

## Independent auditor's report

To the Board of Directors, the Supervisory Board  
and the Shareholder of  
Sagicor Life Aruba N.V.  
Aruba

*Our reference: 134159/ A-32677*

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### ***Report on the financial statements included in the annual report***

In our opinion, the financial statements give a true and fair view of the financial position of Sagicor Life Aruba N.V., Aruba (the Company) as at December 31, 2021 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, 2021;
- the statement of income for the year ended December 31, 2021;
- the statement of comprehensive income for the year ended December 31, 2021;
- the statement of changes in equity for the year ended December 31, 2021;
- the statement of cash flows for the year ended December 31, 2021;
- 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. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA – Dutch Code of Ethics).

### ***Responsibilities of the Board of Directors and the Supervisory Board for the financial statements***

The Board of Directors is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the relevant provisions of Book 2 of the Civil Code applicable for Aruba, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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In preparing the financial statements, the Board of Directors 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 the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

### ***Auditor's responsibilities for the audit of the financial statements***

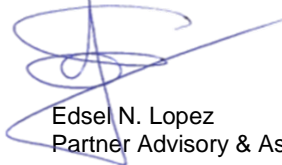
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee 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 scepticism 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 the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' 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 the Supervisory Board 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.

Aruba, June 29, 2022  
Grant Thornton Aruba



Edsel N. Lopez  
Partner Advisory & Assurance

**SAGICOR LIFE ARUBA N.V.**  
**STATEMENT OF FINANCIAL POSITION**

As of December 31, 2021

Initialed on behalf of  
 Grant Thornton Aruba.  
 For identification purposes only.

Amounts expressed in AFL '000

	Notes	2021	2020
<b>ASSETS</b>			
Furniture and equipment	4	245	254
Financial investments	5	33,282	34,760
Reinsurance assets	6	-	232
Miscellaneous assets and receivables	7	1,162	1,171
Cash resources		20,444	15,811
<b>Total assets</b>		<b>55,133</b>	<b>52,228</b>
<b>LIABILITIES</b>			
Actuarial liabilities	8	22,176	32,386
Other insurance liabilities	9	3,920	4,093
Investment contract liabilities	10	473	486
Total policy liabilities		26,569	36,965
Provisions	11	1,952	1,708
Income tax liabilities	12	362	319
Accounts payable and other liabilities	13	2,301	2,507
Due to parent company	14	6,157	4,243
<b>Total liabilities</b>		<b>37,341</b>	<b>45,742</b>
<b>EQUITY</b>			
Share capital	15	341	336
Contributed surplus	15	481	481
Reserves	16	290	466
Retained earnings		16,680	5,203
<b>Total shareholder's equity</b>		<b>17,792</b>	<b>6,486</b>
<b>Total equity and liabilities</b>		<b>55,133</b>	<b>52,228</b>

These financial statements have been approved for issue by the Board of Directors on June 29, 2022.

  
 .....  
 Randall C.F. Croes   
 Director | Sagicor Life Aruba N.V.

  
 .....  
 Robert Trestrail  
 Director

**SAGICOR LIFE ARUBA N.V.**  
**STATEMENT OF INCOME**  
For the year ended December 31, 2021

Initialed on behalf of  
Grant Thornton Aruba.  
For identification purposes only.

Amounts expressed in AFL '000

	Notes	<b>2021</b>	<b>2020</b>
<b>REVENUE</b>			
Premium revenue	17	15,097	13,471
Reinsurance premium expense	17	(1,069)	(1,071)
Net premium revenue		14,028	12,400
Interest income earned from Sagicor Group companies		178	167
Interest income earned from financial assets measured at amortised cost and FVOCI	18	1,870	1,602
Other investment income from external parties	18	9	-
Credit impairment gains/(losses)		383	(980)
Fees and other revenue	19	38	(84)
Total revenue		16,506	13,105
<b>BENEFITS</b>			
Policy benefits and change in actuarial liabilities	20	(432)	7,293
Policy benefits and change in actuarial liabilities reinsured	20	(720)	(232)
Net policy benefits and change in actuarial liabilities		(1,152)	7,061
Interest expense/(income) to external parties	21	177	(110)
Total benefits		(975)	6,951
<b>EXPENSES</b>			
Administrative expenses	36	3,965	4,026
Commissions and related compensation		1,546	1,543
Depreciation		61	52
Total expenses		5,572	5,621
<b>INCOME FROM ORDINARY ACTIVITIES</b>			
		11,909	533
Income taxes	25	(381)	(337)
<b>NET INCOME FOR THE YEAR</b>		11,528	196

**SAGICOR LIFE ARUBA N.V.**  
**STATEMENT OF COMPREHENSIVE INCOME**

For the year ended December 31, 2021

Initialed on behalf of  
 Grant Thornton Aruba.  
 For identification purposes only.

Amounts expressed in AFL '000

	Note	2021	2020
<b>NET INCOME FOR THE YEAR</b>		<u>11,528</u>	<u>196</u>
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Items that may be reclassified subsequently to income:</b>			
Net (Loss)/Income on investments in debt instruments measured at FVOCI		(176)	4
Net Income on financial assets measured at FVOCI		-	138
		<u>(176)</u>	<u>142</u>
<b>Items that may not be reclassified subsequently to income:</b>			
Loss on defined benefit plans	24	(51)	(72)
		<u>(227)</u>	<u>70</u>
<b>Other comprehensive (loss)/income for the year, net of tax</b>			
		<u>(227)</u>	<u>70</u>
<b>TOTAL COMPREHENSIVE INCOME, ATTRIBUTABLE TO SHAREHOLDER</b>		<u>11,301</u>	<u>266</u>

**SAGICOR LIFE ARUBA N.V.**  
**STATEMENT OF CHANGES IN EQUITY**  
For the year ended December 31, 2021

Initialed on behalf of  
Grant Thornton Aruba.  
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Amounts expressed in AFL '000

2021	Share Capital	Contributed Surplus	Reserves	Retained Earnings	Total
	Note 15	Note 15	Note 16		
Balance, January 1, 2021	336	481	466	5,203	6,486
Total comprehensive (loss)/Income for the year	-	-	(176)	11,477	11,301
Contributed capital	5	-	-	-	5
Balance, end of year	341	481	290	16,680	17,792

2020	Share Capital	Contributed Surplus	Reserves	Retained Earnings	Total
	Note 15	Note 15	Note 16		
Balance, January 1, 2020	319	481	324	5,079	6,203
Total comprehensive Income for the year	-	-	142	124	266
Contributed capital	17	-	-	-	17
Balance, end of year	336	481	466	5,203	6,486

**SAGICOR LIFE ARUBA N.V.**  
**STATEMENT OF CASH FLOWS**  
For the year ended December 31, 2021

Initialed on behalf of  
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Amounts expressed in AFL ' 000

	Notes	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income from ordinary activities		11,909	533
Adjustments for non-cash items, interest and dividends	27.1	(12,280)	(1,325)
Interest and dividends received		1,865	1,550
Interest paid		(178)	(259)
Income taxes paid		(338)	(322)
Changes in operating assets	27.1	2,159	(671)
Changes in operating liabilities	27.1	1,548	4,483
<b>Net cash generated from operating activities</b>		<b>4,685</b>	<b>3,989</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Furniture and equipment, net	27.2	(52)	(18)
<b>Net cash used in investing activities</b>		<b>(52)</b>	<b>(18)</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>			
		4,633	3,971
Cash and cash equivalents, beginning of year		15,811	11,840
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	27.3	<b>20,444</b>	<b>15,811</b>

**SAGICOR LIFE ARUBA N.V.**  
**INDEX TO THE NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended December 31, 2021**

Initialed on behalf of  
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**Amounts expressed in AFL '000**

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**SAGICOR LIFE ARUBA N.V.**  
**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2021**

**Amounts expressed in AFL '000**

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**1. INCORPORATION AND PRINCIPAL ACTIVITIES**

Sagicor Life Aruba N.V. was incorporated in Aruba on 19th December 2007. The incorporation was in keeping with revised registration requirements from the Central Bank of Aruba for all insurance companies operating in that jurisdiction. Prior to incorporation the entity operated as a Branch office. Sagicor Life Aruba N.V. assumed the rights, title and interest in and to the insurance business of the Aruba Branch of Sagicor Capital Life Insurance Company Limited, a transaction which was approved by the Central Bank of Aruba and by virtue of this the obligations of the insurance business of the Branch. As a consequence, all assets of the Branch were transferred to the newly established entity on January 1, 2008 (the effective date of transfer). Further, all rights and liabilities of the Aruba branch were transferred to the company. Thereafter the Company commenced its operational activity. Further details are provided in Note 15.

Sagicor Life Aruba N.V. (the Company) is a wholly owned subsidiary of Sagicor Life Inc. Effective December 31, 2014 Sagicor Life Inc was amalgamated with the Company's former parent company Sagicor Capital Life Insurance Company Limited.

Sagicor Life Inc is the name adopted by The Barbados Mutual Life Assurance Society following its conversion from a mutual company to a company with share capital on December 6, 2002 under the Companies Act of Barbados. The Barbados Mutual Life Assurance Society (The Society) was organized as a mutual insurance company established in 1840 and incorporated by a special Act of Parliament of Barbados in 1851.

On November 28, 2002, eligible policyholders of The Society passed a resolution for the demutualization of The Society in accordance with provisions contained in a Policyholder Information Circular and the Insurance (Mutual Company) (Conversion) Regulations 2002 made under the Insurance Act Cap 310A of the laws of Barbados. The demutualization proposal provided for the creation of a holding company under the Companies Act which would issue shares to the eligible policyholders of the converted company while in turn holding all of the voting shares of the converted company. The mechanism of reincorporation, while converting the company from a mutual company to a company with share capital, preserved the corporate existence and legacy of The Society. Upon demutualization, eligible policyholders exchanged their ownership rights and interest in the surplus of The Society for shares in the holding company, Sagicor Financial Corporation Limited. In addition, the demutualization proposal provided for the establishment of a participating account in respect of in force participating policies of The Society, to manage and protect the future bonus and dividend levels on pre-demutualization participating policies.

On November 27, 2018, the Parent Company entered into a definitive arrangement agreement as amended on January 28, 2019 with Alignvest Acquisition II Corporation ("Alignvest"), a special purpose acquisition company ("SPAC"), pursuant to which on December 5, 2019, Alignvest acquired all of the issued and outstanding shares of the Parent Company by way of an Ontario court approved plan of arrangement and a Bermuda court approved scheme of arrangement (the "Arrangement"). On closing, Alignvest changed its name to Sagicor Financial Company Ltd. ("SFC" / "Sagicor") whose operations continue as SFC and owns 100% of the shares in the capital of the Parent Company. Alignvest is now the ultimate parent of the Company.

The Company administers and markets individual life insurance, annuities, group pensions, group life, group creditor life and group health insurance products in Aruba.

For ease of reference, when the term "insurer" is used in the following notes, it refers either to the Company and/or its parent that engage in insurance business.

**SAGICOR LIFE ARUBA N.V.**  
**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2021

Amounts expressed in AFL '000

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**2. ACCOUNTING POLICIES**

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

**2.1 Basis of preparation**

(a) Basis of preparation

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

The Company has adopted accounting policies for the computation of actuarial liabilities of life insurance and annuity contracts using approaches consistent with the principles of the Canadian standards of practice. As no specific guidance is provided by IFRS for computing actuarial liabilities, management has judged that Canadian standards of practice should continue to be applied. The adoption of IFRS 4 – Insurance Contracts, permits the Company to continue with this accounting policy, with the modification required by IFRS 4 that rights under reinsurance contracts are measured separately.

The Company financial statements are prepared under the historical cost convention except as modified by the revaluation of investment property, owner-occupied property, financial assets at fair market value through other comprehensive income ("FVOCI"), financial assets and liabilities held at fair value through profit or loss ("FVTPL"), actuarial liabilities and associated reinsurance assets.

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

**SAGICOR LIFE ARUBA N.V.**  
**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2021

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**2. ACCOUNTING POLICIES (continued)**

**2.1 Basis of preparation**

(a) Basis of preparation

Amendments to existing IFRS and IAS effective January 1, 2021

The Company has adopted the amendments to IFRS and IAS set out in the following tables. None of these amendments have a material effect on the Company's financial statements.

<b>Standard</b>	<b>Description of amendment</b>
IFRS 17 and IFRS 4 – Insurance contracts; deferral of IFRS 9	These amendments defer the date of application of IFRS 17 by two years to January 1, 2023 and change the fixed date of the temporary exemption in IFRS 4 from applying IFRS 9 – Financial Instruments, until January 1, 2023.  The effect of these standards on the Group follows in note 2.19 in the section, "IFRS 17 – Insurance Contracts, effective January 1, 2023".
IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform, Phase 2	The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one.

IFRIC clarification on Cloud Computing – Software as a Service configuration and customization costs

In April 2021, following its decision in March 2021, the IFRIC published its position on accounting for configuration and customisation costs in a Software as a Service (SaaS) arrangement, which was ratified by the IASB. There has been no change to any IFRS and as such there is no formal effective date. However, the IASB expects entities to assess if any changes are needed and to implement any changes which are required to align with IAS 38, which requires that such costs should be expensed when the service is received.

As at December 31, 2021, the Company's treatment of these costs is in line with the IFRIC and IASB positions and therefore there is no material effect on the Company.

**2.2 Foreign currency translation**

(a) Functional and presentational currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (the functional currency). The financial statements are presented in thousands of Aruba florins, which is the Company's presentation currency.

**SAGICOR LIFE ARUBA N.V.**  
**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2021

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Amounts expressed in AFL '000

**2. ACCOUNTING POLICIES (continued)**

**2.2 Foreign currency translation**

(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 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.

**2.3 Furniture and equipment**

Furniture and equipment are recorded initially at cost. Subsequent expenditure is capitalised when it will result in future economic benefits to the Company.

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

<b>Asset</b>	<b>Estimated useful life</b>
Furnishings	10 years
Computer and office equipment	3 to 10 years

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

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

**SAGICOR LIFE ARUBA N.V.**  
**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2021

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Amounts expressed in AFL '000

**2. ACCOUNTING POLICIES (continued)**

**2.4 Financial assets**

(a) Classification of financial assets

Debt instruments 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.

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 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.

**SAGICOR LIFE ARUBA N.V.**  
**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2021

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**2. ACCOUNTING POLICIES (continued)**

**2.4 Financial assets (continued)**

(b) Classification of debt instruments (continued)

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 to 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.

(c) Unit linked funds fair value model

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

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

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.

## 2. ACCOUNTING POLICIES (continued)

### 2.4 Financial assets (continued)

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

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

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

#### (f) 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.

#### (g) Write-off

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

#### (h) The general approach to recognising and measuring ECL

The measurement of ECL reflects:

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

## **2. ACCOUNTING POLICIES (continued)**

### **2.4 Financial assets (continued)**

#### **(h) The general approach to recognising and measuring ECL (continued)**

##### ***Measurement***

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

The PD, LGD and EAD models which support these determinations are reviewed regularly in light of differences between loss estimates and actual loss experience; but given that IFRS 9 requirements have only been applied since January 1, 2018, the 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.

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.



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**2. ACCOUNTING POLICIES (continued)**

**2.4 Financial assets (continued)**

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

Measurement (continued)

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

Forward looking information

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

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

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

(i) Modification of loans

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

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

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

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**2. ACCOUNTING POLICIES (continued)**

**2.4 Financial assets (continued)**

(j) 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.

(k) 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.

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.

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## **2. ACCOUNTING POLICIES (continued)**

### **2.5 Impairment of non-financial assets**

The Company's policy for the potential impairment of property, plant, equipment and intangible assets is set out below.

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

### **2.6 Policy contracts**

#### (a) Classification

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

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

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

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

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

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

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

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

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**2. ACCOUNTING POLICIES (continued)**

**2.6 Policy contracts (continued)**

(b) Recognition and measurement

(i) Long-term traditional insurance contracts

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

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

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

Reserves for future policy liabilities are recorded as described in note 2.7.

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

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

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

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

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**2. ACCOUNTING POLICIES (continued)**

**2.6 Policy contracts (continued)**

(b) Recognition and measurement (continued)

(ii) Long-term universal life and unit linked insurance contracts (continued)

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

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

Policy benefits are recognised on the notification of death, disability or critical illness, on the receipt of a withdrawal request, on the termination or maturity of the contract or on the annuity payment date. Reserves for future policy liabilities are recorded as described in note 2.7.

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

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

(iii) Health insurance contracts

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

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

Claims are recorded on settlement. Reserves are recorded as described in note 2.7.

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

Commissions and premium taxes payable are recognised on the same basis as premiums earned. At balance sheet date, commissions and premium taxes arising on unearned premiums are recorded as deferred acquisition costs.

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**2. ACCOUNTING POLICIES (continued)**

**2.6 Policy contracts (continued)**

(b) Recognition and measurement (continued)

(iv) Reinsurance contracts assumed

Reinsurance contracts assumed by the Company are accounted for in a similar manner as if the Company has assumed the risk direct from a policyholder.

(v) Reinsurance contracts held

As noted in sections (i) to (iv) 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.

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

The benefits to which 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, the impairment is recorded in the statement of income. The obligations of the Company under reinsurance contracts held are included under accounts payable and accrued liabilities or actuarial liabilities.

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

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

(vi) Deposit administration and other investment contracts

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

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

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

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

In addition, the Company may provide pension administration services to the pension schemes. The Company earns fee income for both pension administration and investment services, that is accrued monthly.

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**2. ACCOUNTING POLICIES (continued)**

**2.6 Policy contracts (continued)**

(b) Recognition and measurement (continued)

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

(c) Embedded derivatives

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

The Company does not separately measure embedded derivatives that are closely related to the host insurance contract or that meet the definition of an insurance contract. Options to surrender an insurance contract for a fixed amount are also not measured separately. In these cases, the entire contract liability is measured as set out in note 2.8.

(d) Liability adequacy tests

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

**2.7 Actuarial liabilities**

(a) Life insurance and annuity contracts

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

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

Net insurance contract liabilities represent the amount which, together with estimated future premiums and net investment income, will be sufficient to pay projected future benefits, policyholder dividends and refunds, taxes (other than income taxes) and expenses on policies in-force net of reinsurance premiums and recoveries. The determination of net insurance liabilities is based on explicit projections of cash flows using current assumptions plus a margin for adverse deviation for each material cash flow item. Investment returns are projected using the current asset portfolios and projected reinvestment yields. The period used for the projection of cash flows is the policy lifetime for most individual insurance contracts.

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**2. ACCOUNTING POLICIES (continued)**

**2.7 Actuarial liabilities (continued)**

(a) Life insurance and annuity contracts (continued)

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

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

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

(b) Health insurance contracts

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

**2.8 Financial liabilities**

During the ordinary course of business, the Company issues investment contracts or otherwise assumes financial liabilities that expose the Company to financial risk.

**Classification**

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

The recognition and measurement of the Company's principal types of financial liabilities are disclosed in note 2.6 (b) (vi) and in the following paragraphs.

(a) Deposit liabilities

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



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**2. ACCOUNTING POLICIES (continued)**

**2.8 Financial liabilities (continued)**

(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 valuation date.

(c) Loans and other debt obligations

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

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

(d) Presentation in the statement of income

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

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

**2.9 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.

**2.10 Presentation of current and non-current assets and liabilities**

In note 31.5, the maturity profiles of financial and insurance assets and liabilities are identified. For other assets and liabilities, balances presented in notes 4 to 9 and 13 to 14 are non-current unless otherwise stated in those notes.

**2.11 Interest income and expenses**

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

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**2. ACCOUNTING POLICIES (continued)**

**2.12 Fees and other revenue**

Fees and other revenue are recognised on an accrual basis when the related 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-apportionate 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 Employee benefits**

(a) Pension benefits

The Company participates in the parent company's defined benefit pension scheme in place for the Group's employees.

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

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

(b) Profit sharing and bonus plans

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

(c) Equity compensation benefits

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

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

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

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

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**2. ACCOUNTING POLICIES (continued)**

**2.13 Employee benefits (continued)**

(c) Equity compensation benefits (continued)

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

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

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

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

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

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

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

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

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

(iv) Presentation of equity compensation awards

Equity compensation awards are expensed by the Company. Since there is no requirement for the Company to reimburse its parent for the awards, they are treated as a contribution of capital to the Parent company.

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**2. ACCOUNTING POLICIES (continued)**

**2.13 Employee benefits (continued)**

(d) Termination benefits

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

**2.14 Taxes**

Income taxes

Rates of taxation in Aruba for income year 2021 and 2020 are as follows:

<b>Life insurance and non-registered annuities</b>	<b>Registered annuities</b>	<b>Other lines of business</b>
25% of 10% of premiums	25% of 20% of premiums	25% of 20% of premiums

(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 enacted or substantially enacted by the end of the reporting period.

Deferred tax assets are only recognised when it is probable that taxable profits will be available against which the asset may be utilised.

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

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**2. ACCOUNTING POLICIES (continued)**

**2.15 Statutory reserves**

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

**2.16 Cash flows**

Cash flows from operating activities consist of cash flows arising from revenues, benefits, expenses, taxes, operating assets and operating liabilities. Cash flows from investing activities consist of cash flows arising from long-term assets to be utilised in the business. Cash flows from financing activities consist of cash flows arising from the issue, redemption and exchange of equity instruments and notes and loans payable and from equity dividends payable to holders of such instruments.

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

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

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

**2.17 Offsetting financial instruments**

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

**2.18 Common Shares**

(a) Common Shares

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

(b) Dividends

Dividend distributions on the Company's common shares are recorded in the period during which the dividend declaration has been approved by the directors and is recorded as an appropriation of retained earnings.

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**2. ACCOUNTING POLICIES (continued)**

**2.19 Future accounting developments and reporting changes**

Certain new standards and amendments have been issued which were not effective at the date of the 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 tables:

IFRS (Effective Date)	Subject / Comments
IFRS 17 – Insurance Contracts (January 1, 2023)	<p>IFRS 17 was issued in May 2017 as replacement for IFRS 4 - Insurance Contracts. A further exposure draft (ED) was issued in June 2019 and final amendments were published in June 2020. The amendments aim to help companies implement the standard and to make explanation of financial performance easier. The standard requires a current measurement model where estimates are re-measured each reporting period.</p> <p>Contracts are measured using the building blocks of:</p> <ul style="list-style-type: none"> <li>• discounted probability-weighted cash flows,</li> <li>• an explicit risk adjustment, and</li> <li>• a contractual service margin (“CSM”) representing the unearned profit of the contract which is recognised as revenue over the coverage period.</li> </ul> <p>It 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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>Sagicor has established a group-wide project for the implementation of this standard and has allocated substantial resources to this exercise. Project activities involve the establishment of various technical and oversight teams, and the evaluation and assessment of the Group’s business. The Group is carrying out internal training programmes, workshops and assessments of all areas affected by the standard as it works towards implementation. Project work is ongoing in all areas.</p>

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**2. ACCOUNTING POLICIES (continued)**

**2.19 Future accounting developments and reporting changes (continued)**

<b>Amendments to IAS 1 – Liabilities as current or non-current, effective January 1, 2022</b>	<b>Subject / Comments</b>
	<p>In January 2020, the IASB amendments to IAS 1 'Presentation of financial statements' to clarify the criteria for classifying a liability as non-current. These are to be applied retroactively.</p> <p>The impact of this standard on the Company is currently being analysed.</p>

<b>Amendments to IAS 16 – Property, plant and equipment, effective January 1, 2022</b>	<b>Subject / Comments</b>
	<p>These amendments prohibit a company from deducting from the cost of property, plant and equipment, amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.</p> <p>This standard will have no material effect on the Company.</p>

<b>Amendments to IAS 37 – Provisions, contingent liabilities and contingent assets, effective January 1, 2022</b>	<b>Subject / Comments</b>
	<p>These amendments specify which costs a company includes when assessing whether a contract will be loss-making.</p> <p>This standard will have no material effect on the Company.</p>

<b>Amendments to IAS 8 – Definition of accounting estimates, effective January 1, 2023</b>	<b>Subject / Comments</b>
	<p>In February 2021, this amendment was issued to assist entities in distinguishing between accounting policies and accounting estimates.</p> <p>This standard will have no material effect on the Company.</p>

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**2. ACCOUNTING POLICIES (continued)**

**2.19 Future accounting developments and reporting changes (continued)**

<b>Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of accounting policies, effective January 1, 2023</b>	<b>Subject / Comments</b>
	<p>In February 2021, this amendment was issued to assist preparers of financial statements in making decisions related to which accounting policies to disclose in financial statements.</p> <p>This standard will have no material effect on the Company.</p>

<b>Annual Improvements to Standards</b>	<b>Description of amendment</b>
IFRS 9 - Financial Instruments	To clarify the fees a company includes in assessing the terms of a new or modified financial liability to determine whether to derecognise a financial liability.
The annual improvements are effective January 1, 2022 and have not yet been applied.	



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**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, income and other comprehensive income. The items which may have the most effect on the Company's financial statements are set out below.

**3.1 Impairment of financial assets**

In determining ECL (defined in note 2.4 (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:

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.

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

**3.1 Impairment of financial assets (continued)**

(a) Establishing staging for debt securities and deposits (continued)

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

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

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

Qualitative test

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

Backstop Criteria

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

(c) Forward looking information

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

**3.2 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, credit and market risk factors.

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

**3.3 Valuation of Actuarial liabilities**

(a) Canadian Standards of Practice

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

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

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

The methodology produces the total reserve requirement for each policy group fund. In general, the methodology is used to determine the net overall actuarial liabilities required by the Company. Actuarial liabilities are computed by major group of policies and are used to determine the amount of reinsurance balances in the reserve, the distribution of the total reserve by country (for statutory reporting), and the distribution of the reserve by policy, and other individual components in the actuarial liabilities. Further details of the inputs used are set out in note 32.

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

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

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

Provisions for adverse deviations are established in accordance with the risk profiles of the business. Provisions are determined within a specific range established by the principles of the Canadian Standards of Practice.

The principal assumptions and margins used in the determination of actuarial liabilities are summarised in note 8.3. However, the liability resulting from the application of these assumptions can never be definitive as to the ultimate timing or the amount of benefits payable and is therefore subject to future re-assessment.

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**4. FURNITURE AND EQUIPMENT**

	<b>Office furniture &amp; equipment</b>	<b>Total 2021</b>	<b>Total 2020</b>
Net book value, beginning of year	254	254	288
Additions at cost	52	52	18
Depreciation charge	(61)	(61)	(52)
Net book value, end of year	<b>245</b>	<b>245</b>	<b>254</b>
Represented by:			
Cost or valuation	651	651	599
Accumulated depreciation	(406)	(406)	(345)
	<b>245</b>	<b>245</b>	<b>254</b>

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5. ANALYSIS OF FINANCIAL INVESTMENTS

	December 31, 2021		December 31, 2020	
	Carrying value	Fair value	Carrying value	Fair value
<b>Investments at FVOCI:</b>				
Money market fund	221	221	-	-
Debt securities	6,599	6,599	3,850	3,850
	6,820	6,820	3,850	3,850
<b>Investments at FVTPL:</b>				
Equity securities	391	391	347	347
	391	391	347	347
<b>Investments at amortised cost:</b>				
Debt securities	5,827	6,237	9,326	9,441
Mortgage loans	16,812	16,812	17,509	17,509
Policy loans	3,432	3,578	3,728	3,825
	26,071	26,627	30,563	30,775
<b>Total financial investments</b>	<b>33,282</b>	<b>33,838</b>	<b>34,760</b>	<b>34,972</b>

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**6. REINSURANCE ASSETS**

	<b>2021</b>	<b>2020</b>
<b>Reinsurers' share of:</b>		
Policy benefits payable (note 9.2)	-	232
	-	232

**7. MISCELLANEOUS ASSETS AND RECEIVABLES**

	<b>2021</b>	<b>2020</b>
Premiums receivable	596	531
Agents' and Brokers' balances	506	510
Other accounts receivable	60	130
<b>Total miscellaneous assets and receivables</b>	<b>1,162</b>	<b>1,171</b>

Amounts expressed in AFL '000

## 8. ACTUARIAL LIABILITIES

### 8.1 Analysis of actuarial liabilities

	Gross liability	Reinsurers' share	Gross liability	Reinsurers' share
	2021	2021	2020	2020
<b>Contracts issued to individuals:</b>				
Life insurance and annuity - non-participating policies	14,217	-	25,924	-
Unit linked fund	3,467	-	3,604	-
Reinsurance contracts held	4,340	-	2,740	-
	22,024	-	32,268	-
<b>Contracts issued to companies:</b>				
Life insurance	61	-	49	-
Annuities	59	-	56	-
Health insurance	32	-	13	-
	152	-	118	-
<b>Total actuarial liabilities</b>	22,176	-	32,386	-

Life insurance includes coverage for disability and critical illness.

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**8. ACTUARIAL LIABILITIES (continued)**

**8.2 Movement in actuarial liabilities**

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

	Gross amount		Reinsurers' share	
	2021	2020	2021	2020
Balance, beginning of year	32,386	33,023	-	-
Change in actuarial liabilities recorded in income (note 20)	(10,211)	(662)	-	-
Other, including effect of exchange rates	1	25	-	-
Balance, end of year	22,176	32,386	-	-

The changes in actuarial liabilities recorded in income and other comprehensive income are further analysed as follows:

	Gross amount		Reinsurers' share	
	2021	2020	2021	2020
Normal changes in actuarial liabilities arising from increments and decrements of in force policies and from the issuance of new policies	4,428	3,526	-	-
Effect of changes in actuarial assumptions for:				
Mortality	(526)	(3,956)	-	-
Lapse	(12,679)	-	-	-
Investment yield curve	412	36	-	-
Operating expense & taxes	(338)	(110)	-	-
Other changes:				
UL Premiums persistency	50	38	-	-
Actuarial modelling, refinement, improvements and corrections	(1,544)	(222)	-	-
Partial withdrawal Assumptions	(14)	-	-	-
Other	-	26	-	-
	(10,211)	(662)	-	-



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**8. ACTUARIAL LIABILITIES (continued)**

**8.3 Assumptions – life insurance and annuity contracts**

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

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

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

(b) Assumptions for mortality and morbidity

Mortality rates are related to the incidence of death in the insured population. Morbidity rates are related to the incidence of sickness and disability in the insured population. Annually, the Company updates studies of recent mortality experience. The resulting experience was compared to external mortality studies including the Canadian Institute of Actuaries (CIA) 1997 - 2004 tables. Appropriate modification factors are selected and applied to underwritten and non-underwritten business respectively. Annuitant mortality is determined by reference to CIA tables or to other established scales.

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

(c) Assumptions for lapse

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

(d) Assumptions for investment yields

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

The ultimate rate of return is the assumed rate that will ultimately be earned on government bonds. It is estimated to be 5.25% (2020 – 5.25%).

(e) Assumptions for operating expenses and taxes

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

Taxes reflect assumptions for future premium taxes and income taxes levied directly on premium income (see note 25).

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**8. ACTUARIAL LIABILITIES (continued)**

**8.3 Assumptions – life insurance and annuity contracts (continued)**

(f) Asset defaults

The AA of the Company includes a provision for asset default in the modelling of the cash flows. The provision is based on industry and Company experience and includes specific margins, where appropriate, for assets backing the actuarial liabilities, e.g. for investment property, equity securities, debt securities, mortgage loans and deposits.

(g) Margins for adverse deviations

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

	<b>2021</b>	<b>2020</b>
<b>Provisions for adverse deviations:</b>		
Mortality and morbidity	3,416	3,245
Lapse	2,761	2,354
Investment yields and asset default	2,502	3,895
Operating expenses and taxes	238	256
Other	162	176
	9,079	9,926

**8.4 Assumptions – health insurance contracts**

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

**9. OTHER INSURANCE LIABILITIES**

**9.1 Analysis of other insurance liabilities**

	<b>2021</b>	<b>2020</b>
Dividends on deposit	957	939
Policy benefits payable	2,963	3,154
	3,920	4,093

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**9. OTHER INSURANCE LIABILITIES (continued)**

**9.2 Policy benefits payable**

(a) Analysis of policy benefits payable

	Gross liability		Reinsurers' share	
	2021	2020	2021	2020
Life insurance and annuity benefits	2,963	3,154	-	232

(b) Movement in policy benefits payable

	Gross amount		Reinsurers' share	
	2021	2020	2021	2020
Balance, beginning of year	3,154	2,227	232	13
Policy benefits incurred	9,779	7,955	720	232
Policy benefits paid	(9,970)	(7,028)	(952)	(13)
Balance, end of year	2,963	3,154	-	232

**10. INVESTMENT CONTRACT LIABILITIES**

	December 31, 2021		December 31, 2020	
	Carrying value	Fair value	Carrying Value	Fair Value
Deposit administration liabilities	473	473	486	486

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**11. PROVISIONS**

	December 31, 2021		December 31, 2020	
	Carrying value	Fair value	Carrying value	Fair value
Pension benefits (note 24)	1,952	1,952	1,708	1,708

**12. INCOME TAX LIABILITIES**

	2021	2020
Income taxes payable	362	319

**13. ACCOUNTS PAYABLE AND OTHER LIABILITIES**

	2021	2020
Amounts due to policyholders	1,028	990
Amounts due to reinsurers	49	68
Other accounts payable and accrued liabilities	1,224	1,449
	2,301	2,507

**14. RELATED PARTY BALANCES**

	2021	2020
Amounts payable to parent company	6,157	4,243

Related party balances arose in the ordinary course of business, are non-interest bearing and carry no fixed terms of payment.

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**15. SHARE CAPITAL AND CONTRIBUTED SURPLUS**

(a) AUTHORISED AND ISSUED CAPITAL

The Company is authorised to issue 1,000 shares with a nominal value of Aruba Florin 1,000 each.

	2021		2020	
	No of shares '000	\$ '000	No of shares '000	\$ '000
<b>Issued and fully paid common shares of Afl 1 par value:</b>				
Balance, beginning and end of year	200	200	200	200
<b>Contributed capital:</b>				
Balance, beginning of year	-	136	-	119
Contributed by Parent Company re ESOP and LTI	-	5	-	17
Balance, end of year	-	141	-	136
<b>Total share capital, end of year</b>	<b>200</b>	<b>341</b>	<b>200</b>	<b>336</b>

On January 1, 2008, assets and liabilities of the Aruba Branch were transferred to the newly established entity. The net assets of the Branch were Afl 821 in value, of which Afl 681 represented accumulated earnings. Afl 200 was transferred from the accumulated earnings of the Branch in order to capitalise the company through a share issue of 200 shares. The balance of the accumulated earnings of Afl 481 was transferred to the Company as Contributed Surplus at this effective date of transfer. Balances transferred in from the Branch represented carrying values at January 1, 2008.

(b) ESOP

Under the Employee Share Ownership Plan (ESOP) which was introduced by the Parent Company in 2005, shares had been awarded to qualifying permanent administrative employees and sales agents of the Aruba Branch. See Note 23 for further details on the share-based compensation. Additional shares awarded during the year to qualifying employees and sales agents are classified as Contributed Capital.

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**16. RESERVES**

	Year ended December 31, 2021		
	Fair value reserves		
	FVOCI	Actuarial Liabilities	Total
Balance, beginning of year	466	-	466
Total comprehensive loss for the year	(176)	-	(176)
Balance, end of year	290	-	290

	Year ended December 31, 2020		
	Fair value reserves		
	FVOCI	Actuarial Liabilities	Total
Balance, January 1, 2020	324	-	324
Total comprehensive income for the year	142	-	142
Balance, end of year	466	-	466

There is no deferred tax impact on unrealised gains or losses recognised directly in equity.

**17. PREMIUM REVENUE**

	Gross revenue		Reinsurance premium expense	
	2021	2020	2021	2020
Life insurance	14,495	13,066	(1,069)	(1,071)
Annuities	445	328	-	-
Health insurance	157	77	-	-
	15,097	13,471	(1,069)	(1,071)

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**18. NET INVESTMENT INCOME**

	<b>2021</b>	<b>2020</b>
<b>Investment Income:</b>		
Interest income (amortised cost assets):		
Debt securities	569	499
Mortgage loans	958	727
Policy loans	167	187
	<u>1,694</u>	<u>1,413</u>
Interest income (FVOCI assets):		
Debt securities	176	189
	<u>9</u>	<u>-</u>
Other income measured on an IFRS 9 basis	9	-
<b>Net investment income</b>	<u><b>1,879</b></u>	<u><b>1,602</b></u>

**19. FEES AND OTHER REVENUE**

	<b>2021</b>	<b>2020</b>
Other fees and commission income	20	29
Foreign exchange gains/(losses)	25	(39)
Commission income on insurance and reinsurance contracts	59	60
Other operating and miscellaneous expense	(66)	(134)
	<u>38</u>	<u>(84)</u>

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**20. POLICY BENEFITS AND CHANGE IN ACTUARIAL LIABILITIES**

	Gross amount		Reinsurers' share	
	2021	2020	2021	2020
Policy benefits:				
Life insurance benefits	7,937	5,907	(720)	(232)
Annuity benefits	1,694	2,021	-	-
Health insurance claims	148	27	-	-
Total policy benefits	9,779	7,955	(720)	(232)
Change in actuarial liabilities (note 8.2)	(10,211)	(662)	-	-
Total policy benefits and change in actuarial liabilities	(432)	7,293	(720)	(232)

**21. INTEREST EXPENSE**

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

	2021	2020
Pension plans	158	(128)
Other	19	18
	177	(110)

**22. EMPLOYEE COSTS**

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

	2021	2020
Administrative staff salaries, directors' fees and other short-term benefits	449	482
Employer contributions to social security schemes	130	92
Expense arising from equity-settled share plans	14	22
Costs – defined retirement benefits (note 24)	144	138
	737	734



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**23. EMPLOYEE SHARE BASED COMPENSATION**

**23.1 The Parent Company**

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

(a) LTI plan – restricted share grants

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

(b) LTI plan – share options

Share options have been granted to designated key management of the Group during the year. Up to 2008, options were granted at the fair market price of the Company shares at the time that the option is granted. From 2009, options are granted at the fair market price of the Company shares prevailing one year before the option is granted. Options vest over 4 years, 25% of the options each vest on the first, second, third and fourth anniversaries of the grant date. Options are exercisable up to 10 years from the grant date.

(c) ESOP

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

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**24. EMPLOYEE RETIREMENT BENEFITS**

The Company participates in a contributory defined benefit pension scheme which the parent Company has in place for eligible administrative staff.

(a) Amounts recognised in the balance sheet

	<b>2021</b>	<b>2020</b>
Present value of funded retirement obligations	1,952	1,708
Amounts recognised in the balance sheet (note 11)	1,952	1,708
Supported by:		
Amounts held as deposit administration contracts	3,096	2,770

Individual annuities have been purchased from the Company to pay benefits to plan retirees. These obligations are included in actuarial liabilities in the statement of financial position and are excluded from the table above.

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**24. EMPLOYEE RETIREMENT BENEFITS (continued)**

(b) Movements in balances

	<b>2021</b>	<b>2020</b>
	<b>Retirement obligations</b>	<b>Retirement obligations</b>
<b>Net liability, beginning of year</b>	1,708	1,661
Current service cost	47	43
Interest expense	97	95
<b>Loss recognised in income</b>	144	138
Loss from changes in experience	51	72
Return on plan assets excluding interest income	-	-
<b>Loss recognised in other comprehensive income</b>	51	72
Contributions made by the Company	-	-
Contributions made by employees and retirees	92	65
Benefits paid	(54)	(54)
Other items	11	(174)
<b>Other movements</b>	49	(163)
<b>Net liability, end of year</b>	1,952	1,708

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**24. EMPLOYEE RETIREMENT BENEFITS (continued)**

(c) Significant actuarial assumptions

The significant actuarial assumptions as of December 31, 2021 and December 31, 2020 were as follows:

	<b>Aruba 2021</b>	<b>Aruba 2020</b>
Discount rate - local currency benefits	5.50%	5.50%
Expected return on plan assets	5.50%	5.50%
Future promotional salary increases	0.00%	0.00%
Future inflationary salary increases	2.00%	2.00%
Future pension increases	1.00%	1.50%
Mortality table	UP94 with projection scale AA	UP94 with projection scale AA
Termination of active members	nil	nil
Early retirement	nil	nil

(d) Sensitivity of actuarial assumptions

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

Base pension obligation	1,952
<b>Change in absolute assumption</b>	<b>Increase / (decrease) in pension obligations</b>
Decrease discount rate by 1.0%	164
Increase discount rate by 1.0%	(122)
Decrease salary growth rate by 0.5%	(16)
Increase salary growth rate by 0.5%	20
Increase average life expectancy by 1 year	23
Decrease average life expectancy by 1 year	(23)

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**24. EMPLOYEE RETIREMENT BENEFITS (continued)**

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

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

**25. INCOME TAXES**

**Income Tax Expense**

**Current tax**

	<b>2021</b>	<b>2020</b>
Current tax for the year	381	337
<b>Total current tax expense</b>	<b>381</b>	<b>337</b>

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

	<b>2021</b>	<b>2020</b>
Income before income tax expense	11,909	533
Current tax on profits for the year	381	337
	<b>381</b>	<b>337</b>

Amounts expressed in AFL '000

## 26. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income and the related income tax effects are as follows:

2021	Other comprehensive income		
	Before tax	Tax	After tax
Losses on defined benefit plans	(51)	-	(51)
Net losses on investments in debt instruments measured at FVOCI	(176)	-	(176)
Net gains on financial assets measured at FVOCI	-	-	-
	<b>(176)</b>	<b>-</b>	<b>(176)</b>
<b>Other comprehensive income for the year</b>	<b>(227)</b>	<b>-</b>	<b>(227)</b>
<b>Other comprehensive income allocated to:</b>			
Equity reserves	(176)		
Retained earnings	(51)		
	<b>(227)</b>		
2020	Other comprehensive income		
	Before tax	Tax	After tax
Losses on defined benefit plans	(72)	-	(72)
Net gains on investments in debt instruments measured at FVOCI	4	-	4
Net gains on financial assets measured at FVOCI	138	-	138
	<b>142</b>	<b>-</b>	<b>142</b>
<b>Other comprehensive income for the year</b>	<b>70</b>	<b>-</b>	<b>70</b>
<b>Other comprehensive income allocated to:</b>			
Equity reserves	142		
Retained earnings	(72)		
	<b>70</b>		

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**27. CASH FLOWS**

**27.1 Operating activities**

	<b>2021</b>	<b>2020</b>
<b>Adjustments for non-cash items, interest and dividends:</b>		
Interest and dividend income	(2,091)	(1,627)
Decrease in actuarial liabilities	(10,211)	(662)
Interest income and finance costs	(205)	(110)
Depreciation	61	52
Other items	166	1,022
	<u>(12,280)</u>	<u>(1,325)</u>

	<b>2021</b>	<b>2020</b>
<b>Changes in operating assets:</b>		
Debt securities	655	-
Mortgage loans	1,069	(398)
Policy loans	230	115
Amount receivable from related companies	185	187
Other assets and receivables	20	(575)
	<u>2,159</u>	<u>(671)</u>

The gross changes in debt securities are as follows.

	<b>2021</b>	<b>2020</b>
Purchases	(2,909)	-
Disposal proceeds	3,564	-
	<u>655</u>	<u>-</u>

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**27. CASH FLOWS (continued)**

**27.1 Operating activities (continued)**

	<b>2021</b>	<b>2020</b>
<b>Changes in operating liabilities:</b>		
Insurance liabilities	(173)	920
Investment contract liabilities	(13)	86
Amounts payable to related companies	1,914	3,031
Other liabilities and payables	(180)	446
	<u>1,548</u>	<u>4,483</u>

**27.2 Investing activities**

	<b>2021</b>	<b>2020</b>
<b>Furniture and equipment:</b>		
Purchases	(149)	(18)
Disposal proceeds	97	-
	<u>(52)</u>	<u>(18)</u>

**27.3 Cash and cash equivalents**

	<b>2021</b>	<b>2020</b>
Cash resources	<u>20,444</u>	<u>15,811</u>
	<u>20,444</u>	<u>15,811</u>

**28. COMMITMENTS**

In the normal course of business, the Company enters into commitments at the reporting date for which no provision has been made in these financial statements.



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**29. CONTINGENT LIABILITIES**

(a) Legal proceedings

During the normal course of business, the Company is subject to legal actions which may affect the reported amounts of liabilities, benefits and expenses. Management considers that any liability from these actions, for which provision has not been already made, will not be material.

(b) Tax assessments

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

(c) Insurance contracts

The Company develops and markets insurance products under various types of insurance contracts. The design of these products is consistent with international best practice and reflects the current thinking at the time of development. The Company keeps its products under review to ensure that they meet both policyholder and Company expectations.

**30. RELATED PARTY TRANSACTIONS**

Certain related party transactions and balances are included in note 14 of the financial statements. Key management related party transactions and balances are summarised below.

Key management

Key management comprises senior management of the Company. Compensation of these individuals was as follows:

	<b>2021</b>	<b>2020</b>
Equity compensation benefits (Note 15)	5	17
Pension and other retirement benefits	14	8
Salaries, and other short-term benefits	231	215
	<hr/>	<hr/>
	250	240

Certain prior year comparatives have been updated to conform with the current year's presentation.

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**31. FINANCIAL RISK**

The Company's activities of issuing insurance contracts, of accepting funds from depositors, of investing insurance premium and deposit receipts in a variety of financial and other assets, banking and dealing in securities, exposes the 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.

**31.1 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 primarily associated with financial investments and reinsurance contracts held.

Credit risk from financial investments is minimised through holding a diversified portfolio of investments, purchasing securities and advancing loans only after careful assessment of the borrower, obtaining collateral before advancing loans, 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.

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.

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	

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**31. FINANCIAL RISK (continued)**

**31.1 Credit risk (continued)**

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

- Investment portfolios, comprising debt securities, deposits, securities purchased for re-sale, and cash balances;
- Lending portfolios, comprising mortgage, policy and finance loan;
- Reinsurance exposures, comprising reinsurance assets for life, annuity and health insurance (see note 32.3).

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

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.

**31.2 Credit risk exposure**

The total credit risk exposure of the Group at year end is summarised in the following table. Credit risk exposure is the gross carrying amount.

	<b>2021</b>	<b>2020</b>
<b>Investment portfolios:</b>		
Debt securities at FVOCI	6,709	3,989
Money market funds at FVOCI	221	-
Debt securities at amortised cost	5,828	9,330
	<u>12,758</u>	<u>13,319</u>
<b>Lending portfolios:</b>		
Mortgage loans at amortised cost	18,988	20,034
Policy loans at amortised cost	3,432	3,728
	<u>22,420</u>	<u>23,762</u>
Cash	20,444	15,811
Reinsurance assets	-	232
Receivables (premium, accounts and miscellaneous)	1,162	1,171
<b>Total financial statement exposures</b>	<b><u>56,784</u></b>	<b><u>54,295</u></b>
Lending commitments	857	536
<b>Total off financial statement</b>	<b><u>857</u></b>	<b><u>536</u></b>
<b>Total</b>	<b><u>57,641</u></b>	<b><u>54,831</u></b>

**31. FINANCIAL RISK (continued)**

**31.2 Credit risk exposure (continued)**

The Company's exposures to significant individual counterparty credit risks are set out below.

	Sagicor Risk Rating	2021	2020
<b>Investment portfolios:</b>			
Government of Aruba	3	5,828	9,331

Credit risk exposure – financial investments subject to impairment

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

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

	Debt securities –FVOCI				
	2021				
	ECL Staging			POCI	Total
Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL			
<b>December 31:</b>					
Credit grade:					
Investment	2,900	-	-	-	2,900
Non-investment	-	3,809	-	-	3,809
Watch	-	-	-	-	-
Default	-	-	-	-	-
Unrated	-	-	-	-	-
Gross carrying amount	2,900	3,809	-	-	6,709
Loss allowance	(2)	(108)	-	-	(110)
Carrying amount	2,898	3,701	-	-	6,599

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**31. FINANCIAL RISK (continued)**

**31.2 Credit risk exposure (continued)**

Credit risk exposure – financial investments subject to impairment (continued)

	Debt securities –FVOCI				
	2020				
	ECL Staging			POCI	Total
	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL		
<b>December 31:</b>					
Credit grade:					
Investment	3,989	-	-	-	3,989
Non-investment	-	-	-	-	-
Watch	-	-	-	-	-
Default	-	-	-	-	-
Unrated	-	-	-	-	-
Gross carrying amount	3,989	-	-	-	3,989
Loss allowance	(138)	-	-	-	(138)
Carrying amount	3,851	-	-	-	3,851

	Money Market Securities – FVOCI				
	2021				
	ECL Staging			POCI	Total
	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL		
<b>December 31:</b>					
Credit grade:					
Investment	221	-	-	-	221
Non-investment	-	-	-	-	-
Watch	-	-	-	-	-
Default	-	-	-	-	-
Unrated	-	-	-	-	-
Gross carrying amount	221	-	-	-	221
Loss allowance	-	-	-	-	-
Carrying amount	221	-	-	-	221

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**31. FINANCIAL RISK (continued)**

**31.2 Credit risk exposure (continued)**

Credit risk exposure – financial investments subject to impairment (continued)

	Money Market Securities –FVOCI				
	2020				
	ECL Staging			POCI	Total
	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL		
<b>December 31:</b>					
Credit grade:					
Investment	-	-	-	-	-
Non-investment	-	-	-	-	-
Watch	-	-	-	-	-
Default	-	-	-	-	-
Unrated	-	-	-	-	-
Gross carrying amount	-	-	-	-	-
Loss allowance	-	-	-	-	-
Carrying amount	-	-	-	-	-

	Debt securities –Amortised Cost				
	2021				
	ECL Staging			POCI	Total
	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL		
<b>December 31:</b>					
Credit grade:					
Investment	5,828	-	-	-	5,828
Non-investment	-	-	-	-	-
Watch	-	-	-	-	-
Default	-	-	-	-	-
Unrated	-	-	-	-	-
Gross carrying amount	5,828	-	-	-	5,828
Loss allowance	(1)	-	-	-	(1)
Carrying amount	5,827	-	-	-	5,827

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**31. FINANCIAL RISK (continued)**

**31.2 Credit risk exposure (continued)**

Credit risk exposure – financial investments subject to impairment (continued)

	Debt securities –Amortised Cost				
	2020				
	ECL Staging			POCI	Total
	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL		
<b>December 31:</b>					
Credit grade:					
Investment	9,330	-	-	-	9,330
Non-investment	-	-	-	-	-
Watch	-	-	-	-	-
Default	-	-	-	-	-
Unrated	-	-	-	-	-
Gross carrying amount	9,330	-	-	-	9,330
Loss allowance	(4)	-	-	-	(4)
Carrying amount	9,326	-	-	-	9,326

	Mortgage Loans –Amortised Cost				
	2021				
	ECL Staging			POCI	Total
	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL		
<b>December 31:</b>					
Credit grade:					
Investment	7,753	1,861	90	-	9,704
Non-investment	390	344	-	-	734
Watch	-	-	6,658	-	6,658
Default	-	-	1,892	-	1,892
Unrated	-	-	-	-	-
Gross carrying amount	8,143	2,205	8,640	-	18,988
Loss allowance	(95)	(184)	(1,897)	-	(2,176)
Carrying amount	8,048	2,021	6,743	-	16,812

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**31. FINANCIAL RISK (continued)**

**31.2 Credit risk exposure (continued)**

Credit risk exposure – financial investments subject to impairment (continued)

	Mortgage Loans –Amortised Cost				
	2020				
	ECL Staging			POCI	Total
	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL		
<b>December 31:</b>					
Credit grade:					
Investment	4,358	2,079	-	-	6,437
Non-investment	1,697	193	-	-	1,890
Watch	-	-	9,832	-	9,832
Default	-	-	1,875	-	1,875
Unrated	-	-	-	-	-
Gross carrying amount	6,055	2,272	11,707	-	20,034
Loss allowance	(96)	(192)	(2,237)	-	(2,525)
Carrying amount	5,959	2,080	9,470	-	17,509

	Policy Loans –Amortised Cost				
	2021				
	ECL Staging			POCI	Total
	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL		
<b>December 31:</b>					
Credit grade:					
Investment	3,432	-	-	-	3,432
Non-investment	-	-	-	-	-
Watch	-	-	-	-	-
Default	-	-	-	-	-
Unrated	-	-	-	-	-
Gross carrying amount	3,432	-	-	-	3,432
Loss allowance	-	-	-	-	-
Carrying amount	3,432	-	-	-	3,432



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**31. FINANCIAL RISK (continued)**

**31.2 Credit risk exposure (continued)**

Credit risk exposure – financial investments subject to impairment (continued)

	Policy Loans –Amortised Cost				
	2020				
	ECL Staging			POCI	Total
Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL			
<b>December 31:</b>					
Credit grade:					
Investment	3,728	-	-	-	3,728
Non-investment	-	-	-	-	-
Watch	-	-	-	-	-
Default	-	-	-	-	-
Unrated	-	-	-	-	-
Gross carrying amount	3,728	-	-	-	3,728
Loss allowance	-	-	-	-	-
Carrying amount	3,728	-	-	-	3,728

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**31. FINANCIAL RISK (continued)**

**31.3 Credit impairment losses – financial assets subject to impairment (continued)**

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 lifetime ECL;

**Movement of loss allowances**

The following table contain analyses of the movement of loss allowances from January 1, 2021 to December 31, 2021 in respect of financial investments subject to impairment.

Amounts in AFL \$000	Debt securities – FVOCI				
	2021				
	ECL Staging			POCI	Total
Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL			
Loss allowance at January 1, 2021	(140)	2	-	-	(138)
Transfers:					
Transfer from Stage 1 to Stage 2	-	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-	-
Debt securities originated or purchased	2	-	-	-	2
Debt securities fully derecognised	-	-	-	-	-
Changes in models/assumptions used in ECL calculation	-	-	-	-	-
Changes to inputs used in ECL calculation	140	106	-	-	246
Effect of exchange rate changes	-	-	-	-	-
Loss allowance at December 31, 2021	2	108	-	-	110
Credit impairment gain recorded in income					30

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**31. FINANCIAL RISK (continued)**

**31.3 Credit impairment losses – financial assets subject to impairment (continued)**

**LOSS ALLOWANCES**

<u>Amounts in AFL \$000</u>	Debt securities – FVOCI				
	2020				
	ECL Staging			POCI	Total
Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL			
Loss allowance at January 1, 2020	2	-	-	-	2
Transfers:					
Transfer from Stage 1 to Stage 2	(2)	2	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-	-
Debt securities originated or purchased	-	-	-	-	-
Debt securities fully derecognised	-	-	-	-	-
Changes in models/assumptions used in ECL calculation	(140)	-	-	-	(140)
Changes to inputs used in ECL calculation	-	-	-	-	-
Effect of exchange rate changes	-	-	-	-	-
Loss allowance at December 31, 2020	(140)	2	-	-	(138)
Credit impairment loss recorded in income					(138)

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**31. FINANCIAL RISK (continued)**

**31.3 Credit impairment losses – financial assets subject to impairment (continued)**

Amounts in AFL \$000	Debt securities – Amortised Cost				
	2021				
	ECL Staging			POCI	Total
Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL			
Loss allowance at January 1, 2021	4	-	-	-	4
Transfers:					
Transfer from Stage 1 to Stage 2	-	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-	-
Debt securities originated or purchased	-	-	-	-	-
Debt securities fully derecognised	-	-	-	-	-
Changes in models/assumptions used in ECL calculation	-	-	-	-	-
Changes to inputs used in ECL calculation	(3)				(3)
Loss allowance at December 31, 2021	1	-	-	-	1
Credit impairment gain recorded in income					2

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**31. FINANCIAL RISK (continued)**

**31.3 Credit impairment losses – financial assets subject to impairment (continued)**

**LOSS ALLOWANCES**

**Debt securities – Amortised Cost**

<u>Amounts in AFL \$000</u>	2020				
	ECL Staging			POCI	Total
	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL		
Loss allowance at January 1, 2020	4	-	-	-	4
Transfers:					
Transfer from Stage 1 to Stage 2	-	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-	-
Debt securities originated or purchased	-	-	-	-	-
Debt securities fully derecognised	-	-	-	-	-
Changes in models/assumptions used in ECL calculation	-	-	-	-	-
Changes to inputs used in ECL calculation	-	-	-	-	-
Loss allowance at December 31, 2020	4	-	-	-	4
Credit impairment loss recorded in income					-

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**31. FINANCIAL RISK (continued)**

**31.3 Credit impairment losses – financial assets subject to impairment (continued)**

<u>Amounts in AFL \$000</u>	Mortgage loans – Amortised Cost				Total
	2021			POCI	
	ECL Staging		Stage 3 life-time		
	Stage 1 12-month ECL	Stage 2 life-time ECL			
Loss allowance at January 1, 2021	96	192	2,237	-	2,525
Transfers:					
Transfer from Stage 1 to Stage 2	-5	5	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-	-
Transfer from Stage 2 to Stage 1	101	(101)	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-	-
Transfer from Stage 3 to Stage 2	-	14	(14)	-	-
Transfer from Stage 3 to Stage 1	407	-	(407)	-	-
New assets originated or purchased	2	-	-	-	2
Assets fully derecognized	(4)	(4)	-	-	(8)
Changes to inputs used in ECL calculation	(502)	78	81	-	(343)
Loss allowance at December 31, 2021	95	184	1,897	-	2,176
Credit impairment gain recorded in income					351

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**31. FINANCIAL RISK (continued)**

**31.3 Credit impairment losses – financial assets subject to impairment (continued)**

**LOSS ALLOWANCES**

<u>Amounts in AFL \$000</u>	Mortgage loans – Amortised Cost				Total
	2020			POCI	
	ECL Staging		Stage 3 life-time ECL		
	Stage 1 12-month ECL	Stage 2 life-time ECL			
Loss allowance at January 1, 2020	59	244	1380	-	1,683
Transfers:					
Transfer from Stage 1 to Stage 2	(52)	52	-	-	-
Transfer from Stage 1 to Stage 3	(67)	-	67	-	-
Transfer from Stage 2 to Stage 1	32	(32)	-	-	-
Transfer from Stage 2 to Stage 3	-	(131)	131	-	-
Transfer from Stage 3 to Stage 2	-	5	(5)	-	-
Transfer from Stage 3 to Stage 1	16	-	(16)	-	-
New assets originated or purchased	22	-	-	-	22
Assets fully derecognized	-	(4)	-	-	(4)
Changes to inputs used in ECL calculation	86	58	680	-	824
Loss allowance at December 31, 2020	96	192	2,237	-	2,525
Credit impairment loss recorded in income					(842)

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**31. FINANCIAL RISK (continued)**

**31.3 Credit impairment losses – financial assets subject to impairment (continued)**

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

Risk Rating		Classification	Lending portfolios		Investment portfolios	
			2021 Exposure		2021 Exposure	
			AFL '000	%	AFL '000	%
1	Minimal risk	3,433	17	43	-	
2	Low risk	4,178	21	-	-	
3	Moderate risk	5,306	26	26,671	80	
4	Acceptable risk	706	3	6,678	20	
5	Average risk	-	-	-	-	
6	Higher risk	3,368	17	-	-	
7	Special mention	2,088	10	-	-	
8	Substandard	1,166	6	-	-	
TOTAL RATED EXPOSURES		20,245	100	33,392	100	
UN-RATED EXPOSURES		-	-	-	-	
TOTAL		20,245	100	33,392	100	

Investment portfolio assets are mostly unsecured.

Exposure to credit risk is also managed in part by obtaining collateral and guarantees for mortgage loans and finance loans. For mortgage loans, the collateral is real estate property, and the approved loan limit is 75% to 95% of collateral value.

Policy loans are advanced on the security of the underlying insurance policy cash values. Cash loans are advanced to a maximum of 90% of the cash surrender value. Automatic premium loans are advanced to the extent of available cash surrender value.

(c) Past due and impaired financial investments

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 financial investments namely, its debt securities, mortgage loans, policy loans and finance 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 180 days past due are not assessed for impairment unless other information is available to indicate the contrary.

The assessment for impairment includes a review of the collateral. If the past due period is less than the trigger for impairment review, the collateral is not normally reviewed and re-assessed but is included in the amounts for collateral.



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**31. FINANCIAL RISK (continued)**

**31.3 Credit impairment losses – financial assets subject to impairment (continued)**

(c) Past due and impaired financial investments (continued)

Balances relating to impaired financial investments are summarised in the following table. The accumulated allowance for impairment reflects the company's assessment of total individually impaired investments at the date of the financial statements.

	<b>Gross carrying value</b>	<b>Accumulated allowance for impairment</b>	<b>Net carrying value</b>	<b>Estimated fair value of collateral</b>
<b>2021</b>				
Mortgage loans	8,640	(1,927)	6,713	14,944
<b>2020</b>				
Mortgage loans	7,773	(2,221)	5,552	10,064

No interest has been accrued on impaired financial investments.

The Company is also exposed to impaired premiums receivable. However, under the terms of insurance contracts, the Company 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.

(d) Repossessed assets

The Company may foreclose on overdue mortgage loans and finance loans and finance leases by repossessing the pledged asset. The pledged asset may consist of real estate, equipment or vehicles which the Company will seek to dispose of by sale. In some instances, the Company may provide re-financing to a new purchaser on customary terms.

(e) Renegotiated assets

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

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**31. FINANCIAL RISK (continued)**

**31.3 Credit impairment losses – financial assets subject to impairment (continued)**

(a) Economic variable assumptions

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

	2021	2022	2023
<b>Unemployment rate (USA)</b>			
Base	3.5%	2.6%	1.9%
Upside	5.0%	3.0%	1.0%
Downside	1.1%	1.6%	1.8%
<b>World GDP</b>			
Base	4.9%	3.6%	3.4%
Upside	7.4%	5.4%	5.1%
Downside	2.6%	2.6%	2.4%
<b>WTI Oil Prices/10</b>			
Base	\$13.25	\$12.22	\$11.52
Upside	\$16.90	\$16.90	\$16.90
Downside	\$5.55	\$5.12	\$4.83

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

**As of December 31, 2021**

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

**As of December 31, 2020**

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

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**31. FINANCIAL RISK (continued)**

**31.3 Credit impairment losses – financial assets subject to impairment (continued)**

b) Sensitivity of Loss given default (LGD)

From the inception of IFRS 9, the Company has used the LGD for sovereigns as provided by Moody's. The 45% LGD in Moody's current report represents the losses derived using the average trading prices method for US denominated external debt. Due to the limited trading activity and the small percentage of US denominated sovereign debt in our portfolio, we do not believe it is appropriate to use the average trading price method. An analysis of this calculation shows that this LGD includes losses for places such as Greece, Russia and African countries and does not truly reflect a Caribbean experience.

The Company's sovereign exposure is primarily in the Caribbean region where bond markets are very thinly traded. For the majority of our sovereign exposures an internal valuation method is used to produce accurate fixed income prices. To determine the accurate fair value for disclosure purposes in financial reporting, we use the present value of the bond's expected cash flows.

Our analysis showed that using Moody's NPV method results in a loss given default (LGD) of approximately 35% regardless of the inclusion of members CARICOM solely or all global defaults. Furthermore, Barbados, the most recent defaulted bond issuer in the Caribbean suffered a maximum loss of approximately 36% on the restructured domestic debt which is in line with the LGD using the NPV method.

In light of the above, we adopted the NPV method for determining the LGD for Caribbean Sovereigns and reduced the LGD to 35% as derived from the calculation.

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	Decrease in value
Investments - Corporate Debts	53%	(- /+ 5) %	10.33	(10.33)
Investments - Sovereign Debts (excluding Government of Barbados and Government of Jamaica)	35%	(- /+ 5) %	0.15	(0.15)
Investments	10% (80% for base scenario and 10% for downside scenario)	(- /+ 5) %	6.23	(6.23)
Lending products	10% (80% for base scenario and 10% for downside scenario)	(- /+ 5) %	18.43	(18.44)

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**31. FINANCIAL RISK (continued)**

**31.3 Credit risk (continued)**

(a) Credit Risk

	2021		2020	
Investment portfolios	12,758	22.0%	13,388	25.1%
Lending portfolios	22,421	38.7%	22,701	42.6%
Reinsurance assets	-	-	232	0.5%
Other assets	21,907	37.8%	16,973	31.8%
Total financial statement exposures	57,086	98.5%	53,294	100%
Lending commitments	857	1.5%	-	-
Total	57,943	100%	53,294	100%

**31.4 Gross Carrying Values – financial investments subject to impairment**

The following tables explain the movement in the gross carrying amounts of investments and in the ECL classifications for the year. Gross carrying amounts represent the maximum exposure to credit risk.

Amounts in AFL \$000	Debt Securities - FVOCI				
	2021				
	ECL Staging			POCI	Total
Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL			
Gross carrying amount at January 1, 2021	3,989	-	-	-	3,989
Transfers:					
Transfer from Stage 1 to Stage 2	(3,989)	3,989	-	-	-
Financial assets originated or purchased	2,900	-	-	-	2,900
Financial assets fully derecognised	-	-	-	-	-
Changes in principal and interest	-	(180)	-	-	(180)
Gross carrying amount at December 31, 2021	2,900	3,809	-	-	6,709

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**31. FINANCIAL RISK (continued)**

**31.4 Gross Carrying Values – financial investments subject to impairment (continued)**

<u>Amounts in AFL \$000</u>	Debt Securities - FVOCI				
	2020				
	ECL Staging			POCI	Total
	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL		
Gross carrying amount at January 1, 2020	3,845	-	-	-	3,845
Changes in principal and interest	144	-	-	-	144
Gross carrying amount at December 31, 2020	3,989	-	-	-	3,989

<u>Amounts in AFL \$000</u>	Money Market Funds - FVOCI				
	2021				
	ECL Staging			POCI	Total
	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL		
Gross carrying amount at January 1, 2021	-	-	-	-	-
Financial assets originated or purchased	221	-	-	-	221
Gross carrying amount at December 31, 2021	221	-	-	-	221

<u>Amounts in AFL \$000</u>	Money Market Funds - FVOCI				
	2020				
	ECL Staging			POCI	Total
	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL		
Gross carrying amount at January 1, 2020	-	-	-	-	-
Financial assets originated or purchased	-	-	-	-	-
Gross carrying amount at December 31, 2020	-	-	-	-	-

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**31. FINANCIAL RISK (continued)**

**31.4 Gross Carrying Values – financial investments subject to impairment (continued)**

<u>Amounts in AFL \$000</u>	Debt Securities – Amortised Cost				
	2021				
	ECL Staging			POCI	Total
	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL		
Gross carrying amount at January 1, 2021	9,330	-	-	-	9,330
Financial assets fully derecognised	(3,499)			-	(3,499)
Changes in principal and interest	(3)	-	-	-	(3)
Gross carrying amount at December 31, 2021	5,828	-	-	-	5,828

<u>Amounts in AFL \$000</u>	Debt Securities – Amortised Cost				
	2020				
	ECL Staging			POCI	Total
	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL		
Gross carrying amount at January 1, 2020	9,331	-	-	-	9,331
Foreign exchange adjustment	(1)	-	-	-	(1)
Gross carrying amount at December 31, 2020	9,330	-	-	-	9,330

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**31. FINANCIAL RISK (continued)**

**31.4 Gross Carrying Values – financial investments subject to impairment (continued)**

Amounts in AFL \$000	Mortgage Loans – Amortised Cost				
	2021				
	ECL Staging			POCI	Total
Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL			
Gross carrying amount at January 1, 2021	6,055	2,272	11,707	-	20,034
Transfers:					
Transfer from Stage 1 to Stage 2	(347)	347		-	-
Transfer from Stage 1 to Stage 3	(34)		34	-	-
Transfer from Stage 2 to Stage 1	1,195	(1,195)		-	-
Transfer from Stage 3 to Stage 2	-	972	(972)	-	-
Transfer from Stage 3 to Stage 1	2,322	-	(2,322)	-	-
Financial assets originated or purchased	184	-	-	-	184
Financial assets fully derecognised	(196)	(43)		-	(239)
Changes in principal and interest	(1,036)	(148)	193	-	(991)
Gross carrying amount at December 31, 2021	8,143	2,205	8,640	-	18,988
	Mortgage Loans – Amortised Cost				
	2020				
	ECL Staging				
	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL	POCI	Total
Gross carrying amount at January 1, 2020	6,818	5,189	7,629	-	19,636
Transfers:					
Transfer from Stage 1 to Stage 2	(1,930)	1,930	-	-	-
Transfer from Stage 1 to Stage 3	(3,289)	-	3,289	-	-
Transfer from Stage 2 to Stage 1	2,225	(2,225)	-	-	-
Transfer from Stage 2 to Stage 3	-	(2,137)	2,137	-	-
Transfer from Stage 3 to Stage 2	-	81	(81)	-	-
Transfer from Stage 3 to Stage 1	551	-	(551)	-	-
Financial assets originated or purchased	1,015	-	-	-	1,015
Financial assets fully derecognised	(425)	(135)	(1,960)	-	(2,520)
Changes in principal and interest	1,089	(431)	1,244	-	1,903
Gross carrying amount at December 31, 2020	6,055	2,272	11,707	-	20,034

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**31. FINANCIAL RISK (continued)**

**31.4 Gross Carrying Values – financial investments subject to impairment (continued)**

<u>Amounts in AFL \$000</u>	Policy Loans – Amortised Cost				
	2021				
	ECL Staging			POCI	Total
	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL		
Gross carrying amount at January 1, 2021	3,728	-	-	-	3,728
Changes in principal and interest	(296)	-	-	-	(296)
Gross carrying amount at December 31, 2021	3,432	-	-	-	3,432

<u>Amounts in AFL \$000</u>	Policy Loans – Amortised Cost				
	2020				
	ECL Staging			POCI	Total
	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL		
Gross carrying amount at January 1, 2020	3,843	-	-	-	3,843
Changes in principal and interest	(115)	-	-	-	(115)
Gross carrying amount at December 31, 2020	3,728	-	-	-	3,728



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**31. FINANCIAL RISK (continued)**

**31.5 Liquidity risk**

Liquidity risk is the exposure that the Company may encounter difficulty in meeting obligations associated with financial or insurance liabilities that are settled by cash or by another financial asset. Liquidity risk also arises when excess funds accumulate resulting in the loss of opportunity to increase investment returns.

Asset liability matching is a tool used by the Company to mitigate liquidity risks particularly in operations with significant maturing short-term liabilities. For long-term insurance contracts, the Company has adopted a policy of investing in assets with cash flow characteristics that closely match the cash flow characteristics of its policy liabilities. The primary purpose of this matching is to ensure that cash flows from these assets are synchronised with the timing and the amounts of payments that must be paid to policyholders.

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.

(a) Financial liabilities and commitments

Contractual cash flow obligations of the Group in respect of its 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.

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31. FINANCIAL RISK (continued)

31.5 Liquidity risk (continued)

As of December 31, 2021	Contractual undiscounted cash flows			Total
	On demand or within 1 year	1 to 5 years	After 5 years	
<b>Financial liabilities:</b>				
Investment contract liabilities	473	-	-	473
Bank overdrafts	301	-	-	301
Accounts payable and other liabilities	2,301	-	-	2,301
Balances with related companies	6,157	-	-	6,157
<b>Total financial liabilities</b>	<b>9,232</b>	<b>-</b>	<b>-</b>	<b>9,232</b>
<b>Off balance sheet commitments:</b>				
<b>Operating lease agreements and rental payments</b>	158	-	-	158
<b>Loan commitments</b>	857	-	-	857
<b>Total off balance sheet commitments</b>	<b>1,057</b>	<b>-</b>	<b>-</b>	<b>1,057</b>
<b>Total</b>	<b>10,247</b>	<b>-</b>	<b>-</b>	<b>10,247</b>

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31. FINANCIAL RISK (continued)

31.5 Liquidity risk (continued)

(a) Financial liabilities and commitments (continued)

As of December 31, 2020	Contractual undiscounted cash flows			Total
	On demand or within 1 year	1 to 5 years	After 5 years	
<b>Financial liabilities:</b>				
Investment contract liabilities	486	-	-	486
Accounts payable and other liabilities	2,507	-	-	2,507
Balances with related companies	4,243	-	-	4,243
<b>Total financial liabilities</b>	<b>7,236</b>	<b>-</b>	<b>-</b>	<b>7,236</b>
<b>Off balance sheet commitments:</b>				
<b>Operating lease agreements and rental payments</b>	158	-	-	158
Loan commitments	536	-	-	536
<b>Total off balance sheet commitments</b>	<b>694</b>	<b>-</b>	<b>-</b>	<b>694</b>
<b>Total</b>	<b>7,930</b>	<b>-</b>	<b>-</b>	<b>7,930</b>

(b) Insurance liabilities

The Company's insurance liabilities mature in periods which are summarised in the following table. Amounts are stated at their carrying values recognised in the financial statements and are analysed by their expected due periods, which have been estimated by actuarial or other statistical methods.

2021	Expected discounted cash flows			Total
	Maturing within 1 year	Maturing 1 to 5 years	Maturing after 5 years	
Actuarial liabilities	533	1,863	19,780	22,176
Other insurance liabilities <sup>(1)</sup>	3,227	50	643	3,920
<b>Total</b>	<b>3,760</b>	<b>1,913</b>	<b>20,423</b>	<b>26,096</b>

<sup>(1)</sup> Consists of monetary items

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**31. FINANCIAL RISK (continued)**

**31.5 Liquidity risk (continued)**

(b) Insurance liabilities (continued)

	Expected discounted cash flows			
	Maturing within 1 year	Maturing 1 to 5 years	Maturing after 5 years	Total
<b>2020</b>				
Actuarial liabilities	216	1,593	30,577	32,386
Other insurance liabilities <sup>(1)</sup>	3,362	45	686	4,093
<b>Total</b>	<b>3,578</b>	<b>1,638</b>	<b>31,263</b>	<b>36,479</b>

<sup>(1)</sup> Consists of monetary items

(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 tables. Amounts are stated at their carrying values recognised in the financial statements and are analysed by their contractual maturity dates. For this disclosure, monetary insurance assets comprise policy loans and reinsurance assets.

As of December 31, 2021	Contractual or expected discounted cash flows			
	Maturing within 1 year	Maturing 1 to 5 Years	Maturing after 5 years	Total
Money market funds	221	-	-	221
Debt securities	-	-	12,426	12,426
Mortgage loans	2,011	968	13,833	16,812
Policy loans	18	31	3,383	3,432
Reinsurance assets	-	-	-	-
Premiums receivable	596	-	-	596
Other accounts receivable	566	-	-	566
Cash resources	20,444	-	-	20,444
<b>Total</b>	<b>23,856</b>	<b>999</b>	<b>29,642</b>	<b>54,497</b>

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**31. FINANCIAL RISK (continued)**

**31.5 Liquidity risk (continued)**

(c) Financial and insurance assets (continued)

As of December 31, 2020	Contractual or expected discounted cash flows			
	Maturing within 1 year	Maturing 1 to 5 Years	Maturing after 5 years	Total
Debt securities	3,504	-	9,672	13,176
Mortgage loans	1,546	1,080	14,883	17,509
Policy loans	40	56	3,632	3,728
Reinsurance assets	232	-	-	232
Premiums receivable	531	-	-	531
Other accounts receivable	640	-	-	640
Cash resources	15,811	-	-	15,811
<b>Total</b>	<b>22,304</b>	<b>1,136</b>	<b>28,187</b>	<b>51,627</b>

**31.6 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.

Guaranteed minimum returns exist within cash values of long term traditional insurance contracts, long term universal life insurance contracts, annuity options, deposit administration liabilities and policy funds on deposit. Where the returns credited exceed the guaranteed minima, the Company usually has the option to adjust the return from period to period. For other financial liabilities, returns are usually contractual and may only be adjusted on contract renewal or contract re-pricing.

The 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.

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**31. FINANCIAL RISK (continued)**

**31.6 Interest rate risk (continued)**

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

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

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

The table following summarises the exposures to interest rates on the Company's monetary insurance and financial liabilities (excluding actuarial liabilities which are disclosed in note 32). 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.

	Exposure within 1 year	Exposure of 1 to 5 years	Exposure after 5 years	Not exposed to interest	Total
<b>As of December 31, 2021:</b>					
Other insurance liabilities <sup>(1)</sup>	59	50	643	3,168	3,920
Investment contract liabilities	473	-	-	-	473
Accounts payable and accruals	-	-	-	2,301	2,301
Balances due to related parties				6,157	6,157
<b>Total</b>	<b>532</b>	<b>50</b>	<b>643</b>	<b>11,626</b>	<b>12,851</b>

	Exposure within 1 year	Exposure of 1 to 5 years	Exposure after 5 years	Not exposed to interest	Total
<b>As of December 31, 2020:</b>					
Other insurance liabilities <sup>(1)</sup>	36	45	686	3,326	4,093
Investment contract liabilities	486	-	-	-	486
Accounts payable and accruals	-	-	-	2,507	2,507
Balances due to related parties	-	-	-	4,243	4,243
<b>Total</b>	<b>522</b>	<b>45</b>	<b>686</b>	<b>10,076</b>	<b>11,329</b>

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**31. FINANCIAL RISK (continued)**

**31.6 Interest rate risk (continued)**

The tables following summarise the exposures to interest rate and reinvestment risks of the Company's monetary insurance and financial assets. Assets are stated at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. Reinsurance assets and policy loans are categorised by their expected maturities.

	<b>Exposure within 1 year</b>	<b>Exposure of 1 to 5 years</b>	<b>Exposure after 5 years</b>	<b>Not exposed to interest</b>	<b>Total</b>
<b>As of December 31, 2021</b>					
Money market funds	221	-	-	-	221
Debt securities	-	-	12,346	80	12,426
Equity securities	-	-	-	391	391
Mortgage loans	2,011	967	13,754	80	16,812
Policy loans	-	34	3,296	102	3,432
Premiums receivable	-	-	-	596	596
Other accounts receivable	-	-	-	566	566
Cash resources	-	-	-	20,444	20,444
<b>Total</b>	<b>2,232</b>	<b>1,001</b>	<b>29,396</b>	<b>22,259</b>	<b>54,888</b>

<sup>(2)</sup> Excluding share of actuarial liabilities

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31. FINANCIAL RISK (continued)

31.6 Interest rate risk (continued)

	Exposure within 1 year	Exposure of 1 to 5 years	Exposure after 5 years	Not exposed to interest	Total
<b>As of December 31, 2020</b>					
Debt securities	3,553	-	9,623	-	13,176
Equity securities	-	-	-	347	347
Mortgage loans	1,546	1,080	14,812	71	17,509
Policy loans	29	50	3,485	164	3,728
Reinsurance assets <sup>(2)</sup>	-	-	-	232	232
Premiums receivable	-	-	-	531	531
Other accounts receivable	-	-	-	640	640
Cash resources	-	-	-	15,811	15,811
<b>Total</b>	<b>5,128</b>	<b>1,130</b>	<b>27,920</b>	<b>17,796</b>	<b>51,974</b>

<sup>(2)</sup> Excluding share of actuarial liabilities

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

	2021	2020
<b>Financial assets:</b>		
Debt securities	6.0%	5.4%
Mortgage loans	5.7%	4.2%
Policy loans	4.8%	5.1%
<b>Financial liabilities</b>		
Investment contract liabilities	11.1%	1.4%

(a) Sensitivity

Sensitivity to interest rate risk is considered by the Company. The effects of changes in interest rates of assets backing actuarial liabilities are disclosed in note 33.



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**31. FINANCIAL RISK (continued)**

**31.7 Foreign exchange risk**

The Company is not exposed to a significant foreign exchange risk as a result of fluctuations in exchange rates since its financial assets and liabilities are denominated in Aruba Florin.

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

As of December 31, 2021	Aruba Florin AFL	US \$	Other Currencies	Total
<b>ASSETS</b>				
Financial investments <sup>(1)</sup>	25,698	7,514	70	33,282
Reinsurance assets	-	-	-	-
Receivables <sup>(1)</sup>	941	221	-	1,162
Cash resources	18,151	2,231	62	20,444
	45,790	9,966	132	54,888
Other assets <sup>(2)</sup>	245	-	-	245
Total assets	45,035	9,966	132	55,133
<b>LIABILITIES</b>				
Actuarial liabilities	18,180	3,073	923	22,176
Other Insurance liabilities <sup>(1)</sup>	3,557	144	219	3,920
Investment contracts	473	-	-	473
Provisions	1,952	-	-	1,952
Accounts payable and accruals	2,301	-	-	2,301
	26,463	3,217	1,142	30,822
Due to parent company	-	-	6,157	6,157
Other liabilities <sup>(2)</sup>	362	-	-	362
Total liabilities	26,825	3,217	7,299	37,341
<b>Net position</b>	18,210	6,749	(7,167)	17,792

<sup>(1)</sup> Consists of monetary items.

<sup>(2)</sup> Consists of non-monetary, income tax and retirement balance.

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**31. FINANCIAL RISK (continued)**

**31.7 Foreign exchange risk (continued)**

As of December 31, 2020	Aruba Florin AFL	US \$	Other Currencies	Total
<b>ASSETS</b>				
Financial investments <sup>(1)</sup>	27,837	4,530	2,393	34,760
Reinsurance assets	-	-	232	232
Receivables <sup>(1)</sup>	815	356	-	1,171
Cash resources	14,401	1,410	-	15,811
	43,053	6,296	2,625	51,974
Other assets <sup>(2)</sup>	251	3	-	254
Total assets	43,304	6,299	2,625	52,228
<b>LIABILITIES</b>				
Actuarial liabilities	27,255	4,017	1,114	32,386
Other Insurance liabilities <sup>(1)</sup>	3,423	145	525	4,093
Investment contracts	486	-	-	486
Provisions	1,708	-	-	1,708
Accounts payable and accruals	2,507	-	-	2,507
	35,379	4,162	1,639	41,180
Due to parent company	-	-	4,243	4,243
Other liabilities <sup>(2)</sup>	319	-	-	319
Total liabilities	35,698	4,162	5,882	45,742
<b>Net position</b>	7,606	2,137	(3,257)	6,486

<sup>(1)</sup> Consists of monetary items.

<sup>(2)</sup> Consists of non-monetary, income tax and retirement balance.

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31. FINANCIAL RISK (continued)

31.8 Fair value of financial instruments

(a) Financial instruments carried at amortised cost

The carrying values of the Company's non-traded financial assets and financial liabilities carried at amortised cost approximate their fair value, except as disclosed in notes 5, and 10.

The fair value hierarchy of other financial instruments carried at amortised cost as of December 31, 2020 is set out in the following tables:

2021	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
<b>Financial assets at amortized cost:</b>				
Debt securities	-	-	6,237	6,237
Mortgage loans	-	-	16,812	16,812
Policy loans	-	-	3,578	3,578
	-	-	26,627	26,627
<b>Total assets by percentage</b>	-	-	100%	100%

2021	Level 1	Level 2	Level 3	Total
<b>Financial liabilities</b>				
<b>Policy liabilities:</b>				
Deposit administration liabilities	-	-	473	473
	-	-	473	473
<b>Total liabilities by percentage</b>	-	-	100%	100%

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**31. FINANCIAL RISK (continued)**

**31.8 Fair value of financial instruments(continued)**

(a) Financial instruments carried at amortised cost continued

The carrying values of the Company's non-traded financial assets and financial liabilities carried at amortised cost approximate their fair value, except as disclosed in notes 5, and 10.

The fair value hierarchy of other financial instruments carried at amortised cost as of December 31, 2020 is set out in the following tables:

<b>2020</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
<b>Financial assets at amortized cost:</b>				
Debt securities	-	-	9,441	9,441
Mortgage loans	-	-	17,509	17,509
Policy loans	-	-	3,825	3,825
	-	-	30,775	30,775
<b>Total assets by percentage</b>	-	-	100%	100%

<b>2020</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial liabilities</b>				
<b>Policy liabilities:</b>				
Deposit administration liabilities	-	-	486	486
	-	-	486	486
<b>Total liabilities by percentage</b>	-	-	100%	100%

(b) Financial instruments carried at fair value

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

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**31. FINANCIAL RISK (continued)**

**31.8 Fair value of financial instruments (continued)**

(b) Financial instruments carried at fair value continued

(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.

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.

Certain of the Company's policy liabilities are unit linked, i.e. derive their value from a pool of assets which are carried at fair value. The Company assigns a fair value hierarchy of Level 2 to the contract liability if the liability represents the unadjusted fair value of the underlying pool of assets.

(ii) 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.

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**31. FINANCIAL RISK (continued)**

**31.8 Fair value of financial instruments (continued)**

(b) Financial instruments carried at fair value continued

(iii) Level 3 – inputs for the instrument that are not based on observable market data (continued).

Level 3 available for sale securities comprise primarily of corporate and government agency debt instruments issued in Aruba. The fair values of these instruments have been derived from December 31 market yields of government instruments of similar durations in the country of issue of the instruments.

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

The following table shows financial assets carried at fair value of the fair value hierarchy.

	Level 1	Level 2	Level 3	Total
<b>Financial Assets:</b>				
<b>Financial assets at fair value through other comprehensive income:</b>				
<b>2021</b>				
Money market funds	-	221	-	221
Debt securities	-	6,599	-	6,599
	-	6,820	-	6,820
<b>Total assets by percentage</b>	-	100%	-	100%
<b>Financial assets at fair value through profit and loss</b>				
Equity securities	-	-	391	391
<b>Total assets by percentage</b>	-	-	100%	100%
	Level 1	Level 2	Level 3	Total
<b>Financial Assets:</b>				
<b>Financial assets at fair value through other comprehensive income:</b>				
<b>2020</b>				
Debt securities	-	3,850	-	3,850
	-	3,850	-	3,850
<b>Total assets by percentage</b>	-	100%	-	100%
<b>Financial assets at fair value through profit and loss</b>				
Equity securities	-	-	347	347
<b>Total assets by percentage</b>	-	-	100%	100%

There has been no material transfer between Level 1, Level 2 and Level 3 instruments during 2021 and 2020.

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**31. FINANCIAL RISK (continued)**

**31.8 Fair value of financial instruments (continued)**

(b) Financial instruments carried at fair value (continued)

(iii) Level 3 – inputs for the instrument that are not based on observable market data (continued).

For Level 3 instruments, reasonable changes in inputs which could be applied to the valuation of available for sale instruments would affect other comprehensive income. Level 3 available for sale securities comprise primarily of corporate and government agency debt instruments issued in Aruba. The fair values of these instruments have been derived from December 31 market yields of government instruments of similar durations in the country of issue for the instrument.

The following table presents the movement in Level 3 instruments for the year, excluding those assets and liabilities representing funds for which the full income and capital returns accrue directly to policy contract-holders.

	<b>2021</b>	<b>2020</b>
Balance, beginning of year	347	347
Fair value gains recorded in Profit and Loss	44	-
Balance, end of year	391	347

(c) Equity price risk

The Company is exposed to other price risk arising from changes in equity prices. 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.

(d) Sensitivity of equity securities

The sensitivity to fair value changes in equity securities arises from those instruments classified as FVTPL. There is no significant sensitivity to those instruments classified at fair value through income, since fair value changes are borne by policy contract holders.

The effects of an across the board 20% change in equity prices of the Company's available for sale equity securities as of December 31, 2021 and December 31, 2020 on total comprehensive income before tax (TCIBT) are as follows.

	<b>FVTPL</b>	
	<b>Carrying value</b>	<b>Effect of a 20% change on TCIBT</b>
Listed on other exchanges and markets	391	78

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**32. INSURANCE RISK**

Insurers are exposed to insurance risks such as product design and pricing, mortality and morbidity, lapse, expense, reinsurance, and actuarial liability estimation in respect of life, annuity and health contracts. Disclosure of these risks is set out in the following sections.

The effects of reinsurance ceded are disclosed in notes 8, 9, 17 and 20. Information on reinsurance balances are disclosed in notes 6, 13 and 32.

**32.1 Contracts without investment returns**

These contracts are principally term life, critical illness and health insurance. Individual term life and critical illness products are generally long-term contracts while group term life and health insurance products are generally one year renewable. The principal insurance risks associated with these contracts are product design and pricing and mortality and morbidity.

(a) Product design and pricing risk

Product design and pricing risk arises from poorly designed or inadequately priced contracts and can lead to both financial loss and reputational damage to the Company.

Risks are priced to achieve an adequate return on capital on the Company's business as a whole. In determining the pricing of an insurance contract, the Company considers the nature and amount of the risk assumed, and recent experience and industry statistics of the benefits payable. Pricing inadequacy may arise either from the use of inadequate experience and statistical data in deriving pricing factors or from market softening conditions.

The underwriting process has established pricing guidelines, and may include specific medical tests and enquiries which determine the Company's assessment of the risk. The Company may also establish deductibles and coverage limits for health risks which will limit the potential claims incurred. Term life and critical illness risks have limitations of insured amounts. The pricing of a contract therefore consists of establishing appropriate premium rates, deductibles and coverage limits.

(b) Mortality and morbidity risk

Mortality risk is the risk that worsening mortality rates will result in an increase of death claims. Morbidity is the incidence of disease or illness and the associated risk is that of increased disability and medical claims. Insurance claims are triggered by the incurrence of a medical claim, the diagnosis of a critical illness or by death of the person insured.

For contracts providing death benefits, higher mortality rates would result in an increase in death claims. The Company annually reviews its mortality experience and compares it to industry mortality tables. This review may result in future adjustments to the pricing or re-pricing of these contracts.

Critical illness claims arise from the diagnosis of a specific illness incurred by the policy beneficiary. The Company annually reviews its critical illness claims experience and compares it to industry statistics. This review may result in future adjustments to the pricing or re-pricing of these contracts.

The concentration risks of term life and critical illness contracts are included in the related disclosure on other long-term contracts in note 32.2(b).



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**32. INSURANCE RISK (continued)**

**32.1 Contracts without investment returns (continued)**

(b) Mortality and morbidity risk (continued)

The cost of health related claims depends on the incidence of beneficiaries becoming ill, the duration of their illness, and the cost of providing medical services. An increase in any of these three factors will result in increased health insurance claims. In such circumstances, the Company may adjust the pricing or re-pricing of these contracts.

For health insurance contracts, all of the insurance risk is concentrated within Aruba.

**32.2 Contracts with investment returns**

Life and annuity insurance contracts with investment returns generally have durations of 5 or more years. The contract terms provide for the policyholder to pay either a single premium at contract inception, or periodic premiums over the duration of the contract. From the premium received, acquisition expenses and maintenance expenses are financed. Investment returns are credited to the policy and are available to fund surrender, withdrawal and maturity policy benefits. The principal risks associated with these policies are in respect of product design and pricing, mortality and longevity, lapse, expense and investment.

(a) Product design and pricing risk

Product design and pricing risk arises from poorly designed or inadequately priced contracts and can lead to both financial loss and reputational damage to the Company.

Risks are priced to achieve an adequate return on capital on the Company's business as a whole. In determining the pricing of a contract, the Company considers the age of the policyholder and/or beneficiary, the expenses and taxes associated with the contract, the prospective investment returns to be credited to the contract, and the guaranteed values within the contract. Pricing inadequacy may arise either from the use of inadequate experience and statistical data in deriving pricing factors or from future changes in the economic environment.

(b) Mortality and longevity risk

Mortality risk is the risk that worsening mortality rates will result in an increase of death claims. Longevity risk is the risk that improving mortality rates will lengthen the payout period of annuities.

For contracts providing death benefits, higher mortality rates will result in an increase in death claims over time. For contracts providing the payout of annuities, improving mortality rates will lead to increased annuity benefits over time. The Company annually reviews its mortality experience and compares it to industry mortality tables. This review may result in future adjustments to the pricing or re-pricing of these contracts.

Mortality risk may be concentrated in geographic locations, affecting the risk profile of the Company. The most significant exposure for this type of risk arises where a single event or pandemic could result in a large number of claims.

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**32. INSURANCE RISK (continued)**

**32.2 Contracts with investment returns (continued)**

Total insurance coverage on insurance policies provides a quantitative measure of absolute mortality risk. However, claims arising in any one year are a very small proportion in relation to the total insurance coverage provided. The total amounts insured by the Company in respect of both contracts with or without investment returns at December 31, gross and net of reinsurance, are summarised below.

		2021		2020	
		Individual contracts	Group contracts	Individual contracts	Group contracts
Aruba	Gross	1,038,841	104,989	1,041,071	73,087
	Net	887,828	104,902	884,401	73,001

(c) Lapse risk

Lapse risk is that, on average, policyholders will terminate their policies ahead of the Company's expectation. Early lapse may result in the following:

- Acquisition costs are not recovered from the policyholder;
- In order to settle benefits, investments are liquidated prematurely resulting in a loss to the insurer;
- Maintenance expenses are allocated to the remaining policies, resulting in an increase in expense risk.

(d) Expense risk

The Company monitors policy acquisition and policy maintenance expenses. Expenses are managed through policy design, fees charged and expense control. However, there are a significant number of inforce contracts for which Company has limited or no ability to re-price for increases in expenses caused by inflation or other factors. Therefore growth in maintenance expenses has to be funded either by increasing the volume of inforce policies or by productivity gains. Failure to achieve these goals will require increases in actuarial liabilities held.

(e) Investment risk

A substantial proportion of the Company's financial investments support its obligations under life and annuity contracts with investment returns. The financial risks outlined in note 31 pertaining to credit, liquidity, interest rate, foreign exchange and equity price are considered integral investment risks associated with these insurance contracts.

Asset defaults, mismatches in asset and liability cash flows, interest rate and equity price volatility generally have the effect of increasing investment risk and consequential increases in actuarial liabilities held.

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**32. INSURANCE RISK (continued)**

**32.3 Reinsurance risk (life, annuity and health insurance)**

To limit its exposure of potential loss on an insurance policy, the Company may cede certain levels of risk to a reinsurer. The Company selects reinsurers which have well established capability to meet their contractual obligations and for new business a Sagicor credit risk rating of 1 or 2 is usually selected. Reinsurance ceded does not discharge the Company's liability and failure by a reinsurer to honour its commitments could result in losses to the Company.

Insurers have limited their exposure per person by excess of loss or quota share treaties. Retention limits represent the level of risk retained by the Company. Coverage in excess of these limits is ceded to reinsurers up to the treaty limit. The principal features of retention programs used by Company are summarised in the following table.

Type of insurance contract	Retention by Company - currency amounts in thousands
Health insurance contracts with individuals	Retention per individual to a maximum of AFL158
Health insurance contracts with groups	Retention per individual to a maximum of AFL158
Life insurance contracts with individuals	Retention per individual life to a maximum of AFL 900
Life insurance contracts with groups	Retention per individual life to a maximum of AFL 450

**33. SENSITIVITY ANALYSIS OF ACTUARIAL LIABILITIES**

The estimation of actuarial liabilities is sensitive to a number of assumptions. Changes in those assumptions could have a significant effect on the valuation results which are discussed below.

**33.1 Sensitivity arising from the valuation of life insurance and annuity contracts**

The valuation of actuarial liabilities of life insurance and annuity contracts is sensitive to:

- the economic scenario used,
- the investments allocated to back the liabilities,
- the underlying assumptions used, (note 8.3(b) to (f), and
- the margins for adverse deviations (note 8.3(g)).

Under Canadian standards of practice, the AA is required to test the actuarial liability under economic scenarios. Limited sensitivity tests have been conducted by the Company.

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**33. SENSITIVITY ANALYSIS OF ACTUARIAL LIABILITIES (continued)**

**33.1 Sensitivity arising from the valuation of life insurance and annuity contracts (continued)**

These tests have been done and the results of the valuation provide adequately for liabilities derived from the worst of these different scenarios.

<b>Sensitivity</b>	<b>Scenario</b>
Worsening rate of lapse	Lapse rates were either doubled or halved, and the more adverse result was selected.
High interest rate	Assumed increases in the investment portfolio yield rates of 0.25% per year for 5 years, with the rates remaining constant thereafter.
Low interest rate	Assumed decreases in investment portfolio yield rates of 0.25% per year for 5 years, with the rates remaining constant thereafter.
Worsening mortality and morbidity	Mortality and morbidity rates for insurance and critical illness products were increased by 3% of the base rate per year for 5 years. For annuity products, the mortality rates were decreased by 3% of the base rate for 5 years.
Higher expenses	Policy unit maintenance expense rates were increased by 5% for 5 years above those reflected in the base scenario.

The following table represents the estimated sensitivity of each of the above scenarios to net actuarial liabilities for the Company by segment. Correlations that may exist between scenario assumptions were not explicitly taken into account.

	<b>2021</b>	<b>2020</b>
Base net actuarial liability - Afl '000	22,176	32,386
<b>Scenario</b>	<b>% change in liability</b>	
Worsening rate of lapse	(23.0%)	(122.7%)
High interest rate	23.1%	(52.4%)
Low interest rate	(33.7%)	(167.9%)
Worsening mortality / morbidity	(16.5%)	(119.9%)
Higher expenses	(4.0%)	(105.1%)

**34. STATUTORY RESTRICTIONS ON ASSETS**

The Company is registered to conduct insurance business under legislation in place in its jurisdiction. This legislation may prescribe a number of requirements with respect to deposits, investment of funds and solvency for the protection of policyholders. In general, these requirements do not restrict the ability of the Company to trade investments.

To satisfy the above requirements, invested assets and cash totalling Afl 5,825 (2020 – Afl 5,825) have been deposited with the regulator or are held in trust to the order of the regulator.

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**35. CAPITAL MANAGEMENT**

The Company's objectives when managing capital, which is a broader concept than equity in the statement of financial position, are:

- To comply with capital requirements established by insurance, banking and other financial intermediary regulatory authorities;
- To comply with internationally recognised capital requirements for insurance, where local regulations do not meet these international standards;
- To safeguard its ability as a going concern to continue to provide benefits and returns to policyholders, depositors, note-holders and shareholder;
- To provide adequate returns to the shareholder;
- To maintain a strong capital base to support the future development of Company operations.

**35.1 Capital resources**

The principal capital resources of the Company are as follows:

	<b>2021</b>	<b>2020</b>
Shareholder's equity	17,792	6,486

The Company deploys its capital resources through its operating activities. The capital is deployed in such a manner as to ensure that the Company has adequate and sufficient capital resources to carry out its activities and to meet regulatory requirements.

The capital adequacy of the Company is discussed in the following section.

**35.2 Capital adequacy**

(a) Life insurers

Capital adequacy is managed at the operating company level. It is reviewed by executive management, the audit committee and the board of directors. The Company has complied with its regulatory requirements at year end.

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**36. EXPENSES BY NATURE**

	<u>2021</u>	<u>2020</u>
Accommodation	320	310
Advertising	184	225
Business travel	13	27
Claims processing & medical fees	105	115
Collection fees	254	186
Other	165	120
Parent company overheads	1,742	1,853
Postage	24	19
Professional fees	286	313
Sales convention & incentives	49	45
Salaries	737	734
Stationery	45	41
Telecommunications	41	38
	<u>3,965</u>	<u>4,026</u>

**37. IMPACT OF COVID-19 CORONAVIRUS**

On March 11, 2020, the World Health Organisation declared the emergence of COVID-19 coronavirus, a global pandemic. This pandemic has affected many countries and all levels of society and has affected our economic environment in significant ways. The COVID-19 situation continues to evolve and many of the markets in which Sagicor operates have implemented public health safety protocols. At various stages during the year, most Caribbean countries have shut down air and sea traffic. Similar procedures have also been applied in the United States, Canada and elsewhere. The COVID-19 pandemic has caused significant economic and financial turmoil and uncertainty, both in the U.S. and around the world, and has fuelled concerns that have led to a global recession.

Two years on from the initial outbreak, the virus remains prevalent across the world, with various mutations extending the uncertainties surrounding economic recoveries. Continued travel restrictions and lockdown measures have prolonged the downturn in demand for tourism, entertainment and related services. However, the introduction and administration of vaccines have aided recovery efforts in some economies.

COVID-19 continues to cause major disruptions in economies within which the Company operates. In response to the changing, and increasingly uncertain, economic environment, the Sagicor Group has performed reviews and updated its assumptions, including those related to asset impairment, where necessary.

Management considered the potential impact of the pandemic on actuarial reserves but concluded that it had not had a significant impact on actuarial assumptions and the valuation of actuarial liabilities of the Company.

The Company continues to monitor the health crisis and the economic impact on its investments, actuarial reserves, customer and trading partners, and the effect on the industries in which it operates. While global vaccination programmes should allow the world, and more particularly the markets in which the Company operates, to gradually return to normal, this will take time. As a result, the pandemic may continue to negatively impact levels of new business and the level of policyholder lapses and surrenders, as well as loan delinquencies.

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**38. SUBSEQUENT EVENT**

There have been no subsequent events which would have a material impact on the financial statements.