July 25, 2019 at 4:00 p.m. (hereinafter called the "meeting") and is furnished in connection with the solicitation by the management of the Company of proxies for use at the meeting, or any adjournment thereof. It is expected that the solicitation will primarily be by mail. The cost of the solicitation will be borne by the Company.

REVOCATION OF PROXY

Any shareholder having given a proxy has the right to revoke it by depositing an instrument in writing executed by the shareholder, or his attorney authorised in writing, with the Corporate Secretary at the head office of the Company at Cecil F de Caires Building, Wildey, St. Michael Barbados, at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof, at which the proxy is to be used or with the Chairman of such meeting on the day of the meeting or adjournment thereof.

RECORD DATE, NOTICE OF MEETING & VOTING SHARES

The Directors of the Company have not fixed a record date for determining the shareholders who are entitled to receive notice of the meeting. In accordance with the Companies the statutory record date applies. Only the holders of common shares of the Company of record at the close of business on the day immediately preceding the day on which the Notice is given under Section 109 (1) of the Companies Act will be entitled to receive notice of the meeting.

Only the holders of common shares of the Company will be entitled to attend and vote at the meeting. Each holder is entitled to one vote for each share held. As at the date hereof there are 2,018,087 common shares of the Company outstanding.

PRESENTATION OF FINANCIAL STATEMENTS AND AUDITOR'S REPORT

The Financial Statements of the Company for the year ended December 31, 2018 and the Auditor's Report thereon, are included in the 2018 Annual Report which is being mailed to shareholders with this Notice of the Annual General Meeting and Management Proxy Circular.

ELECTION OF DIRECTORS

During the year 2018 two directors of the Company who were nominees of Goddard

Enterprises Limited (GEL) resigned from the Board as the shares in the Company previously held by GEL were purchased by Sagicor Life Inc. The Board of Directors currently consists of 5 (five) members. The number of Directors to be elected at the meeting is two (2). The following are the names of the persons proposed as nominees for election as Directors of the Company, and for whom it is intended that votes will be cast for their re-election as Directors pursuant to the form of proxy hereby enclosed:

- Dr. M. Patricia Downes-Grant was elected as a director at the Annual Meeting of Shareholders held on June 10, 2016 for a term of three years.
- Mr. J. Edward Clarke was elected as a director at the Annual Meeting of Shareholders held on June 10, 2016 for a term of three years.

These directors will retire at the close of the Twenty Third Annual Meeting in accordance with the provisions of the by-laws of the Company, but being eligible, offer themselves for re-election for terms expiring not later than the close of the third annual meeting of shareholders following this meeting.

The Directors recommend the appointment of Dr. M. Patricia Downes-Grant and Mr. J. Edward Clarke for the terms stated above or until their successors are elected or appointed.

The Management of the Company does not contemplate that any of the persons named above will, for any reason, become unable to serve as a Director.

APPOINTMENT OF AUDITORS

It is proposed to re-appoint the firm of PricewaterhouseCoopers SRL, the incumbent Auditor, as Auditor of the Company to hold office until the next Annual Meeting of Shareholders.

DISCRETIONARY AUTHORITY

Management knows of no matter to come before the meeting other than the matters referred to in the Notice of Meeting enclosed herewith. However, if any matters which are not known to management should properly come before the meeting or any adjournment thereof, the shares represented by proxies in favour of management nominees will be voted on such matters in accordance with the best judgment of the proxy nominee. Similar discretionary authority is conferred with respect to amendments to the matters identified in the Notice of the Meeting.

The contents of this Management Proxy Circular and the sending thereof to the holders of the common shares of the Company have been approved by the Directors of the Company.

No Directors' statement is submitted pursuant to Section 71(2) of the Companies Act.

No Auditor's statement is submitted pursuant to Section 163(1) of the Companies Act.

Date: June 17, 2019.

Althea C. Hazzard
Corporate Secretary