

Sagikor Financial Company Ltd.

Third Quarter 2021 Earnings

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CORPORATE PARTICIPANTS

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Sagikor Financial Company Ltd. — Executive Vice President, Investor Relations

Dodridge Miller

Sagikor Financial Company Ltd. — Group President & Chief Executive Officer

Andre Mousseau

Sagikor Financial Company Ltd. — Group Chief Operating Officer & Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Meny Grauman

Scotiabank — Analyst

Darko Mihelic

RBC Capital Markets — Analyst

Aditya Gupta

Desjardins — Analyst

PRESENTATION

Operator

Good morning. My name is Sylvie and I will be your conference operator today. At this time I would like to welcome everyone to Sagicor Financial Company's Third Quarter 2021 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 number one on your telephone keypad. And if you would like to withdraw your question, please press star then number two. Thank you.

Ms. Samantha Cheung, EVP of Investor Relations, you may begin your conference.

Samantha Cheung — Executive Vice President, Investor Relations, Sagicor Financial Company Ltd.

Hello, everyone, and thank you for joining our call today. A link to our live webcast and published information for this call is posted on our website at sagicor.com under the Investor Relations tab.

Please refer to the cautionary language and disclaimers in our materials regarding the use of forward-looking statements and the use of non-IFRS measures, which may be mentioned as part of our remarks today.

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

Joining me today are Dodridge Miller, our Group President and CEO; Andre Mousseau, our Group COO and CFO; and Anthony Chandler, our Group Chief Controller. We'll begin with prepared remarks by Dodridge and Andre, followed by a question-and-answer session.

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

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

Thank you, Samantha, and thanks to everyone for joining us on this call today.

In keeping with our usual approach, I will give some brief remarks focusing on our overall performance for the third quarter, provide some comments on our operating environment, and share our thoughts on our outlook going forward. Our Group Chief Operating Officer, Andre Mousseau, will then provide you with greater details on our financial and operating performance for the quarter.

Turning to the highlights for the third quarter, the Sagicor Group delivered an excellent quarter of very strong growth in revenue and profitability with many key performance metrics progressing well. Total revenue of \$782 million for the quarter grew 94% year over year and led to net income to shareholders to \$50.4 million for the quarter. Earnings per share was US\$0.35 and book value per share grew 9% year over year to reach US\$7.92. During the quarter we maintained strong and stable capital levels. On a year-to-date basis, revenue grew 44% to \$1.7 billion and net income to shareholders reached \$91.2 million.

During the third quarter our US segment was again a strong contributor to both growth, group revenue, and net income, demonstrating that our strategy of getting this business to scale is delivering positive results. Our operations in Jamaica and the Southern Caribbean also posted continued solid

operating performances in the face of intermittent restrictions stemming from various COVID spikes. Annual actuarial review showed that, in aggregate, our liabilities were conservatively modelled and resulted in some further emergence of earnings.

I am proud to announce that the Sagicor Group surpassed \$10 billion in assets, another milestone in our 180-year history. We believe we are on a solid footing as we continue adding to our strong track record of growth.

Turning briefly to our outlook, the business environment in most of the countries in which we operate is gradually returning to normal as the level of vaccinations increases and the countries are relaxing restrictions. Global tourism, a critical part of the Caribbean economy, is also showing a positive sign of rebound and the Caribbean is expected to enjoy a strong upcoming winter season.

Let me now take this opportunity to update you on executive and board changes. Subsequent to the quarter end we announced that Bart Catmull, formerly the president of Sagicor USA, has been appointed to the position of Group Chief Risk Officer at Sagicor Financial Company. Andrew Gallagher, who previously held that role, has taken on the role of President and CEO of our affiliate reinsurer, Sagicor Reinsurance Bermuda Ltd., as that company is expected to play an increasingly important role in our capital management strategy.

We also announced the retirement of Timothy Hodgson as board chair and the succession to Mahmood Khimji effective at the end of this year. Tim was instrumental in the development and successful completion of our transaction in 2019 with Alignvest, which delivered us a listing on the Toronto Stock Exchange and a significant amount of new equity to fund our growth. We thank Tim for his strong

leadership over the last few years. We welcome Mahmood to the role of Board Chair. Mahmood is currently the Chair of our Capital Allocation Committee and we look forward to working with him in this new role.

I now turn the presentation over to our Group COO and CFO, Andre Mousseau. Thank you.

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

Thank you, Dodridge, and good morning, everyone, or good afternoon to our colleagues and shareholders in the Eastern Caribbean.

As Dodridge referred to, we had a very solid quarter in Q3. We benefitted from a lot of things going right, including robust underlying profitability, exceptional growth in our US business, positive emergence from our annual review of actuarial assumptions, and mark-to-market gains from our investment in Playa Hotels & Resorts.

Total revenues increased 94% year over year to \$782 million with revenue growth driven by our US business. Net income to shareholders was \$50 million in Q3, a strong performance by any measure and particularly when compared to our third quarter last year when we showed a modest loss.

In Q3, as we do this quarter every year, we conducted a review of our actuarial assumptions compared to the actual emergence from our book of business. Based on our updated experience, we benefitted from net release of reserves of \$12 million. This was driven by a \$37 million release in Sagicor Jamaica, of which \$18 million accrues to SFC shareholders, primarily related to better than modelled

policyholder behaviour in lapse and morbidity. This \$18 million was offset by a \$7 million strengthening or reserves in our US segment due to our refreshing the reinvestment assumptions and a bit of strengthening of mortality assumptions. Sagicor Life's review resulted in reserves being virtually unchanged on a net basis.

At Sagicor Life, our operating segment in the Southern Caribbean, total revenue was flat year over year at \$122 million. We benefitted from single premium annuity sales of \$8 million and \$7 million of annual recurring new business sold in the quarter; as with Q2, pretty consistent with our expectations. Net income to shareholders of \$7 million was down \$1 million compared to 2020. Net income margins in SLI were negatively affected by higher than budgeted lapses and surrenders, reflecting the continuing strain on our policyholders of the slow economic recovery in these jurisdictions. We believe this effect is temporary but may persist until the economies fully get the benefit of reopening and, in particular, more cash in the economies from the upcoming tourist season.

At Sagicor Jamaica, total revenue of \$174 million increased 12% year over year measured in US dollars. Our share of Sagicor Jamaica's net income increased by \$6 million to \$27 million, reflecting solid underlying performance plus the positive emergence from the actuarial review of its portfolio.

Now onto Sagicor Life USA, which had an excellent quarter of growth, this segment's growth is consistent with our strategy to grow our US business quickly to scale by adding annuity liabilities when we are able to invest at attractive spreads. This quarter we were able to drive significant new annuity sales at stronger than budgeted spreads. Overall, our US business more than quadrupled its revenue to \$465 million. As a result of taking the present value of a portion of the anticipated profit from these policies

being sold, the segment generated \$23 million of net income in the quarter compared to a loss in Q3 of last year. Net income would have been closer to \$30 million had it not been for the strengthening of reserves through our annual study. We anticipate we will continue our push in the US to increase our assets as well as improve our investment yields by adding assets other than public bonds in that portfolio to trade some of our liquidity for enhanced returns. We anticipate in Q4 we will continue to grow our US business, albeit at a slower pace than in Q3.

Outside of the segment net income, as I mentioned earlier, we benefitted from about \$9 million of mark-to-market gains in our shares of Playa Hotels & Resorts. We do continue to believe these shares have upside potential from here based on knowledge of these assets and the anticipated recovery in tourism in the Caribbean.

Our total comprehensive income to shareholders this quarter was \$51 million, reflecting essentially flat other comprehensive income. With that, our book value per share grew to US\$7.92, or C\$10.05. We repurchased 2.3 million shares at a discount to book value through our normal course issuer bid in Q3 and continue to repurchase here in Q4.

Looking at the balance sheet you will see our debt to capital ratio normalize down to 24% as we repaid the remainder of our old notes that we refinanced in Q2. With that, we remain well funded and optimistic that we can build on this run of solid performance as the global economy recovers.

And with that, I'll turn it back to Dodridge and Samantha.

Samantha Cheung — Executive Vice President, Investor Relations, Sagicor Financial Company Ltd.

Thanks, Andre. We are now ready to take your questions. Operator, please open the line.

Q & A

Operator

Thank you. Ladies and gentlemen, if you do have any questions at this time, please press star followed by one on your touchtone phone. You will then hear a three-tone prompt acknowledging your request. And if you would like to withdraw your question, simply press star followed by two. And if you are using a speakerphone, we ask that you please lift the handset before pressing any keys. Please go ahead and press star one now if you have any questions.

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

Meny Grauman — Analyst, Scotiabank

Hi there. Good afternoon. First question just on the US, you highlighted the extremely strong performance there. I'm just wondering if you could give us a little more detail in terms of, specifically the market dynamics during the quarter, especially from a competitive point of view, what was sort of the environment that allowed you to deliver the kind of performance that you delivered in Q3. It seems like there was sort of a lack of competition, if you will. Somehow there was a lot of business going your way. If you could just give us a little more detail in terms of what the dynamics were, that would be helpful.

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

Sure. Thanks, Meny. I can take that. If you look at the competitive dynamics for the annuities products, which are now the large majority of what we're selling in the US, you can think of competition in terms of the rates that you have relative to other providers. And then when you look through to profitability you have to compare the rates that you need to credit versus the investment rate that you think you can put on the books when you're matching assets against those liabilities. And so what you see out in the market is the notional rate and, while we did get more share, we're still a small proportion of the market, but what you don't see are the spreads that people are getting. And what we saw towards the end of Q2 and in Q3 was an ability to be more aggressive on the rate than some of our competitors but still be able to invest at wider spreads than we would have anticipated. And so it's really the spread dynamic that we felt drove the opportunity to put a lot of business on the books. And so this is, you know, in effect, the opposite of what we had seen back in the first quarter. So we were able to put much more premiums on our books than we had at any other point in the year and still have stronger spreads.

If you look at implications for the rest of the year, we have scaled that back a little bit. We're still seeing strong net spreads but I think our view would be that, for the US, production would look probably more like Q2 than it did like Q3, when I'm talking about Q4, the quarter we're in now.

Meny Grauman — Analyst, Scotiabank

Got it. And just wanted to ask, shifting to the Caribbean, just wanted to get a better sense of your outlook for the tourism season. We're getting closer to that peak tourism season. Just wondering what

your views are and if there's any data points that you have at your fingertips in terms of, kind of, what it's likely to look like for the Caribbean as winter rolls around up here in the north.

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

Hi, Meny. This is Dodridge. I think when we were last on the call there was some uncertainty as to what the winter season would look like because of the prolonged impact of lockdowns coming from the pandemic. We've seen increasingly that the countries are removing their restrictions. They're ramping up on vaccinations. The source markets have also had a good response on their vaccinations and the indications are that there are strong forward bookings for the winter season across the Caribbean. And in addition, we're seeing an uptick in arrivals so far in the third and into the fourth quarter. So the signs are positive. We still are cautious about it, but we're optimistic it will be a strong winter season for the Caribbean.

Meny Grauman — Analyst, Scotiabank

So, relative to 2019, are we still most likely going to see significant declines from that pre-pandemic year or not so much? What's your view on that?

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

The indications are that we will still be behind 2019 but closing the gap as we go along.

Meny Grauman — Analyst, Scotiabank

Okay. Thank you very much.

Operator

Thank you. Next question will be from Darko Mihelic at RBC Capital Markets. Please go ahead.

Darko Mihelic — Analyst, RBC Capital Markets

Hi. Thank you. I just wanted to follow up on the US business first. Last quarter I'd asked about reaching scale and obviously this quarter got you there or is getting you there a lot quicker. So the question is what happens when you hit scale? Maybe you can give us an idea of, dollar for dollar, what the difference would be. And maybe the way to think of it is, if we had this kind of production, you know, a year from now, and the balance sheet is, I think you said \$4 billion or so, what would look different for us and for investors on today's level of sales if you were at scale?

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

Our thesis is that we can add assets at this rate without increasing our SG&A and so, fundamentally, you would have more gross margin off the back book over the same amount of SG&A. And so, all things being equal, with another \$1 billion of assets, the net income and the gross margins are going to look a lot better.

Now, as you're aware, under IFRS 4, when you have a business that is growing this quickly, a significant proportion of the US's net income right now is on the basis of, a portion of the anticipated profitability on some of these products. And under IFRS 17 that's going to change to amortize that profitability over the life of the policies. And so, you know, by the time we'll have made that switch the

size of the back book will be more important and drive more proportional difference on your income statement starting in 2023.

Darko Mihelic — Analyst, RBC Capital Markets

I guess that would incentivize you to get as much sales on the books as possible, because you would then have to sort of calculate your contractual service margin and bleed that in over time. It's almost like double dipping on earnings, I guess. So I understand that dynamic, I suppose.

The one dynamic that, you know, since you touched on IFRS 17, the one dynamic that's a little bit blurry for me is the switchover to IFRS 17 and your MCCR ratio. The regulator here in Canada has given us some ideas on how and what might happen with the LICAT ratio, so I can mentally kind of work through some of those gymnastics, but can you give us the quick and dirty on sort of what happens with your IFRS 17 changeover and your MCCR ratio?

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

Well, the quick and dirty is that many of the regulators in our environment are in the Caribbean, where MCCR still applies, are gravitating towards adding CSM into capital in effect to try and make it as comparable from 2022 into 2023. Now that will be directionally quite comparable, it won't be exactly dollar for dollar, but I think that's the assumption that we're going under now.

If you look, for example, we have a covenant in our TopCo bond around the MCCR that we just refinanced because we're not ready on LICAT yet given all the changes that are happening with LICAT live

in the Canadian market, and so, for example, we explicitly put into that covenant that we will add the CSM into capital for purposes of calculating the MCCR.

Darko Mihelic — Analyst, RBC Capital Markets

Okay. Thank you very much for that. Appreciate it.

Operator

Thank you. Ladies and gentlemen, as a reminder, if you wish to ask a question, please press star followed by one on your touchtone phone.

And your next question will be from Aditya Gupta at Desjardins. Please go ahead.

Aditya Gupta — Analyst, Desjardins

Hi. Good morning. Just on the capital release opportunity in the US, you know, using the internal reinsurance, we haven't seen any new transactions in 2021. I just wanted to get a sense of the opportunity here to free up additional capital and also if you could just provide some colour into the whole process of this and maybe give us like a hypothetical timeline from when you identify a block to completion.

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

Thanks for the question. We are in process of working on putting the next block into Bermuda. I think we would expect that that would be concluded in the first half of 2022 as opposed to in Q4 of this

year. Basic timeline is we get together, we do the work, we have a governance process that needs to involve the sister company, so to speak, negotiating ceding commissions, and then we need to put it in front of the US regulator in Texas for our US business and Bermuda for Sagicor Re Bermuda, and all of that takes, front to back, the better part of six months. I would expect that we would include the large block of production that we've done in Q2 and Q3 and, you know, on that timeline you would be looking at Q1 or Q2 of next year.

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

Just to be clear, we did our first transaction in 2020. The second one was completed in April, I believe, of 2021. And we expect the third one to be done in the first quarter of 2022. So we did complete the second transaction in 2021.

Aditya Gupta — Analyst, Desjardins

Thanks for that. And just a follow up, like my understanding is there's still a lot that can be done on this side before you would think about changing the reinsurance arrangement to a more flow arrangement. Is my understanding correct?

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

Yes, that's correct. I think once we're through this next large block then we would look to put a flow arrangement that would just make it happen automatically. There are certain pieces of the US capital charges that make—you get more of an advantage on business as it ages, because the US company has to

carry the business risk portion of the capital charge whether it reinsures it not. So you get more bang for your buck in older business and that's why we're doing it first.

Aditya Gupta — Analyst, Desjardins

Great. And my last question is just on the actuarial assumption review. Just curious, did you guys look at experience that came maybe up to the latest quarter or was the experience study done from an earlier date? Basically what I'm trying to get at is if you took into account the experience in this COVID pandemic here or not and why. Thanks.

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

Our actuarial cut-off was the end of Q1 of this year, I believe, and so it would have had significant COVID experience, but not Q2 and Q3 of this year.

Aditya Gupta — Analyst, Desjardins

Thank you.

Operator

Thank you. Next is a follow up from Darko Mihelic at RBC Capital Markets. Please go ahead.

Darko Mihelic — Analyst, RBC Capital Markets

Thank you. Sorry, I'd forgotten to ask a bit of a numbers question here just for the model. One of the things that we've noticed is in Sagicor Life, you tend to have a bit of a better fourth quarter typically and the benefit ratio typically falls as well. Should we be expecting the same thing? I mean I know previously we'd been sort of highlighting some issues in that business, you know, lapsing and so on, so just wondering if you can give me an idea of kind of what to expect and think about going forward. Your benefit ratio did improve in Q3 a little bit from Q2. Can we expect similar level of improvement into Q4 for Sagicor Life?

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

The short answer is yes. There are a couple of different things in play with SLI with respect to Q4. One is there tends to be some production seasonality in our markets there with the direct sales force and we do take some negative reserves off some of the annual new business, so we've seen that bump pretty consistently over the last couple of years. The second thing is there are some assumptions from an asset liability matching point of view that SLI does in Q4 as opposed to in Q3 and we've seen a little bit of emergence of that in the last couple Q4s. We would be cautious in guiding towards the same level of performance that we've seen in other Q4s from SLI, we'd specifically not like to point to that, but we would expect that Q4, sitting here today, would be higher than Q3.

Darko Mihelic — Analyst, RBC Capital Markets

Sorry, the ratio would be higher? Do you mean the ratio would be higher or do you mean?

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

No, I was just talking net income overall, and so the benefits ratio would be lower.

Darko Mihelic — Analyst, RBC Capital Markets

Yeah, yeah, okay. I figured that. Yeah, okay. That's very helpful, Andre. I appreciate that. Thank you very much. And if we don't talk, have a great holiday season.

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

Thank you.

Operator

Thank you. At this time I would like to turn the call back over to Samantha Cheung.

Samantha Cheung — Executive Vice President, Investor Relations, Sagicor Financial Company Ltd.

Great. Thanks, Sylvie. Thanks, everyone, for joining our call today. Given there are no further questions, we certainly can conclude our call for now. Following the call, a telephone replay will be available for one month. As well, a transcript will be soon available on our website. If you do have additional questions, please do not hesitate to reach out to us. And with that, thanks again for your participation and interest today. Have a great day. Thank you.

Operator

Thank you, Ms. Cheung. Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending, and at this time we do ask that you please disconnect your lines.