

Sagicor Financial Company Ltd.

First Quarter 2022 Earnings Call

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CORPORATE PARTICIPANTS

Dodridge Miller

Sagcor Financial Company Ltd. — Group President and Chief Executive Officer

Andre Mousseau

Sagcor Financial Company Ltd. — Group Chief Operating Officer and Chief Financial Officer

George Sipsis

Sagcor Financial Company Ltd. — Senior Vice President, Corporate Development and Capital Markets

CONFERENCE CALL PARTICIPANTS

Meny Grauman

Scotiabank — Analyst

Darko Mihelic

RBC Capital Markets — Analyst

PRESENTATION

Operator

At this time, I would like to welcome everyone to Sagicor Financial Company's First Quarter 2022 Earnings Call.

I would now like to turn the conference over to Ms. George Sipsis, SVP, Corporate Development and Capital Markets. You may begin your conference.

George Sipsis — Senior Vice President, Corporate Development and Capital Markets, Sagicor Financial Company Ltd.

Hello, everyone, and thank you for joining us today to discuss Sagicor's Q1 2022 results.

Our quarterly results, including the financial statements and MD&A, along with a link to our live webcast, is available on our website under the Investor Relations tab at sagikor.com.

I would like to begin by referring you to the cautionary language and disclaimers in our materials regarding the use of forward-looking statements and the use of non-IFRS financial measures and ratios which may be mentioned as part of our remarks today.

Unless otherwise noted, all dollar amounts referenced will be in U.S. dollars, consistent with our reporting practice.

Joining me today are Dodridge Miller, our President and CEO, Andre Mousseau, our COO and CFO, and Anthony Chandler, our Chief Controller. We'll begin with prepared remarks by Dodridge and Andre, followed by a Q&A session.

With that, I'll turn the call to our Group President and CEO, Dodridge Miller.

Dodridge Miller — Group President and Chief Executive Officer, Sagicor Financial Company Ltd.

Thank you, George, and thank you to everyone for joining us today.

As usual, I will give some brief remarks focusing on our overall performance for the quarter. I will also briefly comment on our operating environment and our outlook going forward. Andre Mousseau, our Chief Operating Officer and Chief Financial Officer, will provide you with more details on our financial and operating performance.

At Sagicor, we continued 2022 where we left off from our record 2021, with strong revenue and profitability during the first quarter of 2022.

Total revenue increased 58 percent over the first quarter of 2021 to reach \$681 million. This growth was driven by a 261 percent increase in our annuities net premium in our U.S. segment, as this business continues to grow to scale. In the Caribbean, life and health insurance net premium revenue also grew marginally.

Net income to shareholders was \$42 million for the quarter, an increase of 33 percent year-over-year, an overall excellent performance for the quarter.

Looking briefly at our operating environment, our operating environment continues to build on the many transformative changes that have been introduced in response to the global pandemic. Even as markets are reopening and restrictive protocols are being relaxed or removed, customers and policyholders continue to favour the convenience and safety of a digital response to service and engagement. We at Sagicor continue to adapt to these expectations with more and more digital initiatives designed to respond to the new reality.

As I mentioned on last quarter's earnings call, we're excited to announce the upcoming launch of our digital bank in Barbados, as we continue to evolve how best to serve our customers and finding new avenues for growth.

Our team members have also come to expect a function within some form of a hybrid work environment, as the last two-plus years have opened up many new possibilities. This is an evolving work model, and one that will likely reshape the global workspace and workplace for years to come.

Turning to our outlook, our Company is in a strong position to execute on our growth strategy. We continue to support the growth of our U.S. business where we are seeing excellent new business sales each quarter.

Our Caribbean markets are not quite back to full potential, but we remain optimistic about opportunities to support modest growth, as many of the economies are exhibiting positive signs of a return to normal economic activity. However, increasing global rates of inflation and geopolitical instability are contributing to some uncertainty around the timing of full economic recovery in these markets. Despite this, we believe we are well-positioned for future growth as we execute on our plans.

On June 17, we will host our Annual General Meeting, and look forward to speaking to our shareholders and many of you during our AGM.

With that, I now turn the presentation over to Andre Mousseau. Thank you.

Andre Mousseau — Group Chief Operating Officer and Chief Financial Officer, Sagicor Financial Company Ltd.

Thank you, Dodridge, and hello, everyone.

Like last quarter, we had strong performance in aggregate, this time including excellent underlying profitability, particularly in Sagicor U.S.A. and Sagicor Jamaica, and made good progress on a number of strategic initiatives. We saw positive contributions from nearly all of our businesses and product lines.

Our total revenue increased 58 percent year-over-year to \$681 million.

Net income to shareholders was strong at \$42 million in Q1, a 33 percent increase compared to the first quarter last year.

Similar to our last quarter in Q4, profitability was supported by robust sales of annuities and asset spreads in our Sagicor Life U.S.A. segment and a solid performance from Sagicor Jamaica overall. Sagicor Life posted robust profits despite continued economic headwinds in the Southern Caribbean.

Now, I'll speak about the first quarter performance of our major operating segments.

At Sagicor Life, our operating segment in the Southern Caribbean, our total revenue was \$124 million, a modest decrease year-over-year due to lower new single premium annuity business. We had \$8 million of single premium annuity sales and \$6 million of annual recurring new business sold in the quarter at Sagicor Life.

Net income to shareholders was \$7 million, a 16 percent decrease year-over-year, as the segment experienced adverse policyholder behaviour and mortality relative to long-term trends due to the ongoing effect of the pandemic. We continue to believe this effect is temporary, but it may persist until the economies fully benefit from reopening, and in particular, more cash inflows into the economies from the return of tourism going forward.

At Sagicor Jamaica, total revenue of \$162 million was about flat year-over-year measured in U.S. dollars. Our share of Sagicor Jamaica's net income increased by \$3 million to \$13 million, reflecting solid underlying performance. The segment benefited from improved individual life and health new business sales, as well as growth in its banking segment and increased interest income.

Now, on to Sagicor Life U.S.A., which had another strong quarter. This segment's growth and profitability is consistent with our strategy to grow our U.S. business to scale by adding fixed annuity liabilities that we're able to invest at attractive spreads. We were able to drive \$364 million of new annuity sales at stronger than budgeted spreads, up from \$246 million in the prior quarter.

Overall, our U.S. business posted revenue of \$372 million, which was an increase of over 200 percent compared to Q1 of 2021. As a result of the present value of the anticipated profit from the

significant value—volume of new annuity products sold, the segment generated \$26 million of net income in the quarter compared to \$1 million in the same period in the prior year.

As we mentioned last quarter, we continue to focus on streamlining our SG&A and further improve returns on equity in that segment going forward.

Consolidated, our total comprehensive income to shareholders this quarter was roughly flat, reflecting the positive net income, offset by the impact of rising interest rates leading to decreased asset values, which runs through the statement of other comprehensive income. With that, our book value was US\$7.88 or CA\$9.79. In Q1, we repurchased 284,000 shares at a discount to book value through our normal course issuer bid.

We are also pleased to declare a dividend of US\$0.05625 per share to be paid in the second quarter. We've consistently declared dividends each quarter since we listed on the TSX.

Finally, a brief word on IFRS-17. Our project plan for implementation is well on track. We have seen some of our Canadian peers start to talk about specific impacts on the—on their income statement and balance sheet. We anticipate to be in a position to do so a bit later on in this calendar year.

With that, I'll turn it back to Dodridge and George.

George Sipsis — Senior Vice President, Corporate Development and Capital Markets, Sagicor Financial Company Ltd.

Thank you, Andre, and with that, we are now ready for the Q&A session.

Operator, please open the lines to the analysts for their questions. Thank you.

Q & A

Operator

Your first question comes from Meny Grauman with Scotiabank. Please go ahead.

Meny Grauman — Analyst, Scotiabank

Hi. Good afternoon.

Just a question on the U.S. Very strong annuity sales last year. I'm just wondering if you could provide us with some outlook for this year in terms of how you're seeing the sales picture. Is it reasonable to assume that we could see similar kind of sales trajectory this year?

Andre Mousseau — Group Chief Operating Officer and Chief Financial Officer, Sagicor Financial Company Ltd.

Thanks for that, Meny.

I think that Q1 was consistent with what we were looking to do, maybe a little bit stronger in aggregate than where we had budgeted. So, order of magnitude, we are looking for similar production. I'd be cautious about fully annualizing Q1 across the rest of the three quarters for the year, but we would anticipate, given where we're seeing the market, writing more business in the U.S. this year than we did last year.

Meny Grauman — Analyst, Scotiabank

In terms of your outlook, what are the key factors in terms of—that would cause you to maybe take down your expectations for annuity sales? Is there anything on the horizon as a potential risk as you see it right now, either competitively or bigger picture?

Andre Mousseau — Group Chief Operating Officer and Chief Financial Officer, Sagicor Financial Company Ltd.

Well, the majority of our production—the large majority of our production right now are in the MYGA products, which are spread products, you need to make sure at any given time, that you're able to write to attractive spreads. We saw quite attractive spreads in terms of where we were able to put money to work in Q1 compared to where we were able to credit policyholders, and so we were able to flex our production up. We saw a patch earlier in Q2 where spreads tightened a little bit. As interest rates have risen more, we're seeing a better patch in the middle part of Q2, so we're going to continue to be disciplined and ensure that we're growing and we're able to write to returns that meet our expectations, and so we are seeing an ability to continue to do that so far.

Meny Grauman — Analyst, Scotiabank

Thanks for that, and then I just wanted to ask about—one of the topics of the day is obviously inflation, especially wage inflation. I'm just wondering what you're seeing across your footprint. Are there particular regions where the inflation issue is more significant than others, and then also, just in

terms of your ability to offset that pressure, again, are there some areas of the business that are more amenable to that than others? Just wanted to get a picture of that.

Andre Mousseau — Group Chief Operating Officer and Chief Financial Officer, Sagicor Financial Company Ltd.

Dodridge, maybe I'll start, and then you could comment.

I'd say that, broadly speaking, we're seeing some wage pressure across our SG&A, and we're implementing cost-of-living adjustments. In terms of regions where it is—it's more acute and potentially affecting the economy, we've seen in Jamaica some high inflation rates, and we've also seen some aggressive tightening by the Bank of Jamaica to combat that. So, you saw through the results through our Jamaican business that they managed through with a good Q1 so far, but that is an area that we're continuing to be vigilant on.

Dodridge, would you like to expand on that?

Dodridge Miller — Group President and Chief Executive Officer, Sagicor Financial Company Ltd.

I would just say—thank you, Andre—that we are seeing the impact of inflation across most of our geographies. Some are coping a little bit better than others, and particularly those that are a little bit more immune to rising oil prices, but overall, we're seeing the impact from inflation affecting economic policy across the region, and this will have a slowing impact on the rate of recovery of the economies.

Meny Grauman — Analyst, Scotiabank

Then just to tie it to the results, I know you don't have formal targets out yet, but in terms of the pressure that's putting on your bottom line as you look out through 2022, how big is the risk? How many levers do you have, or how big a leverage you have to offset this inflation pressure going forward?

Andre Mousseau — Group Chief Operating Officer and Chief Financial Officer, Sagicor Financial Company Ltd.

Well, the inflation pressure kind of goes hand-in-hand with rising interest rates, and in general, the rise in interest rates is good for us through our income statement. It tends, as you've seen in Q1, to erode the balance sheet a little bit as you mark down the assets back in capital through OCI, but you get that back as the assets are held over time, so there is risk to inflation with respect to the robustness of the underlying economies, but being a spread business for a lot of our business, there's positive to the rising rates.

Meny Grauman — Analyst, Scotiabank

Thanks, Andre.

Operator

Your next question comes from Darko Mihelic with RBC Capital Markets. Please go ahead.

Darko Mihelic — Analyst, RBC Capital Markets

Hi. Thank you.

My questions are for Andre, and specifically I'm looking at Sagicor Life. Can you help just size for me the impact of lower annuity sales, and then the experience of adverse behaviour and/or mortality, so relative to \$7 million of earnings that's attributable to shareholders, how much was each of those—how much did each of those impact Sagicor Life in the quarter? I'm just trying to get a sense of what it would look like on a more normalized basis.

Andre Mousseau — Group Chief Operating Officer and Chief Financial Officer, Sagicor Financial Company Ltd.

Sure, happy to get into that a little bit.

The first two quarters for Sagicor Life tend to be quiet quarters from a financial point of view because we're not running actuarial adjustments through typically in those quarters, and so we would have budgeted something in the low double-digits of millions of income to shareholders compared to the \$7 million. The lower new business would be a small proportion of that, in the range of \$1 million—within \$1 million of budget. The rest of the difference would be split more or less evenly between the higher lapse and surrender and the higher mortality. So, for each of those buckets, we're talking about, order of magnitude, a couple of million dollars, but when you stack those three things up, you end up kind of \$4 million or \$5 million short of where you would have liked to have been.

Darko Mihelic — Analyst, RBC Capital Markets

Okay, great, and that's very useful. Then the follow-up to that is, is there any early signs of any of these coming back already in Q2 relative to your assumptions? Do you have any feel for whether lapse

and surrender or mortality—I'm not too worried about the annuity sales, but I'm more interested in the experience? Is there any signs that the experience is already sort of reversing?

Andre Mousseau — Group Chief Operating Officer and Chief Financial Officer, Sagicor Financial Company Ltd.

I mean, I think if you put us on the spot, I wouldn't want to be aggressive and say that it's going to reverse in Q2. I think that if you look at some of the markets, Trinidad, for example, has had a tough time on a relative global basis with respect to COVID mortality, for example, and while that will eventually abate, it's probably too early to say that Q2 would be when we would expect it to do so.

With respect to the lapses and surrenders, it's hard to say just given that the variances that we're seeing are relatively small numbers, but again, I wouldn't want to be here saying that we think to model that that turns around in Q2.

Darko Mihelic — Analyst, RBC Capital Markets

Okay, that's helpful, and then my last follow-up on the very same issue, is there any signs or any indications from your team that there might need to be some actuarial adjustments on either mortality and/or lapse/surrender behaviour, and I just wanted to confirm, does this typically happen for you in Q3 in terms of your basis changes?

Andre Mousseau — Group Chief Operating Officer and Chief Financial Officer, Sagicor Financial Company Ltd.

Q3 are when we run most of the basis changes through. I think the view of our actuary continues to be that this is a temporary event, so we don't have indications right now that would suggest that there would be a big strengthening coming. For mortality, that is still the position that we've heard from our appointed actuaries very recently. With respect to lapse, again, I think we see it tied to slowness in the economy and we would see that abating eventually, so we look at them every year. It's hard to say exactly what comes out of experience studies, but we're not sitting here today anticipating big strengthenings this year.

Darko Mihelic — Analyst, RBC Capital Markets

Okay, that's helpful, and then just my last question, I promise, but sticking with Sagicor Life and sort of moving on now to something else, which is I have had a number of discussions with executives of other firms here in Canada, a little bit in the U.S., with respect to demand for insurance rising as a result of COVID, and they see a fairly good sales pipeline, and again, not necessarily for annuities, but really, for life and health insurance. Are there any signs of that in the Caribbean, or is it just that the economy is still in too rough of a shape for you to have any kind of an expectation that sales should be improving in the back half of the year? Not necessarily Q2, but let's talk about Q3/Q4, is there any reason to believe that when the economy turns, sales will improve disproportionately more than what would be considered a normal year?

Andre Mousseau — Group Chief Operating Officer and Chief Financial Officer, Sagicor Financial Company Ltd.

What would lead you to believe that is that through the past six quarters as the effect of the pandemic has come through, our new business sales have been affected proportionately less than the lapses and surrenders in terms of where we've deviated from budget, so that does suggest a heightened awareness, potentially, within the population of the need to buy insurance and prioritize it, so the increased awareness, in general, of life insurance as an important thing to carry as part of your overall financial portfolio, I think you could argue it is higher. Now, whether that persists post-pandemic, that's for us to execute and capitalize on.

Darko Mihelic — Analyst, RBC Capital Markets

Okay. Thank you.

Dodridge Miller — Group President and Chief Executive Officer, Sagacor Financial Company Ltd.

Andre, this is Dodridge, and Darko, not to sound too optimistic, but what we're seeing is reasonably strong new business continues despite the lapses and surrenders, and what we're noticing is that the core book of business continues to perform. There is a body of policies which are more susceptible to the economic circumstances that we had given forbearance to over the 12, 15 months of the pandemic that we're seeing the activity and the negative policyholder activity. Our team were working to reinstate those policies to the extent it makes sense, but to Andre's point, we take a conservative view as to where this will go.

Darko Mihelic — Analyst, RBC Capital Markets

That's very useful colour. Thank you. I appreciate that.

I do have another question, but I'm not going to break my promise. I'll just re-queue.

Operator

There are no further questions at this time. Please proceed.

Darko Mihelic — Analyst, RBC Capital Markets

Okay, great, so I do have another question, obviously. This is just, again, another follow-on on—and again, if you can appreciate where I'm coming from all this. I'm just trying to understand where a return to normal might look like.

One of the things we have also heard from some other insurance companies—and this is the first I've heard of it, and I was a little bit concerned when I heard it, so I wanted to hear your opinion on it—we had heard that there's a bit of return to competitive pricing. Interest rates are rising, which are good. You would think that that would be fine, but some insurance companies are lowering pricing in a bid to gain share, thereby increasing strain and so on. I'm not on the ground in the Caribbean, obviously, so I'm just very interested in understanding the competitive dynamic and whether or not I should be concerned that sales will return in the back half of the year, but at much lower margin. Can you give me any insight into the competitive dynamic for Sagicor Life, in particular?

Dodridge Miller — Group President and Chief Executive Officer, Sagicor Financial Company Ltd.

Andre, you want to take that?

Andre Mousseau — Group Chief Operating Officer and Chief Financial Officer, Sagicor Financial Company Ltd.

Yes. My view, Darko, is I would not have viewed that. You can go line-by-line, and obviously, every line and every geography's different, but I would not have seen that as something that material for the rest of the year.

Darko Mihelic — Analyst, RBC Capital Markets

Okay, great. If that's the answer, that's the answer. Thanks very much. I appreciate it.

Operator

You have no further questions at this time.

George Sipsis — Senior Vice President, Corporate Development and Capital Markets, Sagicor Financial Company Ltd.

Great. Thank you, Operator, and thank you, everyone, for joining our call today.

Following this call, a telephone replay will be available for one month on our website along with a transcript as soon as available. If any of you have any additional questions, please do not hesitate to reach out to any of us.

In addition, as Dodridge previously mentioned, I would also note that the Company's Annual General Meeting for Shareholders will be held on June 17, and the details and relevant information is available on our website at sagikor.com.

With that, thanks, everyone, for your participation and interest today.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines. Have a great day.