Sagicor Financial Company Ltd.

Fourth Quarter and Full Year 2022 Earnings Conference Call

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Length: 49 minutes
CORPORATE PARTICIPANTS

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*Sagicor Financial Company Ltd. — Group President & Chief Executive Officer*

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

Kathryn Jenkins  
*Sagicor Financial Company Ltd. — Group Chief Financial Officer*

Anthony Chandler  
*Sagicor Financial Company Ltd. — Group Chief Financial Controller*

George Sipsis  
*Sagicor Financial Company Ltd. — Executive Vice President, Corporate Development & Capital Markets*

CONFERENCE CALL PARTICIPANTS

Meny Grauman  
*Scotiabank — Analyst*

Darko Mihelic  
*RBC Capital Markets — Analyst*
Good afternoon. My name is Julie and I will be your conference operator today. At this time I would like to welcome everyone to Sagicor Financial Company’s Fourth Quarter and Full Year 2022 Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers’ remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press star then the number one on your telephone keypad. If you would like to withdraw your question, please press star then the number two. Thank you.

Mr. George Sipsis, EVP, Corporate Development and Capital Markets, you may begin your conference.

George Sipsis — Executive Vice President, Corporate Development & Capital Markets, Sagicor Financial Company Ltd.

Great. Thank you, operator, and hello, everyone, and thank you for joining us today to discuss Sagicor’s 2022 fourth quarter and full year results. Before we begin, I’d like to point you to our Q4 results, including the financial statements, the MD&A, the press release, along with a link to our live webcast is available on our website under the Investor Relations tab at sagicor.com.

This conference call is open to the financial community, the media, and the public with a reminder that the Q&A period at the end is reserved for the financial research analysts.
I would like to begin by referring you to the cautionary language and disclaimers in our materials and public filings 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. I would like to remind the audience that actual results with regard to forward-looking information could differ materially. Also, please note that a detailed discussion of Sagicor’s risk factors is provided in our MD&A and AIF available on SEDAR and on our website, along with the discussion of the assumptions underlying our IFRS 17 and 2024 expectations is provided in our earnings release.

Comments made in reference to the pending acquisition of ivari are made based on assumptions made in respect of business strategies, including economic conditions and other factors, and actual results may differ. Sagicor expects the acquisition to close in Q2 or Q3 of 2023, pending satisfaction of regulatory and other customary closing conditions. Investors can find ivari’s financials on the OSFI website.

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

Joining me today is our Group President and CEO, Dodridge Miller; Andre Mousseau, our Group Chief Operating Officer and incoming group president and CEO; Anthony Chandler, our Group Chief Controller; and Kathy Jenkins, our new Group CFO. We’ll begin with prepared remarks by Dodridge and Andre, followed by a Q&A session.

With that, I will pass the call to our Group President and CEO, Dodridge Miller.
Thank you, George, and thank you, everyone, for joining us today. In keeping with our usual format, I will give some brief remarks focusing on our performance for the year and I will also highlight recent changes to our executive management. Andre will do most of the heavy lifting and will provide details on our financial and operating performance as well as some preliminary guidance as we adopt IFRS 17.

Looking back on the year, on the last year, 2022 was a strong year for the Sagicor Group. Total revenue for the full year increased 8% over 2021 to reach over $2.5 billion. From that revenue, we delivered net income to shareholders of $116 million. All three main business segments made strong contributions to these results. In addition to the financial performance, we continue to improve our products, systems, and processes as our markets adjust to and expect a wider range of digital engagement. I want to commend our teams across the Sagicor Group for their exceptional contributions in delivering another strong year of results for our shareholders.

As was announced in January, I will retire as Group President and Chief Executive Officer at the end of March after more than 30 years with the company and more than 20 years as the chief executive. This will, therefore, be my last earnings call. It has been a great pleasure working with the Sagicor team to serve our stakeholders and I look forward to the continued success of the company under Andre’s leadership. I will continue to give my support as a board member.

Along with Andre’s appointment as Group President and CEO, we have made two additional changes to our executive team. Kathy Jenkins was appointed as our Group Chief Financial Officer and
George Sipsis was promoted to Executive Vice President, Corporate Development and Capital Markets. Kathy brings a wealth of experience and deep understanding of the financial services industry from a career spanning more than 30 years. She is on the call today and will take up the baton of drilling down on our financial results starting in our Q1 earnings call in May. George joined Sagicor in 2021 and we are pleased to recognize his increasingly important role within the executive team. George has contributed to many of our key capital raisings and acquisition initiatives since joining nearly two years ago and we look forward to more contributions to Sagicor in his new role.

2022 was a strong year for Sagicor and the outlook for our company is stronger than ever. We have excellent market-leading businesses in the Caribbean and a fast-growing business in the US. We have also taken major steps to accelerate growth through the transformational acquisition of ivari in Canada. Under our new leadership, we look forward to our future.

I want to thank our shareholders, customers, management, and staff for their support over the last 30-plus years and I’m confident that our company is well positioned to support you through all aspects of your life’s journey.

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

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

Thank you, Dodridge. It was a busy Q4, so let’s get into it.

Net income for the quarter was $13 million, which was down $42 million from the prior year. Total comprehensive income for the quarter was $56 million compared to $7 million in the prior year. This
brought our book value up to C$10.28 per share. These results include what is, in effect, a $30 million adjustment out of net income and into other comprehensive income from an internal transaction earlier in the year. The change comes from the characterization of an intercompany elimination related to an asset transfer that we did between our US and Bermuda subsidiaries, all under the umbrella of the Sagicor USA segment in our segmented results. In that transaction we moved assets that were held at below their original purchase price due to rising interest rates and we eliminated the loss on consolidation. In Q2 and Q3 we did this through the income statement; however, during the year-end review we determined the consolidation elimination would have been better classified as other comprehensive income rather than net income, so we reversed $30 million of net income into OCI in Q4. That means reported net income in the fourth quarter was lower than the underlying profitability of our business but the OCI is higher than we would have otherwise expected given the moderate asset price movements in the quarter. Overall, the total comprehensive income in the quarter is unchanged by this reallocation, total comprehensive income in each of the quarters earlier in this year is unchanged by the reallocation, and all balance sheet figures are unchanged or unaffected.

I’ll now provide detail on our operating segment performances during the quarter. At Sagicor Life, our operating segment in the Southern Caribbean, total revenue was $177 million, a 36% increase over Q4 2021, mainly due to a 57% year-over-year growth in net premium revenue which was fueled by strong new annuity revenue of $54 million. Net income to shareholders was $14 million, a 34% decrease compared to the same quarter in 2021. Net income benefited from positive basis changes in Q4 as we often do when we revisit our annual actuarial assumptions, but it was lower than our target as we saw some residual negative emergence from our insurance books.
At Sagicor Jamaica, total revenue of $184 million decreased 9% year over year measured in US dollars, mainly due to lower asset prices on financial assets carried at fair value through the P&L, which runs through revenue. Net premium revenue increased 4% year over year, driven by growth in the core life and health business lines and interest income also increased by 15%. Our share of Sagicor Jamaica’s net income was $18 million, an increase of 10% compared to Q4 2021.

Now on to Sagicor Life USA. Having nearly achieved our annual targets through the first nine months, we slowed our production in Q4 to ensure we stayed within our capital budget, so we generated $88 million of new annuity sales in the quarter. In total, we sold just over $1.2 billion of annuities in 2022, which was consistent with our targets. In total, our US business posted $158 million of revenue in the quarter, which was down 45% compared to Q4 of 2021, again due to those lower sales. Excluding the adjustment that I spoke about earlier, the segment would have posted solid net income of $30 million compared to $17 million in the prior year driven by continued strong growth of the investment portfolio invested at the improved spreads that we’ve been talking about throughout the year.

In the quarter we also took proactive steps to fortify our capital ahead of our pending acquisition of ivari. We signed an agreement to reinsure some remote risk on a significant proportion of our recent US production and we did that with a major reinsurer. As a result, combined with total comprehensive income and asset price recovery in the quarter, our consolidated MCCSR of our insurance subsidiaries increased 66 points compared to last quarter to 270%, which was consistent with where it was at the end of 2021. I know we’ve spoken about this; we still use the MCCSR. As many of our markets are transitioning to LICAT, and as we bring a Canadian business into the fold in 2023, we do intend to provide consolidated LICAT for external purposes by the time we are announcing our full-year 2023 financials.
So, taking a step back and looking at the year, as Dodridge said, it was very solid. We delivered $116 million of net income to shareholders in 2022. Total comprehensive loss to shareholders was $17 million, which reflected $132 million of negative other comprehensive income to shareholders, the vast majority of which was mark to market on our assets backing capital, which we would expect to earn back in future periods as we hold those assets to maturity. The $116 million in aggregate was consistent with our targets and included approximately $4 million of transaction-related expenses related to the pending ivari acquisition, about $18 million of mark-to-market losses on our shareholdings in Playa Hotels and Resorts, which have since more than reversed in Q1 of 2023. Excluding those metrics, we would have had net income of approximately $140 million, which would have been above our overall targets for our last year under IFRS 4.

Now, we have two major initiatives that we’d like to update you on. The first is the acquisition of ivari. ivari’s normalized net income has performed well since we signed the transaction. We’ve been engaged with management at ivari and the regulators at OSFI and we believe that the conversations continue to be constructive. We’d expect to close the transaction in and around the midpoint of the year, so potentially into Q3. We continue to be excited about both the financial and strategic benefits of that transaction.

Second, we are running full speed in the final mile of our IFRS 17 implementation. As we’ve been closing our Q4 financials under the old IFRS 4 regime for the last time, we’re doing our final comparators under IFRS 17. These comparators are going to look very different. Our balance sheet is going to look very different and our income statement as well. Our individual operating segments are going to be changed in different ways too. In general, the higher proportion of its business in individual life and annuities, which
have long reserves, the more the balance sheet will move a portion of its equity into CSM. And likewise, the faster a business has been growing over the last couple of years, the more different net income is going to look, as we no longer will be taking gains from new business and instead we’re going to replace that with amortization of profit from the existing books.

So, as an example, where we take the USA with $1.2 billion of production last year, that would’ve been consistent with a stable asset base of, say, $8 billion to $10 billion. At that level, we would have expected net income to be relatively unchanged under IFRS 17 versus IFRS 4 but, as we’ve been growing that business, our balance sheet in the US has about $4.2 billion of financial investments, so our run rate net income will be significantly lower than the $140 million of segment net income that we saw out of the US this year. The same effect will happen for our other segments, but to a lesser extent.

As we roll into the 2023 reporting system, we will roll out new KPIs and metrics, and the IFRS 17 reporting itself will have a good source of earnings, which I know is something that we’ve been talking about providing to the financial community. At this point, we’re releasing preliminary guidance that we expect our shareholders’ equity at transition, including our pro forma for the acquisition of ivari, to be approximately $650 to $725 million and that we expect to have CSM to shareholders of approximately $1.2 to $1.3 billion on top of that. So that means total shareholders’ equity and CSM to shareholders of approximately $1.8 to $2.0 billion. For 2024, which we would see as our first clean year with a full year of ivari in it, we would expect return on shareholders’ equity of mid-teens, approximately 14% to 16%, high single-digit CSM to shareholders’ growth, and double-digit net income to shareholders growth. As I said, these numbers are inclusive of ivari, which we expect to close in Q2 or Q3. We do expect ivari to be meaningfully accretive on a book value and earnings basis and approximately neutral to ROE. On a
standalone basis, before ivari, we would expect our combined book value and CSM to be approximately equal to our current book value as a meaningful proportion of our future profits are moved or taken into CSM, but we think that the right way for ourselves and for our investors to analyze the company is pro forma the closure of the acquisition.

Finally, on behalf of all of Sagicor, I would like to sincerely thank Dodridge Miller for his three decades of tireless contribution and two decades of leadership. Sagicor and its thousands of employees and policyholders and countless members of the communities in 20 countries in which Sagicor operates are better off for his service and, for that, we are all grateful and we look forward to Dodridge’s continuing contribution on our board.

With that, operator, please do open the lines for questions.

Q & A

Operator

Thank you. Ladies and gentlemen, should you have a question, please press the star followed by the one on your touchtone phone. If you would like to withdraw your question, please press the star followed by the two. If you are using a speakerphone, please lift the handset before pressing any keys. One moment please for your first question.

Your first question comes from Meny Grauman from Scotiabank. Please go ahead.
Meny Grauman — Analyst, Scotiabank

Hi. Good afternoon. Dodridge, first of all, just wanted to wish you all the best in your retirement. In terms of the questions, Andre, you talked about the $30 million accounting adjustment, just wanted to get a better sense of what drove the change in treatment between net income and OCI. Was that your auditors coming to you and feeling more comfortable in that change? Just wanted a little bit more color there please.

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

On the latter point, that’s how it came about during the process of both the final audit as well as the internal review that goes with our annual statements. This was a relatively chunky transaction that was done all within the SUSA segment, and so the consolidation elimination got a relook at year end and I think once everyone was around the table consensus was that it would be better classified through OCI rather than net income.

Meny Grauman — Analyst, Scotiabank

And just to confirm that, I guess, this now kind of completes this issue? Or is there potential for some other impacts early in 2023?

Andre Mousseau — Group Chief Operating Officer, Sagicor Financial Company Ltd.
This completes this issue and I think the issue is closed. And now that we’re live to this, in terms of some of the possible effects of moving assets to our Bermuda subsidiary, now that we’re putting more use to it, I think we would have eyes on it. I think from a practical point of view this sort of adjustment wouldn’t be necessary under IFRS 17 anyway, so I wouldn’t expect to see this again.

Meny Grauman — Analyst, Scotiabank

Thanks for that. And then on IFRS 17, thanks for the disclosure, just wanted to understand if there was any impact to earnings on implementation. I know you started to talk about some of the earnings impacts related to the US business, but on a consolidated basis wanted to make sure I understood, you know, what you thought that earnings impact would be, if any.

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

Well, the guidance that we’re giving in total, I think if you take our range of book value and then multiply that by the 14% to 16% anticipated return on equity for 2024, I think you can get to a range of total net income that we’re comfortable targeting at this point. I think we’re already seeing that 2023 has the potential to have a lot of noise in the income statement, so we’re going to be positive and negative. So I think we’re talking about 2024 as a good, clean year, to drive your earnings estimates off of that. And we’ll certainly, once we get ivari closed and can show the full pro forma statements, we’ll be able to get more granular in terms of segment-by-segment guidance. I did want to, you know, you heard in the prepared remarks net income at the segment level is going to be more affected the faster the segments were growing and so the segment net income will be more affected in the US than it would be at the more
slower growth Caribbean subs. And likewise with ivari, where it is growing, but not nearly as quickly as our US segment.

**Meny Grauman** — Analyst, Scotiabank

Understood. In the same vein, I wanted to understand the impact or the potential impact on your capital ratio. I’m not sure how this impacts the MCCSR ratio. We’ve heard about LICAT, but what’s the capital implication of the transition to IFRS 17 for you?

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

Preliminarily, well, we are running, and you’ll see this in the disclosure, some modifications on MCCSR so that it can stay consistent into 2023 and into IFRS 17, and so on that basis we wouldn’t expect our reported MCCSR to really change upon the transition. With respect to the acquisition, I think the latest numbers I’ve seen are that the acquisition of ivari, on an MCCSR basis, would be mildly accretive, neutral to mildly accretive, and so, at the current levels, would not put a strain on the capitalization. And as I said in the prepared remarks, the actuarial team, once we’re satisfied that we’ve cleared all the hurdles on the IFRS 17 transition, would be preparing to have a consolidated LICAT for us by the end of next year so that we can be more comparable to the Canadian public companies.

**Meny Grauman** — Analyst, Scotiabank

Understood. Thank you.
Ladies and gentlemen, as a reminder, should you have a question, please press the star followed by the one.

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

Darko Mihelic — Analyst, RBC Capital Markets

Hi. Thank you. I wanted to follow up there a little bit, Andre, on what you just discussed, just to make sure that there’s no misunderstanding. So, one of the things I heard you say was the shareholders’ equity is $650 to $725 million, CSM is $1.2 to $1.3 billion, and you then added them together to give us some numbers and then you gave us an ROE. Now I just want to be sure, when you quote the ROE of between 14% and 16%, what is the denominator you’re using, the $650 to $725 million or the combination of shareholders’ equity and CSM?

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

The former. There are discussions, and I’m sure we’ll talk about this as we get in throughout the year, you know, other companies are looking at ways of trying to measure growth in CSM as well and so I stand by the answer mechanically in terms of our guidance, but I think we will start doing some sort of modified figure that will tie closer back to IFRS 4 where we take net income and then add into it the growth in CSM so that you can try to draw a line between performance through the years.

Darko Mihelic — Analyst, RBC Capital Markets
Okay. And one of the things you also mentioned was you mentioned that ivari’s normalized income performed well. Can you remind me how we are to think about normalized income versus what we see in the statements? There’s quite a bit of variation in reported earnings, I suppose, from 2021 to 2022, so I’m just looking for some sort of a baseline of normalized earnings at ivari, I guess.

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

Sure. And this is an instance where IFRS 17 going forward will clean that up significantly, but I will ask George to talk about the high-level reconciliation between normalized net income and what you see in the unadjusted filed results.

George Sipsis — Executive Vice President, Corporate Development & Capital Markets, Sagicor Financial Company Ltd.

Hi, Darko. It’s George. The place that I can point to is on OSFI’s website you’ll see their full-year IFRS 4 results. There’s some noise there that doesn’t explain the full story and it’ll be clarified when they released their annual report. That will show you some of the breakdown by source of earnings, including experience losses and methods and assumption changes. But I think going forward how to think about IFRS 17, you’re going to see some things that wouldn’t run through the income statement based on how it’s reflected. For example, one item being experience loss with how the equities have done with the equity markets that gets reflected as a present value factor. So that will look materially different for the positive.
The other two major components are the seller-injected capital over the year, and so you’ll have much higher investment income visible on the books that wasn’t there in 2022 and similarly, with the methods and assumption changes that you’ll be able to see, I think, over the next month wouldn’t be there as well. So, compared to what you see in 2022, it’ll be materially higher compared to the prior year. When we announced the transaction, we disclosed what was on the net income side, again, levels higher than what was previously disclosed. And maybe I’ll just pause there.

Darko Mihelic — Analyst, RBC Capital Markets

Okay. So I understand there’s like a lot of noise in the numbers. Are you guys willing to talk the actual amount of noise? Or is it something that you guys can’t talk about?

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

We’re privy to more information than what is publicly filed for ivari right now and so it’s better for us to connect the dots on their 2022 full financials once those are all disclosed.

Darko Mihelic — Analyst, RBC Capital Markets

Okay. And also as well, Andre, you mentioned that, under IFRS 17, I just want to make sure of a couple of things. Like I understand that in the US business you’re booking new business gains on sales. Is that actually the case for Sagicor Life? Because it seems like you’re adding, like when I read through it, it seems like when you sell the annuities there’s also a very big offset on the liability side. So I’m not suggesting that it’s an onerous contract, but it doesn’t seem like there’s significant gains there. Am I correct in thinking about that?
Andre Mousseau — Group Chief Operating Officer, Sagicor Financial Company Ltd.

They’re not nearly as significant. So there are gains from new business and in some prior quarters we have given you some guidance in terms of new annual premium. The annualized premium gives rise to more significant new business gains, dollar for dollar, than the single premiums annuities do. And so the effect is still there, but because those are much more mature lines of business, losing the new business gains but then getting more emergence out of the CSM compared to the old rolling off of PfADs means that the net income is not going to be as different as it will be for the US.

Darko Mihelic — Analyst, RBC Capital Markets

Okay. Okay. I’m just trying to get a range of, in my mind anyway, of possible differences from IFRS 4 and IFRS 17 by segment. Now you mentioned there might be some changes to the segments. Can you elaborate on that a little bit?

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

We’re not shuffling any segments; just in the sense that we will provide segment net income to connect the dots. Later in the year we will tie the different segment guidance together, especially once we’re able to talk about a normalized number for ivari.

Darko Mihelic — Analyst, RBC Capital Markets

Okay. And you mentioned the reinsurance transaction in the US and now, again, I hate to do this, because it sounds like we’re talking apples and oranges, right? I mean next year, or sorry, 2023, we’ll be
talking about IFRS 17 earnings versus IFRS 4. So I’m just trying to understand if the reinsurance agreement essentially means there’s some earnings lost and we should think about a run rate level of earnings in the US business as lower. And is it material?

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

I think directionally you’re right. I mean we’ve chosen to allocate some risk off of our balance sheet and we pay a cost for that. It’s a remote risk transaction, so we’re keeping all the assets. It’s right on the edge of materiality, so it’s single-digit US millions a year.

Darko Mihelic — Analyst, RBC Capital Markets

I see. Okay. And how would that show up under IFRS 17? Would that show up as just less CSM coming through?

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

Yes. So, in effect, it’s less CSM, you kind of take the whole brunt of it upfront from a CSM point of view.

Darko Mihelic — Analyst, RBC Capital Markets
Okay. And then you made the decision to significantly slow production in the US, and I mean like significant, you went like just $88 million, I guess, versus like the whole year of $1 billion, right? And so the question is, and it sounds like it’s capital motivated, so like there’s a trade off, right? We think of this as potentially you could have done significantly more and built more CSM under IFRS 17 but it would have cost a lot of capital? And I guess the question is, maybe bluntly asked, would you have continued or was it still as profitable to sell in the fourth quarter and is it really ivari where you need the capital for, that kind of slowed down to where you slowed down production? Because otherwise I would have thought who cares, like just keep selling, right? Sell hundreds of millions of this and add to the CSM. Am I thinking about that right or was there actually a bit of a shift in profitability and that also led to a slow-down in production?

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

Well, it’s not the latter. The production that we had in Q4 was unusually profitable and part of the effect was to scale back production, we decreased rates out, and so that which we do sell, all things being equal, is going to have wider spreads because where competitors are selling is, in large part, a reflection of where they’re able to buy assets.

So our spreads in Q4 were enormously wide. In a world of an unlimited amount of capital, we would have produced more. I think in a world of unlimited capital we would have an engine where we could be generating $2 billion plus a year with very, very good spreads and we would get to that critical mass in the US quickly, because we believe we’ve created a good little engine in our niche. We had a capital budget in terms of where we wanted to settle and set aside cash and debt capacity so that, if
markets moved, we would be very comfortable bringing onboard ivari. It’s the right thing to do and that’s where we would see ourselves having very meaningful cushions to go and throttle production back on in 2023 and beyond based on where we are now.

**Darko Mihelic** — Analyst, RBC Capital Markets

Okay. So that’s what ultimately I was getting at, right, which is, so, if you slow down production in Q4, it means nothing, it means absolutely nothing for Q1, Q2. You can throttle up production now and show very strong CSM growth, presumably under IFRS 17. Or is this a situation where you’re kind of going to hold back on production until you close ivari?

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

No. We’re back, throttle on. So I would expect Q1, with 95% of Q1 production under our belts, I can tell you we’re well through $88 million in Q1.

**Darko Mihelic** — Analyst, RBC Capital Markets
Okay. So that’s where I was ultimately going with that. Okay. All right. So essentially you’ve given us some form of look-through into, and I’m just curious, the look-through that you’re giving in 2024 is because that includes a full year of ivari?

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

Yes.

Darko Mihelic — Analyst, RBC Capital Markets

So, as I’m sitting here fiddling with my 2023 model, I have to think of it as a half year, let’s say, of ivari. But ivari, I thought, was neutral. Am I correct in that it’s neutral to ROE?

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

It’s neutral to ROE, but we are buying it at a meaningful discount to book value, and so the equity will go up and the net earnings will go up. So that is, on a full-year basis, the difference between before and after. 2023 is going to have lots of complications both ways. Buying the asset at a discount, we may run some or all of that gain through the income statement. There’s all sorts of asset price volatility in Q1. We’re sitting on the better part of a $30 million gain today on our Playa shares in Q1. On the other hand, with spreads going out a bit on corporate bonds but treasury rates going down, if our bond portfolio largely hasn’t moved in Q1 but the prescribed rates for liabilities may go down, we may see some volatility from the asset decoupling from the liabilities. We’re going to have unusually high IFRS costs, spending with our consultants, unusually high audit costs with PwC. There’s a whole lot of noise in 2023. Looking at
2024, I think, by the time that ivari gets closed in middle of the year and we come out with all the disclosure, that’s going to be the clean forward run rate that we would encourage folks to look at.

**Darko Mihelic — Analyst, RBC Capital Markets**

Okay. I think that’s helpful. I think, and to be clear, I think you’re—are you leaning towards the fair value option under IFRS 9 and essentially pushing all of those changes through the income and not going through OCI? Is that what you’re leaning towards for the changeover?

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

Anthony?

**Darko Mihelic — Analyst, RBC Capital Markets**

I realize you guys are already on IFRS 9, but is that how it’s going to end up going through, none of it through OCI?

**Anthony Chandler — Group Chief Financial Controller, Sagicor Financial Company Ltd.**

Right now, Anthony here, for assets, market liabilities, yes, they will go through the income statement. So, fair value through P&L.

**Darko Mihelic — Analyst, RBC Capital Markets**

Okay. And so what the other lifecos have, and I apologize for—do you want me to re-queue? Meny’s come back for another question. But I apologize for—I don’t mean to monopolize, I just have a lot
of questions. So, two things. One of the things that the other lifecos are doing is they’re sort of presenting a notion of normalized returns, investment returns, I suppose. Is that something that you are close to conceptually being able to provide as well, so that we can get rid of all that noise? Because it’s going to go through, you just mentioned it’s all going through the income statement, so I wonder if we can just get rid of that noise.

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

We’re in the process of pulling that together now. So we’ve looked at what the other Canadians have put forward and now that we have our actual 2022 comparators compiled under 17, we are backtesting to make sure that the answers make sense for us. But we are going to have something like that to try to eliminate that noise.

**Darko Mihelic** — Analyst, RBC Capital Markets

Okay. And some of the other lifecos had mentioned that they had to reposition their investments a little bit for IFRS 17. One of the lifecos just did it now in Q1 or they’re doing it in Q1. Another lifeco had done it all throughout the year and a little bit tag end happening in Q1. Is there something similar happening with you guys in terms of better ALM matching on the investment side and will that also create some noise?

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

The short answer, for old Sagicor, no. It meaningfully shifted ivari’s thinking and I think we put some of that in the disclosure where before ivari held a significant portion of equity for the very long tail
of their liabilities. And so if you go back to our presentations from August or September where we said, expect, by the time we close, their equity proportion of their balance sheet to be meaningfully lower. That’s the dynamic that’s driving that.

Darko Mihelic — Analyst, RBC Capital Markets

Okay. And last question, I promise. When you close ivari, I mean one of the things I was very interesting in hearing is, you know, by the end of the year, that you will move to a LICAT ratio, but it sounded like you meant at the all-company level. But presumably the Canadian business would also be subjected to the LICAT ratio was, well like that sub, the Canadian sub. Am I correct in thinking that?

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

Yes. And so ivari has been running a LICAT calculation for the last year or so and is ready to go on that. Even our Jamaican sub is running a slightly Jamaican-modified LICAT ratio that’s going to kick off in Q1 and we’re working with the regulators there to do it. So, between Jamaica and Canada, that’s going to be more than half our balance sheet running LICAT anyway, or a version of it in the case of Jamaica, and so it’ll just be a matter of doing something like what we do now for the MCCSR, which is rolling the US into it as well.

Darko Mihelic — Analyst, RBC Capital Markets

Okay so just to be clear then, OSFI will be, the LICAT ratio of ivari will be subject to oversight from OSFI, but not the overall company LICAT?
Andre Mousseau — Group Chief Operating Officer, Sagicor Financial Company Ltd.

Correct.

Darko Mihelic — Analyst, RBC Capital Markets

Okay. All right. Perfect. I think I understand that. That’s very helpful, Andre. Thank you very much.

Dodridge, all the best in retirement.

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

Thank you.

Operator

Your next question comes from Meny Grauman from Scotiabank. Please go ahead.

Meny Grauman — Analyst, Scotiabank

Hi. One last question for me. There was a reference with respect to Sagicor Life on lingering effects of the pandemic and just wanted to understand that better, what’s going on there, and does that extend into your outlook for 2023? So, just wanted to understand that a little bit better.

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

This is consistent with the last couple of quarters. We’ve had a couple of million dollars every quarter of adverse experience in SLI in pretty much in each of the quarters this year and it’s a combination
of things, of higher claims ratios on group business and slightly adverse lapse experience and a little bit mortality in the life business. And so, all things being equal, we would have liked to have seen net income in Q4 pushing up into the higher teens.

It’s the actuarial view that this is lingering effects from the pandemic. We are seeing finally some good green shoots in terms of the economies in the Caribbean. Tourism is very much back in places like Barbados. You’re starting to see construction projects get off the ground again. It feels like that economy is starting to turn the corner. And Trinidad is slowly benefiting from the sustained higher energy prices. So it’s our hope that the performance, which is a little bit less than potential, will not persist all the way through 2023.

Meny Grauman — Analyst, Scotiabank

Thanks for that.

Operator

Presenters, there are no further questions at this time. Please proceed with your closing remarks.

George Sipsis — Executive Vice President, Corporate Development & Capital Markets, Sagicor Financial Company Ltd.

Great. Thank you, operator, and thank you, everyone, for joining the call today. A replay of this call, as usual, will be available for one month on our website and a transcript will be posted as soon as
available. If you have any additional questions, please do not hesitate to reach out to any one of us. With that, thanks again for your participation and interest today. Have a great day, everyone.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for joining and you may now disconnect your lines. Thank you.