

Scheme of Transfer Between SAGICOR LIFE INC and SAGICOR LIFE (EASTERN CARIBBEAN) INC

Dated October 23, 2017



Wise Financial Thinking for Life

Scheme of Transfer Table of Contents

Transfer and Assumption Agreement	3
Appendix A – Report of Appointed Actuary of Sagicor Life Inc with respect to Open and Closed Par Funds	27
Appendix B – Report of Appointed Actuary of Sagicor Life Inc on the Transfer	32
Appendix C – Report of the Independent Actuary	37
Appendix D – Audited Financial Statements of Sagicor Life Inc For the financial year ended December 31, 2016	57
Appendix E – Audited Financial Statement of Sagicor Life (Eastern Caribbean) Inc For the financial year ended December 31, 2016	205
Appendix F – Pro Forma Balance Sheet and Income Statement of Sagicor Life (Eastern Caribbean) Inc	243
Appendix G – Certificate of Assumption	248

TRANSFER AND ASSUMPTION AGREEMENT

BETWEEN

SAGICOR LIFE INC

AND

SAGICOR LIFE (EASTERN CARIBBEAN) INC

DATED OCTOBER 23, 2017

Table of Contents

1	Definitions and Interpretations	3
2	Scheme Documents	7
3	Conditions Precedent	7
4	Transfer of Insurance Business	8
5	Books and records relating to transferred Insurance Business and Designated Assets	10
6	Maintenance of Reinsurance Arrangements	10
7	Protection of Policyholders	11
8	Participating Policies	11
9	Human Resource Matters	13
10	Transferor's Undertakings Pending Transfer	13
11	Transferor's Representations and Warranties	13
12	Transferee's Representations and Warranties	17
13	Exclusive Remedies and Damages	17
14	Miscellaneous Provisions	19
15	Costs	20
16	Severability	20
17	Rights Cumulative	20
18	Dispute Resolution – Arbitration and Mediation	20
19	Amendment	21
20	Binding Effect	21
21	Counterparts	21
22	Parties in Interest	21
23	Waiver	21
24	Termination	21
25	Notices	22
26	Assignment	23
27	Entire Agreement	23
28	Governing Law	23

TRANSFER AND ASSUMPTION AGREEMENT

THIS TRANSFER AND ASSUMPTION AGREEMENT is made as at the **23rd day of October 2017** between the following parties

- (1) **Sagicor Life Inc.** a company amalgamated under the provisions of the Companies Act Chapter 308 of the Laws of Barbados as Company No. 38994 being an amalgamation of Sagicor Life Inc., Company No. 24781 (which was itself an amalgamation of Life of Barbados Limited, Company No. 640 and Sagicor Life Inc., Company No. 21850, formerly The Barbados Mutual Life Assurance Society, a company incorporated under The Barbados Mutual Life Assurance Society Act, 1851 of the Laws of Barbados and reincorporated under the provisions of the said Companies Act) and Sagicor Capital Life Insurance Company Limited, Company No. 35608 having its registered office situate at the Cecil F. de Caires Building, Wildey in the parish of Saint Michael in Barbados (the “**Transferor**”); and
- (2) **Sagicor Life (Eastern Caribbean) Inc.** a company incorporated under the provisions of the Companies Act, Chapter 13.01 of the Laws of St. Lucia as Company No. 2014/C246 and having its registered office situate at the Sagicor Financial Centre, Choc Estate, Castries, St. Lucia (the “**Transferee**”); and

WHEREAS

- (A) The Transferor is an insurance company incorporated under the Laws of Barbados, which has issued and assumed insurance policies within the Caribbean and is the owner of the Insurance Business (defined below).
- (B) The Transferee is an insurance company incorporated under the Laws of Saint Lucia and subject to such regulatory consents as may be required the Transferee has agreed to purchase the Insurance Business from the Transferor on the terms outlined in this Agreement.

NOW THIS AGREEMENT WITNESSETH as follows:

1. Definitions and Interpretations

- 1.1. In this Agreement, the following words and phrases shall, unless the context otherwise requires, have the following meanings ascribed thereto:
 - 1.1.1. “**Accounts**” means the audited financial statements of the Transferor for the financial year ending on December 31, 2016 and unaudited accounts for subsequent periods;
 - 1.1.2. “**Agency**” means any domestic or foreign court or tribunal or governmental agency or other regulatory authority or administrative agency or commission or any elected or appointed public official;

- 1.1.3. **“Anguilla Contracts”** means the insurance contracts issued or assumed by the Transferor in Anguilla and listed at Schedule 1;
- 1.1.4. **“Appointed Actuary”** means Sylvain Goulet or such other actuary as may be appointed by the Transferor;
- 1.1.5. **“Business Day”** means any day other than – (i) Saturday, (ii) Sunday or (iii) any other day on which commercial banks in Saint Lucia are required or authorized by law to close;
- 1.1.6. **“Conditions Precedent”** means the Conditions Precedent set out in clause 3;
- 1.1.7. **“Contracts”** means (i) the life, annuity, endowment, health and creditor life insurance contracts issued or assumed by the Transferor in the EC Countries as at the Scheme Effective Date and (ii) the Anguilla Contracts;
- 1.1.8. **“Demutualization Plan”** means the plan dated October 9, 2002 whereby the Barbados Mutual Life Assurance Society was converted from a mutual company and reincorporated under the Companies Act, Cap. 308 of the Laws of Barbados as a company with share capital under the name of Sagicor Life Inc., and which having been approved on November 28, 2002 was implemented on December 6, 2002.
- 1.1.9. **“Designated Assets”** means such assets held by or on behalf of the Transferor which currently match or support the liabilities and contingency reserves in respect of its Insurance Business as required by the Insurance Acts and which the Transferor has confirmed are available for transfer to the Transferee in consideration of the Transferee’s assumption of the Insurance Liabilities;
- 1.1.10. **“EC Countries”** means Antigua and Barbuda, Dominica, Grenada, Saint Christopher and Nevis, Saint Lucia and Saint Vincent and the Grenadines;
- 1.1.11. **“Final Transfer Assets”** means those Designated Assets of such face value whose aggregate transfer value the parties agree is equal to the Final Transfer Asset Value and which the Transferor agrees to transfer to the Transferee pursuant to this Agreement and which shall comprise those assets which are agreed by the parties to be referable wholly or partly to the assumption of the Insurance Liabilities determined as at the Scheme Effective Date;
- 1.1.12. **“Final Transfer Asset Value”** means the value of the Designated Assets which the Transferee has determined the Transferor is required to transfer to the Transferee with effect from the Scheme Effective Date in consideration of the Transferee’s assumption as at the Scheme Effective Date of the Insurance Liabilities;
- 1.1.13. **“Independent Actuary”** means Marcia Tam-Marks, FSA or such other actuary as may be appointed by the Insurance Regulators;
- 1.1.14. **“Insurance Acts”** means the Insurance Act Cap. I16 of the Laws of Anguilla; Insurance Act 2007 of the Laws of Antigua and Barbuda; Insurance Act 2012 of the Laws of Dominica; Insurance Act 2010 of the Laws of Grenada; Insurance Act 2009 of the Laws of Saint Christopher and Nevis; Insurance Act Cap. 12.08 of the Laws of

Saint Lucia and the Insurance Act Cap. 306 of the Laws of Saint Vincent and the Grenadines;

- 1.1.15. **“Insurance Business”** means (i) the Contracts, including all certificates and other evidences or insurance and all rights, interests and benefits of the Transferor in such contracts and (ii) all Lapsed Policies to the extent that said policies can be reinstated in accordance with their terms after the Scheme Effective Date;
- 1.1.16. **“Insurance Liabilities”** means all of the Transferor's liabilities, actual and contingent, arising in connection with and directly related to the Insurance Business and any contract being acquired by the Transferee under this Agreement in respect of the Insurance Business, limited to liabilities to policyholders and beneficiaries under the Contracts and disclosed to the Transferee prior to the date of transfer, provided such liabilities arose from circumstances occurring on or before the Scheme Effective Date. For the avoidance of doubt, it is understood and agreed that where the claims process has commenced in respect of any Contract, but as at the Scheme Effective Date payment has not been made by the Transferor in complete discharge of the Transferor's contractual liability thereunder as evidenced by a release or discharge, such Contracts and the undischarged liability arising thereunder shall be deemed to be included as part of the Insurance Liabilities;
- 1.1.17. **“Insurance Regulators”** means the Anguilla Financial Services Commission; Financial Services Regulatory Commission of Antigua and Barbuda; Registrar of Insurance of Dominica; Grenada Authority for the Regulation of Financial Institutions; Financial Services Regulatory Commission of Saint Christopher and Nevis; Financial Services Regulatory Authority of Saint Lucia and the Financial Services Authority of Saint Vincent and the Grenadines;
- 1.1.18. **“Lapsed Policy”** means insurance policies issued or assumed by the Transferor in the EC Countries that have lapsed as at the Scheme Effective Date due to non-payment of premiums.
- 1.1.19. **“Losses”** means any damages or losses which are provable as reasonably arising out of claims, demands, actions, suits or proceedings and any associated reasonable payments, charges, interest, fines, judgments, penalties, Taxes and out-of-pocket costs and expenses arising in relation thereto;
- 1.1.20. **“Operational Assets”** means all automobiles, computer and office equipment including software, furniture, leasehold improvements, licenses, machinery, supplies and tools used by the Transferor in the course of its operations in the EC Countries as at the Scheme Effective Date;
- 1.1.21. **“Required Approvals”** means (i) the grant of the Scheme Confirmations and (ii) the registration of the Transferee by the Insurance Regulators pursuant to the Insurance Acts as an insurer in respect of the classes of insurance business represented by the Insurance Business;
- 1.1.22. **“Schemes”** means the insurance business transfer schemes or equivalent documentation required to be submitted by the Transferee to the Insurance Regulators pursuant to the Insurance Acts;

- 1.1.23. **“Scheme Confirmations”** means the confirmation of the Schemes issued by the Insurance Regulators pursuant to their powers under the Insurance Acts;
 - 1.1.24. **“Scheme Effective Date”** means the date on which the Schemes become effective being December 31, 2017 or such later date as the parties may agree;
 - 1.1.25. **“Statutory Funds”** means the insurance funds established by the Transferee in respect of its long-term insurance business in accordance with the provisions of the Insurance Acts;
 - 1.1.26. **“Tax”** and **“Taxes”** means any present or future tax, levy, impost, duty, charge, assessment or fee of any nature (including interest, penalties and additions thereto) that is imposed by any government or other taxing authority, other than a stamp, registration, documentation or similar tax, and **“Taxation”** shall be construed accordingly;
 - 1.1.27. **“Transfer”** means the transfer of the Insurance Business, Final Transfer Assets, Operational Assets and Insurance Liabilities from the Transferor to the Transferee;
 - 1.1.28. **“Warranties”** means the warranties, undertakings and representations of a party set out in this Agreement;
 - 1.1.29. **“Warranty Claim”** means a claim made by a party in respect of any of the Warranties; and
 - 1.1.30. **“Warranty Period”** means the period expiring on the day immediately preceding the first anniversary of the Scheme Effective Date.
- 1.2. In this Agreement, unless the context otherwise requires,
 - 1.2.1. the singular form shall include the plural form, and vice versa, and the masculine form shall include the feminine and neuter forms, and vice versa.
 - 1.2.2. the word person shall include an individual, partnership, association, body corporate, trustee, executor, administrator or legal representative;
 - 1.2.3. where any party comprises more than one person the obligations and liabilities of that party under this Agreement shall be joint and several obligations and liabilities of those persons;
 - 1.2.4. any reference to a clause or a paragraph or a schedule is to one in this Agreement so numbered;
 - 1.2.5. references to books, records or other information mean books, records or other information in any form including paper, electronically stored data, magnetic media, film and microfilm;
 - 1.3. In the absence of any contrary provision any reference in this Agreement to a statute includes any statutory modification or re-enactment of it, and any and every order, instrument, regulation, direction or plan made or issued under the statute or deriving validity from it.

- 1.4. The headings to each clause herein shall not be used in construing the meaning and intent of this Agreement.
- 1.5. References to “this Agreement” or to any other document shall include amendments or supplements to, or replacements or novations of, this Agreement, provided however that any amendment, supplement, replacement or novation made in breach of this Agreement shall be excluded.
- 1.6. Unless otherwise expressly stated, monetary amounts specified in this Agreement are denominated in Eastern Caribbean Currency.

2. Scheme Documents

- 2.1. It is agreed that the Schemes shall be comprised of the following documents:
 - 2.1.1. this Agreement;
 - 2.1.2. the Report of the Appointed Actuary entitled “Transfer of Sagicor Life Inc.’s EC Business to Sagicor Life (Eastern Caribbean) Inc. - Appointed Actuary’s Opinion with respect to Open and Closed Par Funds”, which is appended hereto as **Appendix A**;
 - 2.1.3. the Report of the Appointed Actuary on the Transfer, which is appended hereto as **Appendix B**;
 - 2.1.4. the Report of the Independent Actuary, which is appended hereto as **Appendix C**;
 - 2.1.5. the Audited Financial Statements of Sagicor Life Inc. for the financial year ended December 31, 2016, which is appended hereto as **Appendix D**;
 - 2.1.6. the Audited Financial Statements of Sagicor Life (Eastern Caribbean) Inc. for the financial year ended December 31, 2016, which is appended hereto as **Appendix E**;
 - 2.1.7. the Pro Forma Balance Sheet and Income Statement of Sagicor Life (Eastern Caribbean) Inc. for the financial year ending December 31, 2017 which is appended hereto as **Appendix F**.
- 2.2. The Transferor and the Transferee shall seek to obtain the Scheme Confirmations.

3. Conditions Precedent

- 3.1. The Transfer will be subject to the following conditions precedent being satisfied or, if lawful to do so, waived in accordance with clause 3.2, to the satisfaction of the Transferor and the Transferee:
 - 3.1.1. The grant or issue of the Required Approvals;
 - 3.1.2. Waiver of the taxes and duties applicable to the transfer of the Final Transfer Assets;

- 3.2. The Transferor and the Transferee shall be entitled to waive at their discretion any Condition Precedent to the extent that the Transfer may lawfully proceed without satisfaction of such Condition Precedent.

4. Transfer of Insurance Business

- 4.1. Subject to the provisions of this Agreement, The Transferor hereby agrees to transfer to the Transferee and the Transferee hereby agrees to accept the transfer to itself by the Transferor of and to assume, with effect as of the Scheme Effective Date:
 - 4.1.1. the Insurance Business
 - 4.1.2. the legal and beneficial ownership of all of the Designated Assets constituting the Final Transfer Assets;
 - 4.1.3. the legal and beneficial ownership of the Operational Assets; and
 - 4.1.4. the Insurance Liabilities.
- 4.2. The consideration for the transfers pursuant to clauses 4.1.1, 4.1.2 and 4.1.3 above shall be the assumption by the Transferee of the Insurance Liabilities pursuant to clause 4.1.4.
- 4.3. The Transferor and Transferee hereby agree that:
 - 4.3.1. The Transferor shall determine the Final Transfer Asset Value, as at the Scheme Effective Date which calculation shall be completed within five (5) Business Days after the Scheme Effective Date.
 - 4.3.2. The selection of the composition of the Final Transfer Assets by the parties shall be completed within five (5) Business Days after the determination of the Final Transfer Asset Value.
 - 4.3.3. The actual transfer of the Final Transfer Assets shall take place after the parties have agreed on the composition of the Final Transfer Assets.
 - 4.3.4. Pending the transfer of such Final Transfer Assets, the Transferor shall be deemed to be retaining such assets (including any accretions in respect thereof) on trust for the Transferee and shall not deal with such assets in any way prejudicial to the Transferee.
 - 4.3.5. Upon transfer of the Final Transfer Assets, the Transferor shall also deliver to the Transferee, where applicable, any accretions earned in respect of such assets as are due to be transferred.
- 4.4. The parties agree that once the Final Transfer Assets have been determined they will co-operate with each other in good faith in order to perfect promptly the transfer thereof to the Transferee. The method and requirements of transfer of the Final Transfer Assets shall be determined by the nature of the relevant Final Transfer Asset. The Transferor shall take all necessary steps to ensure that in respect of those Final Transfer Assets for which there is a legal title, such legal title is transferred to the Transferee as promptly as is practicably possible thereafter.

- 4.5. As regards any contracts and other forms of property which, whether due to the need to obtain third party consents which cannot be obtained or for any other reason, cannot be assigned or otherwise transferred or novated by the Transferor, if the parties nonetheless elect to proceed with the transfers of such contracts and other forms of property as contemplated by this Agreement, then as from the Scheme Effective Date until the date of actual transfer of such contracts and other forms of property, the Transferor shall (i) hold in trust for and to the order of Transferee, the beneficial interest in such contracts and other forms of property, and (ii) perform the obligations in respect thereof, on behalf of the Transferee in accordance with the Transferee's instructions and at the Transferee's sole cost and risk.
- 4.6. If for any reason whatsoever, whether before or after the Scheme Effective Date, the Transferor notifies the Transferee that it is unable to transfer any of the Final Transfer Assets to the Transferee and is therefore required to retain such asset absolutely, the parties shall mutually agree on the transfer by the Transferor to the Transferee of such other asset as may be substituted for all or a part of such retained asset, provided such alternative asset shall be eligible for inclusion in the statutory fund required to be established by the Transferor under the provisions of one or more of the Insurance Acts and have the same capital requirements. Such alternative assets as shall have been agreed on by the parties as aforesaid shall be deemed to be included in the Final Transfer Assets for the purposes of this Agreement, and the transfer shall, unless the parties agree otherwise, be deemed to have taken place on the Scheme Effective Date.
- 4.7. On the Scheme Effective Date, the Transferor shall be deemed to have transferred to the Transferee, and the Transferee shall be deemed to have assumed and taken responsibility and liability for all the Insurance Liabilities.
- 4.8. On and from the Scheme Effective Date:
- 4.8.1. The Transferee shall be entitled to receive all premiums that become payable in respect of the Insurance Business;
- 4.8.2. All rights and remedies available to the Transferor in the event of non-payment of premiums payable prior to the Scheme Effective Date in respect of the Insurance Business will be enforceable by the Transferee;
- 4.8.3. The authority granted to the Transferor by the owner of, or by any other person in respect of any Contract forming part of the Insurance Business:
- 4.8.3.1. to debit a bank account under which premium payments are due and payable under that Contract;
- 4.8.3.2. to make automatic payroll deductions; and
- 4.8.3.3. to receive those payments or deductions by electronic bank transfer
- will by virtue of obtaining (i) the Scheme Confirmations and (ii) the acceptance by the institution to whom the authority is addressed of the assumption by the Transferee of the Transferor's position under the authority be vested in the Transferee.
- 4.8.4. Any applications for insurance to the Transferor in the EC Countries which have not been accepted by the Transferee as at the Scheme Effective Date, will for all purposes be treated as an application to the Transferee for that insurance;

- 4.8.5. Any policy of insurance resulting from an application referred to in clause 4.8.4 will take effect and be construed for all purposes as a policy issued by the Transferee.
- 4.9. Any pending legal proceedings by or against the Transferor in respect of the Insurance Business, Final Transfer Assets, Operational Assets or Insurance Liabilities will be continued by or against The Transferee.

5. Books and records relating to transferred Insurance Business and Designated Assets

- 5.1. On the Scheme Effective Date, or, if the parties agree that such delivery is not possible, as soon as practicably possible thereafter, the Transferor shall deliver into the Transferee's custody and control all policy instruments, contracts, paper-based and electronic files, databases, correspondence and other documents and records whatsoever relating to the Insurance Business being transferred to Transferee pursuant hereto. The Transferor warrants the accuracy of all policy instruments, contracts, paper-based and electronic files, databases, correspondence and other documents and records and shall hold harmless and indemnify the Transferee during the Warranty Period for any and all Losses as result of the transfer of inaccurate policy instruments, contracts, paper-based and electronic files, databases, correspondence and other documents and records.
- 5.2. In addition, at the point of transfer of the Final Transfer Assets in accordance with this Agreement, the Transferor shall provide the Transferee with all documents of title, files and correspondence and other documents and records whatsoever relating to the Final Transfer Assets.

6. Maintenance of Reinsurance Arrangements

- 6.1. To the extent that the Transferor's policyholders' liabilities are reinsured or are otherwise covered by any reinsurance contract, the parties shall use their best efforts to procure that reinsurance arrangements which are acceptable to the Transferee are and remain in full force and effect as from the Scheme Effective Date with respect to the Insurance Business which is transferred to the Transferee pursuant to this Agreement, with such modifications as may be required arising from the transfer of the Insurance Business pursuant to this Agreement. The parties hereto intend that the Transferee shall acquire the benefits of such reinsurance contract to the same extent as if those contracts were novated, as at the Scheme Effective Date, by the addition or substitution of the Transferee as a beneficiary party or insured together with or in lieu of the Transferor, provided that the portion of the premiums paid for reinsurance of the Insurance Business that is referable to the period of cover up to the Scheme Effective Date shall be for the Transferor's account, and the portion of the premiums paid that is referable to the period of cover as from the day after the Scheme Effective Date shall be for the Transferee's account (and the amount thereof that is referable to the period of cover as from the day after the Scheme Effective Date shall be refunded to the Transferor by the Transferee if and to the extent that it has been paid by or on behalf of the Transferor). In furtherance of the foregoing:
- 6.1.1. all reinsurance contracts capable of being assigned without the consent of other parties shall be assigned by the Transferor to the Transferee (or the Transferor shall procure such assignment) on the Scheme Effective Date or such other date as is agreed between the parties in writing.

- 6.1.2. in so far as any of the reinsurance contracts are not assignable to the Transferee without the consent of another party to such assignment, this Agreement shall not constitute an assignment or attempted assignment if such assignment or attempted assignment would constitute a breach of the same. In the event that consent or novation is required, the Transferor and the Transferee shall cooperate with each other in good faith in order to obtain such consents or novation as may be required for the maintenance of such reinsurance arrangements subsequent to the transfer of the Insurance Business.

7. Protection of Policyholders

- 7.1. The Transferee hereby undertakes to ensure that, as from the Scheme Effective Date, all Insurance Liabilities and related legal obligations from time to time owing to policyholders arising out of the Transferor's Insurance Business acquired by Transferee shall be honoured and duly and properly performed by Transferee in accordance with the contractual arrangements relating thereto, and the Transferee shall indemnify and hold the Transferor harmless in respect thereof.
- 7.2. On or after the Scheme Effective Date each policyholder of a policy or certificate of insurance which forms part of the Insurance Business shall receive a Certificate of Assumption from the Transferee substantially in the form set out in **Appendix G** or as near thereto as the circumstances require.

8. Participating Policies

- 8.1. In accordance with the Demutualization Plan, the Transferor established the following fund structure:
- 8.1.1. A “Participating Account” to which all participating contracts, and related assets and liabilities were allocated.
- 8.1.2. A “Shareholders’ Account” to which all non-participating contracts and all other liabilities and assets of the Transferor are allocated as well as capital and shareholders’ surplus.
- 8.1.3. Within the Participating Account, the Transferor established and maintains two separate sub-accounts, namely a sub account in respect of pre-demutualization participating policies called the “Pre-Conversion Participating Account” and a further sub-account in respect of post-demutualization participating policies called the “Post-Conversion Participating Account”.
- 8.1.4. Within the Pre-Conversion Participating Account, the Transferor established and maintains two separate funds, namely a fund to manage and protect the future bonus and dividend levels on pre-demutualization participating policies called the “Closed Participating Fund” with sufficient assets to back actuarial liabilities, and an additional fund to protect further the policies in the Closed Participating Fund, called the “Closed Ancillary Fund”. As the Closed Ancillary Fund gets released over time, the amount will be transferred to the Shareholders’ Account.
- 8.1.5. The Demutualization Plan provides further that all profits earned by the Closed Participating Fund will accrue exclusively to the benefit of the policies in that fund. It further provides that the Transferor will not be permitted to transfer assets out of the Closed Participating Fund for reasons other than to pay policy benefits, expenses and

Taxes of the fund, and except as a result of the winding up of the fund.

- 8.1.6. With respect to the Post-Conversion Participating Account, the Transferor has established within such account its own participating fund, called the “Open Participating Fund” built up out of the participating policies issued after demutualization and the interest earned on those funds.
- 8.1.7. Within the Post-Conversion Participating Account, the Transferor established and maintained two separate funds, namely a fund to manage and protect the future bonus and dividend levels on post-demutualization participating policies called the Open Participating Fund with sufficient assets to back actuarial liabilities, and an additional fund to support the issue of policies in the Open Participating Fund, called the “Seed Capital Fund”. Any seed capital initially injected in the Post-Conversion Participating Account will revert to the Shareholders’ Account, together with a reasonable rate of after Tax return once the fund has generated enough surplus and thus reached a self-sustaining level.
- 8.1.8. Each year, an amount equal to 90% of distributable profits in the Post-Conversion Participating Account will remain in that account for the benefit of the participating policyowners, while 10%, (excluding the after Tax return on the seed capital which will be returned to the Shareholders’ Account in its entirety) will be transferred to the Shareholders’ Account.
- 8.1.9. On the Transferor’s merger with Life of Barbados Limited (“LOB”) on February 1, 2005 the participating policies of LOB were merged with the Open Participating Fund which was then referred to as the “Common Open Participating Fund”. The Common Open Participating Fund receives any participating business resulting from any acquisitions or mergers undertaken by the Transferor.
- 8.2. The Demutualization Plan provides that the Closed Participating Fund will be maintained until there are 2,000 policies remaining. Then, the entire surplus of this fund will buy a guaranteed benefit that will apply to the policies then remaining in force. Those policies will then be treated as non-participating and will be allocated to the Shareholders’ Account.
- 8.3. As at July 2017 there were 3,832 participating contracts issued or assumed by the Transferor in the EC Countries forming part of the Insurance Business to be transferred to the Transferee (the “EC Participating Policies”). If a separate participating fund were established for the EC Participating Policies, it is expected that (i) a current level of 3,832 policies declining at an annual rate of 10% would create potentially large fluctuations in actual profits and losses to policyholders of EC Participating Policies and (ii) the level of EC Participating Policies will reach 2,000 in 7.1 years which is a relatively short period. Further information on the EC Participating Policies is provided in the Report of the Appointed Actuary appended at Appendix A of this Agreement
- 8.4. In consideration of the matters referred to at clauses 8.1 to 8.3 inclusive and subject to the approval of the Insurance Regulators, the Transferor and Transferee hereby agree that on the Scheme Effective Date:
 - 8.4.1. the level of bonuses and dividends payable on the EC Participating Policies shall be fixed as at the Scheme Effective Date and converted to fully guaranteed bonuses and dividends; and
 - 8.4.2. the EC Participating Policies shall be converted to non-participating policies.

9. Human Resource Matters

- 9.1. The parties agree that the Transferee shall be at liberty to make offers to engage such employees/contractors of the Transferor as are currently assigned to the Transferor's Insurance Business and as may be selected by the Transferee in consultation with the Transferor. The Transferor shall indemnify the Transferee against each and every cost, claim, liability, expense or demand relating to or arising out of any wrongful act or omission by the Transferor on or before the Scheme Effective Date in relation to any contract of employment with any of the employees/contractors or former employees/contractors of the Transferor including without limitation any matter relating to or arising out of: -
 - 9.1.1. the breach of any contract of employment including wrongful or unfair dismissal;
 - 9.1.2. unpaid salary, benefits, holiday pay, severance pay, pay in lieu of notice or other statutory benefits or emoluments; or
 - 9.1.3. anything done or omitted on or before the Scheme Effective Date by or in relation to the Transferor in respect of any contract of employment of any person employed or assigned to the Transferor's Insurance Business.
- 9.2. The Transferor shall provide services related to the Transferee's administering of the Insurance Business following the transfer of the said Insurance Business to the Transferee, and the parties shall enter into a service level agreement in respect of such services.

10. Transferor's Undertakings Pending Transfer

- 10.1. From the date hereof until the Scheme Effective Date or earlier termination of this Agreement, the Transferor shall continue to administer the Insurance Business in good faith in substantially the same manner as it has done during the twelve (12) month period prior to the date hereof, with no material change in activity other than in the normal course of business.
- 10.2. Pending the transfer of the Insurance Business, the Transferor shall ensure that the Transferee and its advisors are given full access (at all reasonable times and on reasonable notice) to the Transferor's books and records and shall promptly give all such information and explanations as the Transferee or any person authorized by the Transferee may reasonably request in connection with the Insurance Business. The Transferor further agrees to allow representatives of the Transferee onsite with unrestricted access to its premises, books, records and transactions during from the date of this Agreement to the Scheme Effective Date.

11. Transferor's Representations and Warranties

- 11.1. The Transferor hereby undertakes, represents and warrants to, and covenants with the Transferee that, save as has been otherwise disclosed in writing by the Transferor to the Transferee prior to signing this Agreement, as at the date hereof the following matters are true and accurate in every respect, which representations and warranties are deemed to be repeated as at the Scheme Effective Date:

11.1.1. The Transferor

- 11.1.1.1. The Transferor is an insurance company duly incorporated in, and under the laws of Barbados and is in compliance with its filing requirements under the Companies Act Cap. 308 of the Laws of Barbados and the company laws of the EC Countries and Anguilla.
- 11.1.1.2. The Transferor has all requisite corporate power and authority to enter into and complete this Agreement without obtaining the consent of any third party other than the consent of the Insurance Regulators;
- 11.1.1.3. Compliance with the terms of this Agreement and any document entered into by it in accordance with it does not and will not conflict with or result in a breach of any of the provisions of its By-Laws or Articles of Amalgamation.
- 11.1.1.4. There are in force no powers of attorney given by the Transferor in connection with the conduct of the Insurance Business. Save for the authority of the employees of the Transferor's Insurance Business in the ordinary course of business, no person as agent or otherwise is entitled or authorised by the Transferor to enter into any contract commitment or obligation on behalf of the Insurance Business;
- 11.1.1.5. The Transferor is in compliance with the Insurance Acts, regulations and guidelines issued by the Insurance Regulators and where it is not, either has forbearance which passes onto the Transferee or has a plan approved by the regulator to remedy such non-compliance.

11.1.2. The Accounts

- 11.1.2.1. The Transferor warrants that the Accounts are accurate and comply with the requirements of the applicable laws of the EC Countries and Anguilla, and have been prepared on a consistent basis in accordance with good accounting practice and comply with all current financial reporting standards and insurance accounting standards applicable to a registered insurer in the EC Countries and Anguilla carrying on insurance business in the classes carried on by the Transferor for the period covered by such financial statements;
- 11.1.2.2. The Transferor further warrants that there are no liabilities or obligations of any nature of which the Transferor is aware in respect of the Insurance Business and which are enforceable against it or any of its assets or properties whether absolute, accrued, or contingent except for liabilities or obligations reflected or reserved against in the Accounts or (if arising after the last date of the accounting period covered by the Accounts) arising in the ordinary course of the Insurance Business prior to the Scheme Effective Date and duly accounted for in the Transferor's books of account.

11.1.3. Transfer of the Insurance Business and Final Transfer Assets

11.1.3.1. The transfer of the Insurance Business and the Final Transfer Assets to the Transferee or compliance with the terms of this Agreement will not:

11.1.3.1.1. result in a breach of or constitute a default under (i) the terms conditions or provisions of any agreement or instrument or (ii) any order, judgment or decree of any court to which the Transferor is a party or by which the Transferor is bound in relation to the Insurance Business;

11.1.3.1.2. give rise to a claim by any third party and/or related party for rescission of the transfer of the Insurance Business or the Final Transfer Assets to the Transferee or to a remedy which in any way affects the Transferor's ability to give good and effective title to the Insurance Business or the Final Transfer Assets.

11.1.4. The Insurance Business

11.1.4.1. The Insurance Business comprises legally valid and enforceable obligations and contracts of insurance on the terms set forth in the insurance policies relating thereto;

11.1.4.2. All such insurance policies are properly stamped with stamp duty as required by law;

11.1.4.3. No regulatory action has been taken or has been threatened to be taken by the any Insurance Regulator in respect of the Insurance Business and which could reasonably be expected to materially affect the value of the Insurance Business being acquired by Transferee;

11.1.4.4. Claims information, claims histories and data provided to the Transferee by the Transferor or on its behalf in respect of its Insurance Business are current, accurate and complete.

11.1.5. The Designated Assets and Operational Assets

11.1.5.1. The Transferor has good legal title or properly documented equitable title to the Designated Assets and Operational Assets, and except as provided in clause 11.1.5.3 is under no disability that may prevent it from transferring such assets or procuring their transfer by a third party:

11.1.5.2. With the exception of Designated Assets pledged to the Statutory Funds, none of the Designated Assets is subject to any encumbrance or impairment which would continue after transfer other than is disclosed to the Transferee in writing.

11.1.5.3. The permission of the Insurance Regulators shall be required for the transfer from the Transferor to the Transferee of the Designated Assets pledged to the Statutory Funds.

11.1.6. Taxation

- 11.1.6.1. The Accounts make full provision or reserve for all Taxation (including deferred Taxation) which is liable to be or could be assessed in respect of the Insurance Business, in respect of the period ending on the last date of the accounting period covered by the Accounts.
- 11.1.6.2. The Transferor has duly charged, deducted and or accounted for all amounts which it has been obliged to deduct in respect of Taxation and, in particular, has properly operated the Value Added Tax system by charging and or deducting tax as required by law, from all payments made, or treated as made, to its customers, clients, beneficiaries, investors, or former customers, clients, beneficiaries, and/ or investors, and accounting to the applicable revenue authorities for all tax so charged or deducted and for all tax chargeable on benefits including monetary and non-monetary benefits and services provided for its present or former customers, clients, beneficiaries and/or investors or any of them.

11.1.7. Compliance with Legal Requirements

- 11.1.7.1. So far as the Transferor is aware, it is, and at all times has been, in full compliance with each legal requirement that is or was applicable to it or to the conduct or operation of the Insurance Business or the ownership or use of any of the Designated Assets, or will be in such full compliance by the Scheme Effective Date, or any such non-compliance will not result in the Transferee having any material financial obligation to any third party.
- 11.1.7.2. So far as the Transferor is aware, no event has occurred or circumstance exists or will exist on the Scheme Effective Date that (with or without notice or lapse of time) (i) may constitute or result in a violation by the Transferor of, or a failure on the part of the Transferor to comply with, any legal requirement, or (ii) may give rise to any obligation on the part of the Transferee, pursuant to its assumption of the Insurance Liabilities, to undertake, or to bear all or any portion of the cost of, any remedial action of any nature.
- 11.1.7.3. The Transferor has not received any notice or other communication (whether oral or written) addressed to it from any Agency regarding (i) any actual, alleged, possible, or potential violation of, or failure to comply with, any legal requirement, or (ii) any actual, alleged, possible, or potential obligation on the part of the Transferor to undertake, or to bear all or any portion of the cost of, any remedial action of any nature which will not be, in either case, rectified by a Scheme Effective Date.
- 11.1.7.4. So far as the Transferor is aware, there are no governmental authorizations necessary to permit the Transferor to lawfully conduct and operate the Insurance Business in the manner it currently conducts and operate such business and to permit the Transferor to own and use its assets in the manner in which it currently owns and use such assets

which the Transferor does not now have, or which it will not have on or prior to the Scheme Effective Date.

12. Transferee's Representations and Warranties

- 12.1. The Transferee hereby undertakes, represents and warrants to, and covenants with the Transferor that as at the date hereof the following matters are true and accurate in every respect, which representations and warranties are deemed to be repeated as at the Scheme Effective Date:
- 12.1.1. it is validly incorporated and existing under the laws of Saint Lucia;
 - 12.1.2. it has the corporate capacity and power to enter into and perform its obligations under this Agreement and it is not prohibited by any law, regulation, agreement or instrument from entering into and performing this Agreement;
 - 12.1.3. it has been duly authorised by all necessary corporate actions to enter into and to be bound by this Agreement;
 - 12.1.4. this Agreement, when executed, dated and delivered shall be valid, binding and enforceable against it in accordance with its terms.

13. Exclusive Remedies and Damages

- 13.1. It is agreed that the representations, warranties, covenants and obligations in this Agreement will survive the Scheme Effective Date, where applicable, for the duration of the Warranty Period, and shall thereupon expire, and no claim may be brought in respect thereof after the Warranty Period.
- 13.2. Each party acknowledges and agrees that after the Scheme Effective Date and subject to this clause 13:
- 13.2.1. the indemnification provisions of this Agreement shall be the sole and exclusive remedies of the parties for any breach of the representations or warranties contained in this Agreement, except in the case of fraud and notwithstanding anything to the contrary contained herein, no breach of any representation or warranty contained herein shall give rise to any right on the part of any party to rescind this Agreement or any of the transactions contemplated hereby;
 - 13.2.2. the Transferor shall indemnify, defend and hold harmless the Transferee against, and reimburse the Transferee for, all Losses that the Transferee may at any time suffer or incur, or become subject to as a result of or in connection with the breach of any of the representations and warranties of the Transferor contained in clause 11, or as a result of or in connection with any breach by the Transferor of any of its covenants or obligations contained in this Agreement;
 - 13.2.3. the Transferee shall indemnify, defend and hold harmless the Transferor against, and reimburse the Transferor for, all Losses that the Transferor may at any time suffer or incur, or become subject to as a result of or in connection with the breach

of any of the representations and warranties of the Transferee contained in clause 12, or as a result of or in connection with any breach by the Transferee of any of its covenants or obligations contained in this Agreement;

- 13.2.4. the parties agree that with respect to each indemnification obligation set forth in this Agreement, in no event shall a party against whom an indemnification obligation has been asserted (the “Indemnifying Person”) have any liability to a party claiming an entitlement to be indemnified (the “Indemnified Person”) for (i) any Losses to the extent arising from special circumstances of the Indemnified Person that were not communicated prior to the date of this Agreement by the Indemnified Person to the Indemnifying Person, or (ii) any consequential, indirect, incidental, exemplary, or punitive damages, internal costs or lost profits;
- 13.2.5. no Indemnifying Person shall be liable under this Agreement in respect of any Losses which are contingent unless and until such contingent Losses become an actual liability and are due and payable;
- 13.2.6. notwithstanding anything to the contrary in this Agreement, an Indemnifying Person shall not be liable for any Warranty Claim or other indemnification claim by the Indemnified Person unless:
 - 13.2.6.1. written particulars of such Warranty Claim or other indemnification claim (including details of the specific matters in respect of which such claim is made) shall have been given to Indemnifying Person before the expiration of the Warranty Period; and
 - 13.2.6.2. the aggregate amount of the Losses comprised in all claims (including Warranty Claims) brought by the Indemnified Person are at least Twenty Thousand Dollars (\$20,000) and if this threshold is exceeded then the Indemnifying Person shall be liable to the Indemnified Person for the full amount of all Losses.

13.3. The Transferor shall not be liable for any Warranty Claim:

- 13.3.1. where such Warranty Claim is in respect of any liability for Taxation which arises out of the ordinary course of trading after the Scheme Effective Date;
- 13.3.2. which arises, or to the extent that any such Warranty Claim is increased as a result only of any increase in the rates of Taxation made after the date hereof with retrospective effect;
- 13.3.3. where the Loss giving rise to the Warranty Claim would not have occurred but for a voluntary act or omission by the Transferee;
- 13.3.4. to the extent that the amount in respect of the Warranty Claim is increased by reason of the Transferee failing after due warning to act in accordance with the written instructions of Transferor in respect of a Warranty Claim for Taxation;
- 13.3.5. where the Warranty Claim would not have arisen but for any change in the accounting policy and practice of the Transferee with respect to the Insurance Business introduced or having effect after the Scheme Effective Date;

- 13.3.6. to the extent that the amount by which any Taxation for which the Transferee is or may be liable to be assessed or accountable with respect to the Insurance Business is reduced or extinguished as a result of the matter giving rise to such Warranty Claim.
- 13.4. Notification of a Warranty Claim by the Indemnified Person shall be made to the Indemnifying Person as soon as reasonably practicable after the facts giving rise to such Warranty Claim have come within the knowledge of the Indemnified Person. The failure to promptly deliver a notification of the claim will not relieve the Indemnifying Person of its obligations to the Indemnified Person with respect to the Warranty Claim, except to the extent that the resulting delay is materially prejudicial to the defense of that Warranty Claim.
- 13.5. Where the Transferee has, in respect of the Insurance Business, received any claim from a third party which may result in the Transferee having a Warranty Claim, the Transferor shall be entitled at its option to take any action and require the Transferee to take any action that it may reasonably request to prosecute or resist such claim, in the name of the Transferee but at the expense of the Transferor and the Transferor shall further be entitled at its own expense to have the conduct of any appeal, dispute, application for deferment and other forms of objection, compromise, or defence thereof and of any incidental negotiations and the Transferee shall give to the Transferor all reasonable co-operation, access and assistance for the purpose of considering, prosecuting or resisting, as the case may be, such claim as the Transferor may reasonably require.
- 13.6. The amount of any Warranty Claim shall be reduced by the amount actually recovered from any third party in respect of the matter giving rise to such Warranty Claim or by the amount of any relief from Taxation directly attributable to it.
- 13.7. The parties undertake to retain all such books, records, accounts, correspondence and other papers relating to the Insurance Business as are likely to be material in the context of the liability of the Transferor under the Warranties during the Warranty Period and to make them (or copies thereof) available to the Transferor if and so far as requested by the Transferor for the purpose of defending itself against a Warranty Claim.
- 13.8. The provisions set out in Schedule 2 shall apply with respect to the determination of any dispute between the parties concerning a Warranty Claim.

14. Miscellaneous Provisions

- 14.1. Each of the parties hereto undertakes with the other to do all things reasonably within its power which are necessary or desirable to give effect to the spirit and intent of this Agreement. The parties shall use their respective reasonable endeavours to do, and to procure that any necessary third party shall do, execute and perform all such further deeds, documents, assurances, transfers, acts and things as any of the parties hereto may reasonably require to carry out the provisions of this Agreement into full force and effect.
- 14.2. No announcement of any kind shall be made in respect of the subject matter of this Agreement by the parties thereto, their officers, servants or agents, save and except:
- 14.2.1. if an announcement is required by law, in which event the parties shall consult with each other as to the form and content of such announcement; and,

- 14.2.2. as soon as practicable after the Scheme Effective Date the Transferor shall join with the Transferee in agreeing and issuing a joint statement to the public in the agreed terms informing them of the transfer of the Insurance Business to the Transferee.

15. Costs

- 15.1. The Transferor and the Transferee shall each pay their own costs in connection with the negotiation, preparation and implementation of this Agreement, any agreement incidental to or referred to in this Agreement, as well as the costs and fees in connection with the transfers and assignments of the Final Transfer Assets.

16. Severability

- 16.1. Each clause, sub-clause, paragraph and provision of this Agreement is and shall be treated as severable, and any illegality, invalidity or unenforceability affecting any such clause, sub-clause, paragraph or provision shall not affect or prejudice the legality, validity and enforceability of the remainder of this Agreement.

17. Rights Cumulative

- 17.1. The rights and remedies herein are cumulative and not exclusive of any rights or remedies provided by law.

18. Dispute Resolution - Arbitration and Mediation

- 18.1. Subject to clause 18.3 all disputes relating to this Agreement or its breach shall be referred to arbitration which shall be conducted in accordance with the UNCITRAL Arbitration Rules as at present in force.
- 18.2. A single arbitrator shall be appointed by agreement between the parties or, in default of agreement within 14 days of one party giving notice to the other of its nomination, appointed by the President for the time being of the Insurance Council of Saint Lucia.
- 18.3. Prior to the initiation of arbitration proceedings among the parties arising in connection with this Agreement, the following provisions shall apply:
- 18.3.1. the parties to the dispute shall use all reasonable endeavours to resolve the dispute on an amicable basis for a period of ten (10) Business Days after notice of the dispute is given by the party to the other party; and
- 18.3.2. Where all efforts to resolve the matter under the foregoing provisions have failed the parties may then seek to resolve the matter through arbitration provided that where appropriate, any party may seek an immediate remedy for an injunction, specific performance or similar court order to maintain the status quo and protect such party's rights under the Agreement.

- 18.3.3. When any dispute occurs, and when any dispute is under negotiation, except for the matter relating to the dispute, the parties shall continue to exercise their remaining respective rights and fulfil their remaining respective obligations under this Agreement.

19. Amendment

- 19.1. No amendment or variation of this Agreement shall be effective or binding on the parties unless it is in writing and has been executed by each of the parties hereto.

20. Binding Effect

- 20.1. This Agreement shall be binding upon and shall enure to the benefit of the parties hereto and their respective successors and assigns.

21. Counterparts

- 21.1. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

22. Parties in Interest

- 22.1. Nothing in this Agreement, express or implied, is intended to confer on any person other than the parties hereto and their respective successor and assigns any rights or remedies under or by virtue of this Agreement.

23. Waiver

- 23.1. Any waiver or variation by either party of any right or provision under or in this Agreement shall be in writing and signed on behalf of each party by a director or other authorized person. No single or partial exercise of any right, power or privilege by either party shall preclude any other or further exercise thereof or the exercise of any other right, power or privilege. A party ("A") shall not be deemed to have waived present or future performance by the other party ("B") of any obligation assumed by B under this Agreement, or to have waived any rights of A in respect of such non-performance, by virtue of any delay or omission by A or by virtue of A otherwise not acting thereon in the manner provided herein on any particular occasion or for any length of time.

24. Termination

- 24.1. This Agreement may be terminated at any time prior to the Scheme Effective Date:
- 24.1.1. by agreement in writing executed by the Transferor and the Transferee;
 - 24.1.2. by written notice served by either the Transferor or the Transferee on the other party (the "Other Party") on or at any time after the occurrence of any of the following events:

- 24.1.2.1. if there shall have been any statute, rule, injunction, cease trading or similar order enacted or promulgated by any Agency that, in the reasonable judgement of the Transferor or Transferee will prohibit or render the parties hereto unable to consummate the Transfer or according to the advice of legal counsel, make such consummation illegal;
 - 24.1.2.2. if the Other Party or one of its material subsidiaries institutes proceedings to be adjudicated a bankrupt or insolvent or to be wound-up, or consents to the institution of bankruptcy, insolvency or winding up proceedings against it, or files a petition, answer or consent seeking dissolution or winding-up under any bankruptcy, insolvency or analogous laws, or if any such proceedings are commenced against the Other Party or a material subsidiary thereof;
 - 24.1.2.3. if the Other Party or a material subsidiary thereof consents to the appointment of a receiver over its business and assets generally or makes a general assignment for the benefit of creditors; or
 - 24.1.2.4. if the Other Party or a material subsidiary thereof institutes any proceedings under any bankruptcy, insolvency or analogous laws or is the subject of any proceeding relating to a compromise or arrangement with creditors or claimants generally;
 - 24.1.2.5. if by the Scheme Effective Date, one or more of the Conditions Precedent set out in clause 3 have not been met or waived in accordance with sub-clause 3.2.
- 24.2. Except for liability in respect of fraud or wilful misconduct, in the event of termination of this Agreement, the provisions hereof shall forthwith become void and no party shall have any liability or further obligation to any other party hereunder.

25. Notices

- 25.1. Any notice or other document required by this contract or by law to be given or served upon either of the parties hereto shall be in writing and may be delivered personally, or by international courier, facsimile or electronic mail to such mailing, facsimile or electronic mail address addressed to the respective party as follows:

- (a) If the Transferor at:

Sagicor Life Inc.
Cecil F. De Caires Building
Willey
St. Michael
Barbados
Attention: Dr. M. Patricia Downes-Grant
Facsimile: (246) 426-2922
Electronic mail: pat_downes-grant@sagicor.com

(b) If the Transferee at:

Sagicor Life (Eastern Caribbean) Inc.
Sagicor Financial Centre
Choc Estate
Castries
Saint Lucia
Attention: Donald Austin
Facsimile: (758) 450-3787
Electronic mail: donald_austin@sagicor.com

or to such other address as any party may from time to time notify the other of in accordance with this clause. Any notice or document delivered personally shall be deemed to have been given on the day of actual delivery thereof, if by international courier on the day of actual delivery thereof as evidenced by a delivery receipt issued by the courier or if by facsimile or electronic mail on the first business day following the transmittal thereof.

26. Assignment

26.1. This Agreement is personal to the parties hereto and may not be assigned at law or in equity without the prior written consent of the other party.

27. Entire Agreement

27.1. This Agreement constitutes the entire agreement between the parties with respect to the subject-matter of this Agreement, to the exclusion of any and all prior or collateral agreements, representations or warranties whatsoever.

28. Governing Law

28.1. This Agreement is governed by, subject to and construed in accordance with the laws of the Saint Lucia and each party agrees to submit to the exclusive jurisdiction of the law courts of Saint Lucia.

SCHEDULE 1

	Policy Number	Policy Issue Date	Policy Currency	Country of Issue	Country of Residence of Policyowner
1.	S06300245	28-May-1997	United States Dollars	Anguilla	Antigua
2.	S06300316	14-August-1997	United States Dollars	Anguilla	Antigua
3.	S06300405	7-December-1997	United States Dollars	Anguilla	Antigua
4.	S06300719	21-April-1999	United States Dollars	Anguilla	Antigua
5.	S06302266	28-December-2004	United States Dollars	Anguilla	Antigua
6.	S06303997	28-November-2007	United States Dollars	Anguilla	Antigua
7.	063300122	28-May-2009	United States Dollars	Anguilla	Antigua
8.	S06300549	7-March-1998	United States Dollars	Anguilla	Grenada
9.	S06300998	28-March-2000	United States Dollars	Anguilla	St. Kitts
10.	S06300709	21-September-1999	United States Dollars	Anguilla	St. Lucia
11.	S06300817	7-June-1999	United States Dollars	Anguilla	St. Lucia
12.	S06301134	28-December-2000	United States Dollars	Anguilla	St. Lucia
13.	S06301706	14-November-2002	United States Dollars	Anguilla	St. Lucia
14.	S06301715	14-November-2002	United States Dollars	Anguilla	St. Lucia
15.	063300147	28-December-2010	United States Dollars	Anguilla	St. Lucia
16.	063300148	28-December-2010	United States Dollars	Anguilla	St. Lucia

SCHEDULE 2

WARRANTY CLAIM PROCEDURE

The following procedure shall apply with respect to a Warranty Claim.

1. In the event that a breach of Warranty is discovered after the Scheme Effective Date but prior to expiration of the Warranty Period, the Indemnified Person shall, as soon as reasonably practicable, but in any case, not later than the expiry date of the Warranty Period, give written notice to the Indemnifying Person of such alleged breach (“a Warranty Claim Notice”) setting out particulars of the alleged breach or failure of Warranty.
2. The Indemnifying Person shall respond in writing to the Warranty Claim Notice within five (5) Business Days from receipt thereof and if the Warranty Claim is being denied, in whole or in part, such response shall contain full particulars of the basis of such denial to enable the Indemnified Person to re-evaluate the merits of the Warranty Claim.
3. The parties shall in good faith endeavour to resolve any difference of opinion as to the existence of a Warranty Claim and/or the amount of such claim in accordance with clause 18.3 of this Agreement.
4. Any difference of opinion between the parties as to such matters which cannot be settled amicably within ten (10) Business Days after receipt of the Indemnifying Person’s response under paragraph 2 above may be referred at any time thereafter by either party to arbitration in accordance with clause 18 of this Agreement.
5. If the Indemnifying Person accepts liability for a Warranty Claim or if the arbitrator determines that a Warranty Claim has been established then the compensation payable by the Indemnifying Person to the Indemnified Person shall be such sum as is sufficient to put the Indemnified Person in the same position which it would have been had the breach which produced the Warranty Claim not occurred.
6. In the event a claim for indemnification under this Agreement has been finally determined, the amount of such final determination shall be paid by the Indemnifying Person to the Indemnified Person (or at its direction) within five (5) Business Days of the request therefor in immediately available funds. Any action by or before any arbitral body, and the liability for and amount of damages therefor, shall be deemed to be “finally determined” for purposes of this Agreement when the parties hereto have so determined by mutual agreement or, if disputed, when a final order has been made by the arbitral body.

IN WITNESS WHEREOF the parties have caused this Agreement to be executed as of the date first above written.

THE COMMON SEAL of SAGICOR LIFE INC.)
was affixed hereto by ALTHEA C. HAZZARD)
the Secretary thereof by order of the Board of)
Directors in the presence of:)



) Director


Countersigned



Secretary



Witness:
Name:
Address:
Occupation:


ANDREW C. GREAVES
Attorney-at-Law
1094 Kingsland Heights
Christ Church
Barbados, W.I.

THE COMMON SEAL of)
SAGICOR LIFE (EASTERN CARIBBEAN) INC.)
was affixed hereto by ALTHEA C. HAZZARD)
the Secretary thereof by order of the Board of)
Directors in the presence of:)



) Director


Countersigned



Secretary



Witness:
Name:
Address:
Occupation:


ANDREW C. GREAVES
Attorney-at-Law
1094 Kingsland Heights
Christ Church
Barbados, W.I.

APPENDIX “A”

Report of Appointed Actuary of Sagicor Life Inc entitled

**“Transfer of Sagicor Life Inc.’s EC Business to
Sagicor Life (Eastern Caribbean) Inc. - Appointed
Actuary’s Opinion with respect to Open and
Closed Par Funds”**

**TRANSFER OF SAGICOR LIFE INC.'S EC BUSINESS TO SAGICOR LIFE (EASTERN CARIBBEAN) INC.
APPOINTED ACTUARY'S OPINION WITH RESPECT TO OPEN AND CLOSED PAR FUNDS**

**TO: Sagicor Life Inc.
OECS Insurance Regulators**

I am the Appointed Actuary of Sagicor Life Inc. ("SLI") and its parent Sagicor Financial Corporation ("SFC"). The Sagicor Life Inc.'s Eastern Caribbean business (the "Business") includes SLI's insurance contracts in Antigua, Dominica, Grenada, Saint Christopher and Nevis, Saint Lucia and Saint Vincent and the Grenadines. As of year-end 2016, there were 98,000 individual and group life, health and annuity policies in force. With respect to long-term insurance contracts, there were 57,864 such contracts.

I am a Fellow of the Canadian Institute of Actuaries, a Fellow of the Society of Actuaries, a Member of the American Academy of Actuaries, a Member of the Caribbean Actuarial Association and an Affiliate Member of the Institute and Faculty of Actuaries, all in good standing.

SLI has retained an Independent Actuary, Ms. Marcia Tam-Marks of Morneau Shepell, to review our actuarial reports (the "Eckler Reports") in the context of the proposed transfer of the Business to Sagicor Life (Eastern Caribbean) Inc. ("SLECI") and to prepare a report with conclusions and recommendations (the "IA Report"). In section 6 of the IA Report, Ms. Tam-Marks states her satisfactory opinion with respect to the Eckler Reports.

SLI's Open and Closed Participating Funds

At the time the Barbados Mutual Life Assurance Society ("BMLAS") completed its conversion from a mutual company to a company with shares on 6th December 2002, I completed a demutualization report (the "Demutualization Report") in my capacity as the Appointed Actuary of BMLAS. The basic principles of the demutualization process were that (a) the entire value of BMLAS was to be allocated amongst eligible policyowners in the form of shares to compensate eligible policyowners for what they lose, namely voting rights and the right to share in the residual value of BMLAS if it is wound up, and (b) the chosen method of allocating the value amongst those eligible policyowners should be reasonably fair and equitable. These principles dealt with the value of BMLAS at the time of demutualization.

With respect to the future, a Closed Participating Fund ("CPF") was established to isolate the existing business from the impact of the new business to be sold subsequently. An additional Open Participating Fund ("OPF") was also established to include future new business of participating business.

The general principles of the CPF have been developed so as to protect the policies in this fund by ensuring that future bonus/dividend levels will be consistent with past practice and will not be affected by profits or losses on any other business outside the fund. Future bonuses and dividends will reflect the emergence of earnings in the CPF only, so as to exhaust the assets over the lifetime of the business while avoiding a material surplus or deficiency in this fund.

The Conversion Plan outlines procedures and controls on the future operation of the restructured account which are designed to protect policy benefits and policyholders' reasonable expectations ("PRE") in respect of future bonuses/dividends and other non-guaranteed policy benefits, for participating policies in force at the time of demutualization. The objective of these provisions is that, for those policies, the policy benefits and future bonuses/dividends will be similar to what they would have been had the demutualization not occurred.

Since the profits and losses of the CPF were to be allocated to these policyowners, the logical conclusion is that the eventual last remaining policyowner would inherit the final surplus of the CPF or would be left with a deficiency which would reduce their final benefits. This phenomena is called a *"tontine effect"*. However, even before such a situation occurred, the CPF would inevitably experience large fluctuations in profits or losses. Insurance cash flows can be reasonably smooth when there is a sufficient number of policies, but become increasingly uncertain with a small number of in force policies. Consequently, the Conversion Plan included a clause to address this issue when the number of policies was expected to reach a low level. In my Demutualization Report, this was referred to as *"Winding-Up of the Closed Participating Fund"*, as follows:

At some future date, the number of participating policies in the Closed Participating Fund will reach a point where it is no longer economical to maintain a separate fund. Care must also be taken not to create a tontine effect. If no Open Participating Fund exists at that time, the Closed Participating Fund will be wound-up and transferred to the Shareholders' Fund. It is estimated that it will take approximately 30 to 35 years before such a level is reached.

When such a winding-up of the Closed Participating Fund occurs, the bonus rates and dividend scales will be reviewed so that the estimated assets remaining at the projected date of the maturity or death of the last policyholder will be zero. Consequently, when the number of participating policies in the Closed Participating Fund falls below 2,000 the Closed Participating Fund will be wound-up and transferred to the Open Participating Fund. Such bonus rates and dividend scales will then become fully guaranteed and the policies will be transferred to the other fund as explained above.

At the time of the demutualization, there were 45,493 eligible policyowners whose policies and riders fell into the CPF. It is also worth noting that shortly after the demutualization, SLI stopped issuing new participating policies because of the low level of sales in this categories. So the OPF has consequently become closed.

Participating Policies in SLECI's and Recommended Treatment

The Open and Closed Participating policies in the Business to be transferred to SLECI, as well as the number of years expected to reach 2,000 are as follows:

	Year-End 2016 In Force	July 2017 In Force	Estimated #Years to reach 2,000
Closed Participating	741	682	
Open Participating	3,301	3,150	
Total Participating	4,042	3,832	7.1

It is expected that in 7.1 years, or approximately by the end of August 2024, the level of participating policies will reach 2,000.

In my opinion, a period of 7 years is a relatively short period of time as the life expectancy of a Closed Participating Fund before it must be wound up. Even if a level of 2,000 policies was originally set as a cut-off point, a current level of 3,832 policies declining at an annual rate of approximately 10% will most definitely create fluctuations in actual profits and losses, and potentially large ones. Considering that SLECI is a newly formed company encompassing existing SLI's EC Business, it might be advisable to avoid such a situation in order not to create these fluctuations.

Opinion and Recommendations

It is my strong opinion that the existing Participating policyowners will be better served by converting their participating policies into non-participating policies. Maintaining a Closed Participating Fund would also generate additional expenses for SLECI, including separate accounting, my annual certification as to the level of bonuses and dividends, and possibly some additional audit procedures.

Therefore, I recommend the following:

1 — The combined Open and Closed Participating policies should be converted to non-participating policies from the time of the transfer of the Business to SLECI.

2 — The level of participating benefits in the form of bonuses and/or dividends should be frozen at the current level and converted to fully guaranteed bonuses and/or dividends and valued in the same way as non-participating business.

3 — SLECI should communicate this decision to the OECS Regulators as part of the transfer.

I remain available to discuss the content of this opinion and my recommendations.

Yours truly,



Sylvain Goulet, FCIA, FSA, MAAA
Appointed Actuary for Sagicor Life Inc.



APPENDIX “B”

Report of Appointed Actuary of Sagicor Life Inc on the Transfer

18th October 2017

TO: OECS Insurance Regulators
Sagicor Life Inc. — Board of Directors
Sagicor Life (Eastern Caribbean) Inc. — Board of Directors

COPY TO: Mr. Donald Austin, CEO and President, Sagicor Life (Eastern Caribbean) Inc.

Dear Sirs/Madams:

Re: Transfer of Sagicor Life Inc.'s OECS Business to Sagicor Life (Eastern Caribbean) Inc. ("SLECI") and Participating Funds

At the time of this writing, I am the Appointed Actuary of Sagicor Life Inc. ("SLI") and its parent Sagicor Financial Corporation ("SFC"). The Sagicor Life Inc.'s Eastern Caribbean business (the "Business") includes SLI's insurance contracts in Anguilla, Antigua, Dominica, Grenada, Saint Christopher and Nevis, Saint Lucia and Saint Vincent and the Grenadines. As of year-end 2016, there were 98,000 individual and group life, health and annuity policies in force. With respect to long-term insurance contracts, there were 57,864 such contracts.

I am a Fellow of the Canadian Institute of Actuaries, a Fellow of the Society of Actuaries, a Member of the American Academy of Actuaries, a Member of the Caribbean Actuarial Association and an Affiliate Member of the Institute and Faculty of Actuaries, all in good standing.

Transfer of SLI's OECS Business to SLECI

I have reviewed the proposed transfer of the Business from SLI to SLECI as well as the Independent Actuary's Report from Ms. Marcia Tam-Marks of Morneau Shepell ("IA Report"). The IA Report did not raise any objection.

I note that SLECI is a wholly owned subsidiary of SFC, but that the plan is to float a certain proportion of SLECI on the OECS market. In the process of this transfer of the Business, some of SLI's assets will be also be transferred to SLECI in order to match the liabilities of the Business. The assets to be transferred include, but are not limited to investment property, deposits, mortgages, equities, debt and demand loans, as well as policy loans associated with the Business.

I have been the Appointed Actuary of SLI, and its predecessor The Barbados Mutual Life Assurance Society, since 1991. Therefore, I am very familiar with the Business in question and SLI's administration of the Business. In my opinion, the proposed transfer of the Business from SLI to SLECI, liabilities and assets, will have no material adverse impact on the financial position of either SLI or SLECI, and no adverse impact on the protection of the policyholders' benefits of the Business after such transfer. In addition, it is also my opinion that the proposed transfer will have no adverse impact on the quality of the service provided to the policyholders of the respective companies.

Participating Policies in SLECI's and Recommended Treatment

The Open and Closed Participating policies in the Business to be transferred to SLECI, as well as the number of years expected to reach a low level of 2,000 are as follows:

	Year-End 2016 In Force	July 2017 In Force	Estimated #Years to reach 2,000
Closed Participating	741	682	
Open Participating	3,301	3,150	
Total Participating	4,042	3,832	7.1

It is expected that in 7.1 years, or approximately by the end of August 2024, the level of participating policies will reach 2,000.

At the time the Barbados Mutual Life Assurance Society ("BMLAS") completed its conversion from a mutual company to a company with shares on 6th December 2002, I completed a demutualization report (the "Demutualization Report") in my capacity as the Appointed Actuary of BMLAS. A Closed Participating Fund ("CPF") was established to isolate the then existing participating business from the impact of the new business to be sold subsequently. An additional Open Participating Fund ("OPF") was also established to include future new business of participating business.

In order to avoid a "tontine" effect as the number of policies on the Closed and Open participating funds decreases, the Demutualization Report included the following clause:

At some future date, the number of participating policies in the Closed Participating Fund will reach a point where it is no longer economical to maintain a separate fund. Care must also be taken not to create a tontine effect. If no Open Participating Fund exists at that time, the Closed Participating Fund will be wound-up and transferred to the Shareholders' Fund. It is estimated that it will take approximately 30 to 35 years before such a level is reached.

When such a winding-up of the Closed Participating Fund occurs, the bonus rates and dividend scales will be reviewed so that the estimated assets remaining at the projected date of the maturity or death of the last policyholder will be zero. Consequently, when the number of participating policies in the Closed Participating Fund falls below 2,000 the Closed Participating Fund will be wound-up and transferred to the Open Participating Fund. Such bonus rates and dividend scales will then become fully guaranteed and the policies will be transferred to the other fund as explained above.

In my opinion, a period of 7 years is a relatively short period of time as the life expectancy of a the Participating Funds before it must be wound up. Even if a level of 2,000 policies was originally set as a cut-off point, a current level of 3,832 policies declining at an annual rate of approximately 10% will most definitely create fluctuations in actual profits and losses, and potentially large ones.

Considering that SLECI is a newly formed company encompassing existing SLI's EC Business, it might be advisable to avoid such a situation in order not to create these fluctuations and false expectations on the policyholders' part.

APPOINTED ACTUARY'S OPINION

1 — *With respect to the transfer of the OECS business of SLI (from Anguilla, Antigua, Dominica, Grenada, Saint Christopher and Nevis, Saint Lucia and Saint Vincent and the Grenadines), it is my opinion that such transfer will not materially affect the financial position of SLI and SLECI, nor will it affect the insurance protection of the policyholders of such Business nor the quality of service. Consequently, I recommend that such transfer be approved.*

2 — *With respect to the combined Open and Closed Participating policies, it is my opinion that such policies should be converted to non-participating policies from the time of the transfer of the Business to SLECI. The level of participating benefits in the form of bonuses and/or dividends should be frozen at the current level and converted to fully guaranteed bonuses and/or dividends and valued in the same way as non-participating business. Consequently, I recommend that the necessary steps to achieve the foregoing be implemented immediately upon the transfer of the Business.*

I remain available to discuss the content of this opinion and my recommendations.

Yours truly,



Sylvain Goulet, FCIA, FSA, MAAA
Affiliate Member of the Institute and Faculty of Actuaries
Member of the Caribbean Actuarial Association
Appointed Actuary for Sagicor Life Inc.
Appointed Actuary for Sagicor Financial Corporation



APPENDIX “C”

Report of the Independent Actuary

**Scheme of Transfer
Subsidiarization of Sagicor Life Inc.'s
Eastern Caribbean (EC) Portfolio**

Independent Actuarial Review

October 12, 2017

Table of Contents

Introduction	40
Terms of Reference	40
Scope of Work	40
Documents Reviewed	40
Background	41
Section 1 – Data	43
Reasonableness and Consistency Checks	43
SLECI’s Proposed Portfolio Summary Statistics	43
Section 2 – Valuation Methods and Standards	44
Reserving Methodology	44
Reinsurance	44
Standards of Practice	44
Section 3 – Assumptions	45
Interest Rate	45
Mortality	46
Expenses	46
Lapses	47
Partial Withdrawal & Crediting Interest Rate	47
UL Premium Persistency	47
Premium Tax	47
Compliance with CAA Standards of Practice	48
Section 4 – Adequacy of Results	50
SLECI’s Proposed Portfolio Net Actuarial Liabilities	50
Sensitivity Testing	51
Sufficiency of Transfer Assets	51
Section 5 – Impact on Relevant Parties	53
MCCSR	53
Participating Policyholders	53
Section 6 – Opinion	55

Introduction

Terms of Reference

We have been engaged by Sagicor Life Inc. (“SLI”) to conduct an independent review of the actuarial reports (the “Eckler Reports”) performed by Eckler Ltd. (“Eckler”) as at December 31, 2016 (the “Valuation Date”) in conjunction with the Scheme of Transfer (the “Scheme”) documents, for the subsidiarization of SLI’s Eastern Caribbean (“EC”) portfolio.

I am a Fellow of the Society of Actuaries (“FSA”) employed by Morneau Shepell Ltd. and confirm that both I and Morneau Shepell are independent of both Eckler and SLI and any of its affiliated companies.

Scope of Work

We were required to review, and provide an opinion on, the reasonableness and appropriateness of the Eckler Reports in conjunction with the Scheme documents. The review considers and comments on the following:

- 1) The adequacy of the Eckler Reports for the purpose for which it is to be used. In particular, the following issues will be considered:
 - a) Is the report sufficiently comprehensive and rigorous to provide an informed opinion on the estimated policy reserves; and
 - b) Was the work completed in accordance with the relevant professional standards of practice?
- 2) The appropriateness of the actuarial methods, assumptions, rationales and conclusions in the report;
- 3) The reasonableness and adequacy of the estimated policy reserves;
- 4) The effect of the Scheme on policyholders being transferred;
- 5) The possible impact of the Scheme on the existing policyholders of SLI.

Documents Reviewed

We were provided with the following documents:

- 1) Copies of the Eckler Reports, these included SLI’s 2016 Appointed Actuary’s Report as well as separate 2016 Appointed Actuary’s Reports for all such business in each of the eight EC countries as at December 31, 2016;
- 2) EC Form 1’s for all of SLI’s business in each of the eight EC countries as at December 31, 2016;
- 3) A copy of SLI’s audited non-consolidated financial statements as at December 31, 2016;
- 4) Copies of GGY AXIS datasets used to produce the results presented in the Eckler Reports;

- 5) An excel file summarizing reserve totals in the *Eckler Reports* for all business in each of the eight *EC* countries as at December 31, 2016 and June 30, 2017 splitting such reserves by those calculated by GGY AXIS and those not calculated by GGY AXIS;
- 6) An excel file detailing the MCCR calculations for SLI and SFC as at December 31, 2016 and June 30, 2017;
- 7) Summaries of the intended reinsurance arrangements for the subsidiarization of *SLI's EC* portfolio;
- 8) Copies of relevant insurance legislation (the "*Legislation*") in Antigua and Barbuda, Dominica, Grenada, Saint Christopher and Nevis, Saint Lucia and Saint Vincent and the Grenadines;
- 9) A copy of *SLI's* Dynamic Capital Adequacy Testing – 2016 Report ("*DCAT2016*");
- 10) A copy of the draft transfer agreement for the *Scheme* dated September 28, 2017 (the "*Agreement*");
- 11) Excel files summarizing the allocation of assets as at September 30, 2016 backing policy premium method valuation funds in the *Eckler Reports* and distribution of assets by asset class as at June 30, 2017 that are expected to be transferred from *SLI* as stated in the *Agreement* ("*Transfer Assets*");
- 12) A copy of *SLI* Appointed Actuary's opinion with respect to the treatment of the open and closed par funds; and
- 13) An excel file containing details of the policies listed in Schedule 1 of the *Agreement* (the "*Anguilla Contracts*").

Background

SLI is an insurance company incorporated in Barbados with branches throughout the Caribbean. *SLI* is a subsidiary of Sagicor Finance Corporation Limited ("*SFCL*") which is the publically listed holding company for the Sagicor group of companies. *SFCL* is domiciled in Bermuda.

SLI concluded the purchase of British-American Insurance Company Limited's ("*BAICO*") portfolio of life insurance business in the *EC* on March 15, 2013. The purchase was concluded between *SLI*, *BAICO* (in judicial management) and the *EC* governments. The Sale and Purchase Agreement provided that the *BAICO* portfolio together with *SLI's* existing life insurance business in the *EC* shall be transferred to a company incorporated in the Eastern Caribbean Currency Union. Sagicor Life (Eastern Caribbean) Inc. ("*SLECI*") was incorporated in Saint Lucia on October 10, 2014 to fulfil this mandate and like *SLI* is a subsidiary of *SFCL*.

SLI has agreed to the sale of its insurance business portfolio in Anguilla (excluding the *Anguilla Contracts*) and Montserrat. It expected that this transaction will be concluded by the end of the 2017 financial year.

SLI proposes to transfer its insurance portfolio in Antigua, Dominica, Grenada, Saint Christopher and Nevis, Saint Lucia and Saint Vincent and the Grenadines along with the *Anguilla Contracts* to *SLECI*. It will be necessary to transfer some of *SLI's* assets to match the liabilities of the portfolio of insurance business to be transferred to *SLECI*. The assets to be transferred include, but are not limited to investment property, deposits, mortgages, equities, debt and demand loans.

A *Scheme* prepared in accordance with the various Insurance Acts in the *EC* will be submitted for the approval of the *EC* insurance regulators. A report of an independent actuary is required for inclusion in the *Scheme*.

All monetary values in this report are expressed in *EC* Dollars, unless otherwise stated.

This report is intended for use by *SLI* and *EC* insurance regulators only as required by Statute.

Section 1 – Data

Reasonableness and Consistency Checks

The Actuary performed reasonableness testing on the data produced by the company’s policy administration system. The Actuary relied on the auditor’s work for data quality and accuracy which is an acceptable practice.

SLECI’s Proposed Portfolio Summary Statistics

Summary statistics for SLECI’s proposed portfolio are shown in Table 1.1 below:

Table 1.1 Summary Statistics for the SLECI’s Proposed Portfolio Dec 31, 2016

Product Line	Policy Count	Net Sum Assured (EC\$)	Office Yearly Premiums (EC\$)
	2016	2016	2016
Participating	4,002	236,507,963	6,197,459
Non-Participating	26,085	3,810,796,580	56,121,237
Universal Life	24,566	3,120,902,132	31,634,978
Annuities	1,509	12,744,984	3,310,675
Group Life and AD&D	17,443	1,858,815,280	4,673,992
Group Creditor	4,517	499,227,251	2,478,348
Individual Health	1,718	n/a	4,671,411
Group Health	18,176	n/a	32,187,526
Total	98,016	9,538,994,190	141,275,625

Source: Values were compiled from the relevant EC Form 1’s.

SLECI’s proposed portfolio represents 22% of policies, 23% of net sum assured and 18% of office yearly premiums of SL’s existing business.

We also ensured that the business indicated in the Form 1’s was the business valued for the actuarial valuation. In the AXIS valuation models, both the base and rider or supplemental policy coverages are modelled as separate records so the policy count produced by the model overstates the actual number of policies and net sums assured. The Form 1 would typically just indicate the base policy count and sums assured. However, premiums on a policy basis would include the premiums for the base and rider coverage on the policy. For the policies modelled on AXIS we were able to match the annual premiums to 98% of the expected premiums shown in the Form 1’s.

Section 2 – Valuation Methods and Standards

Reserving Methodology

The reserving methodology for the various lines of business are as indicated in Table 2.1 below:

Table 2.1: Reserving Methodology in *Eckler Reports*

Line of Business	Reserving Methodology in <i>Eckler Reports</i>
Ordinary, Universal Life and Annuities	Policy Premium Method
Group Life and Creditor	% of Premium Method
Group and Individual Health	Bornhuetter-Fergusson Method

The Policy Premium Method (“PPM”) is used to value the Ordinary, Universal Life and Annuity business. This is a gross premium method which projects all cash inflow and outflow using best estimate assumptions (see section 3 for details on the assumptions used). Margins for adverse deviations (“MfADs”) in the best estimate assumptions are added to each assumption. The level of MfADs depends on the certainty in the best estimate assumptions. Higher MfADs are employed where greater uncertainty exist. Lack of credible experience data also gives rise to greater uncertainty.

Neither the *Legislation* nor the Caribbean Actuarial Association (“CAA”) standards of practice prescribe that a specific valuation method be used. The PPM is an approach accepted by both Canadian and Caribbean Regulators and is therefore appropriate for valuing these lines of business.

Other methods were used to value the health, group life and group creditor blocks of business such as the Bornhuetter-Fergusson method and percentage of premiums. These methods are appropriate and reasonable for the blocks of business being valued.

Reinsurance

As evident in the GGY AXIS datasets used to produce the results in the *Eckler Reports*, reinsurance was explicitly modelled in accordance with any applicable existing arrangements. From our discussions with SLI and as indicated in the *Agreement*, we understand that the intention is to novate existing treaties so that there is no change in reinsurance arrangements before and after transfer to SLECI. As such, any reinsurance modelling in the *Eckler Reports* remains appropriate when evaluating SLECI’s proposed portfolio.

Standards of Practice

In the individual EC countries actuarial reports the Actuary states that accepted actuarial practice was employed in determining the liabilities. In addition, he states in SLI’s consolidated actuarial report that ‘Sagicor has been adhering to Canadian standards with respect to methodology since 1991 year-end’.

Section 3 – Assumptions

Assumptions are primarily based on recent experience studies conducted on all of *SLI's* business. When there is a lack of credible experience, *MfADs* are expected to be high. Generally, the range of *MfADs* for these assumptions as recommended by the Canadian Institute of Actuaries, are:

Table 3.1: Recommended Range for *MfADs*

Assumption	Low <i>MfAD</i>	High <i>MfAD</i>
Interest Rate	-0.5%	-2.0%
Mortality	+3.75/ex	+15/ex
Expenses	+2.5%	+10.0%
Lapses	+/- 5%	+/- 20%

Sources: <https://www.cia-ica.ca/docs/default-source/1990/9013e.pdf?sfvrsn=0>
<http://actuaries.ca/members/publications/2006/206132e.pdf>

Interest Rate

The *Eckler Reports* assumed the following valuation interest rates:

Table 3.2: Valuation Interest Rates

Line of Business	Interest Rates
Non-Participating Life & Annuity	7.68% grading to 6.31% in year 35
Open Participating	7.3% grading to 6.31% in year 35
Closed Participating	6.79% grading to 6.31% in year 35

We note that the *Transfer Assets* consist mostly of government and corporate bonds with average nominal yield weighted by carrying value as at June 30, 2017 of approximately 6.9%. Given the presence of higher yielding asset classes such as common shares, policy and mortgage loans and investment property in the *Transfer Assets* together with these bonds, we believe that the interest rate assumptions in the *Eckler Reports* still remain viable for evaluating *SLECI's* proposed portfolio.

Margins for default risk and investment expenses were also explicitly modelled and vary appropriately by asset class.

Mortality

Mortality assumptions for ordinary and universal life business in the *Eckler Reports* are as follows:

Table 3.3: Valuation Interest Rates

Block of Business	Mortality Table	% of Table
Underwritten	CIA 1997 - 2004	135% grading to 82% after 15 yrs
Peace Assured non-underwritten	CIA 1997 - 2004	1100% grading to 150% after 5 years
Other non-underwritten	CIA 1997 - 2004	350% grading to 150% after 15 years

These mortality assumptions are justified based on a recent mortality experience study from April 1, 2011 to March 31, 2016 on all *SLI's* business and assigning 85.2% credibility to such raw experience with adjustment for mortality improvement to the *Valuation Date*. The remaining 14.8% was taken from Canadian Industry experience and also adjusted for mortality improvement to the *Valuation Date*. We believe that such an approach is appropriate for setting the mortality assumption and is reasonable for evaluating *SLECI's* proposed portfolio.

For deferred annuities, 90% of the 1994 GAM (age nearest and sex distinct tables) with a modified version of scale AA for mortality improvements is used. For immediate annuities, 1994 GAR (age nearest and sex distinct tables) with an 88% adjustment for male annuitants and a modified version of scale AA for mortality improvement is again used.

Middle of the range *MfADs* (see Table 3.1) of +9.375/ex for non-participating business and 5% for annuities indicate that the Actuary is fairly comfortable with the mortality assumptions. A smaller *MfAD* of 4.6875/ex for participating business is also not unreasonable given that any adverse experience can be shared with participating policyholders through experience dividends.

Expenses

An expense assumption of \$129.60 per policy in 2017 inflated at 2.25% annually thereafter is used for non-participating policies. 50% of these expenses are assumed for guaranteed immediate and deferred annuities and 25% for riders. A recent expense study based on maintenance expenses incurred in 2016 for *SLI's* policies in all territories except Barbados and Trinidad was used to justify this assumption as being appropriate.

A low *MfAD* (see Table 3.1) of +5% is used in the *Eckler Reports*, even though the Actuary expresses concern over the allocation between acquisition and maintenance expenses used in the experience study.

From our discussions with *SLI*, we understand that the policy administration arrangements would remain the same for *SLECI's* proposed portfolio after the transfer and that policy expenses for this portfolio are not expected to change as a result of the subsidiarization. Under such a scenario, the expense assumption in the *Eckler Reports* remains appropriate when evaluating *SLECI's* proposed portfolio.

Lapses

Lapse assumptions vary by product line and are based on a 2016 experience study conducted only on *SLI's EC* portfolio.

A middle of the range *MfAD* (see Table 3.1) of +12.5% is used for non-participating business while a lower *MfAD* of +/-7.5% is used for participating business.

Partial Withdrawal & Crediting Interest Rate

Based on experience from 2011 to 2015, partial withdrawal rates were set at 6.30% for Life Saver I and II, 6.90% for Junior Life Saver, 4.65% for unregistered accumulation annuities and 0.00% for registered accumulation annuities.

The credited rate on Universal Life policies is assumed to be 4.00% per annum. This is equivalent to the minimum guaranteed credited rate and as such is appropriate. For accumulation annuities, crediting rates assumptions remain at 4.00% for registered contracts and 3.75% for non-registered contracts which are the actual rates in effect in recent years.

UL Premium Persistency

The *Eckler Reports* assume premium persistency on a seriatim basis based on actual and expected premiums paid over the 3 year period prior to June 30, 2016, which is appropriate. An *MfAD* of 5% is applied to this assumption.

Premium Tax

Table 3.4 summarizes the premium tax rates applicable in the various *EC* countries and those modelled in the GGY AXIS datasets.

Table 3.4: Premium Tax

Country	Tax Rate	Model Assumption	Model Assumption <i>BAICO</i> pols	Tax Rate after Transfer
Anguilla	0%	0%	2%	0%
Antigua & Barbuda	3%	3%	2%	3%
Dominica	3%	3%	2%	3%
Grenada	0%	0%	2%	0%
Saint Christopher and Nevis	0%	0%	2%	0%
Saint Lucia	3%	3%	2%	1.5%
Saint Vincent and the Grenadines	5%	5%	2%	5%

Of the *EC* countries that we were able to independently verify, such assumptions seem inconsistent for the *BAICO* block of business. Our own calculations indicate the impact of using the correct premium tax rates is immaterial (a decrease of 0.2% of the *BAICO* policy liabilities).

Also, after the transfer takes place, *SLECI* would be a resident insurance company and therefore only be subject to premium tax of 1.5% in accordance with the Saint Lucia Chapter 12.09 Insurance Premium Tax Act. A decrease in premium tax rates would impact the reserves in respect of *SLECI*'s proposed Saint Lucia portfolio but we expect the impact on liabilities to be immaterial.

Compliance with CAA Standards of Practice

The following table is a compliance checklist for the actuarial report making reference to the sections of the Act, Regulations and the Caribbean Actuarial Association (*CAA*) standards as they relate to the consolidated *SLI* Appointed Actuary Report (*AAR*) reviewed.

Table 3.5 – Compliance Checklist

Item Under Review	Requirement of the CAA Standard	Comments
Actuarial Method		
Assets	Ensure or verify that adequate systems are in place to ensure that appropriate values are placed on the assets and that any limits on exposure to individual investments, classes of investments and counterparties imposed by regulations or by the insurer are properly applied and that adequate reserves are set up for over-valuation of material portions of assets - APS2 s 3.5.	Fair Value as per IFRS principles
Liabilities	Liability valuation methods that are appropriate to the contracts, taking into account principal and ancillary benefits (surrender values, policyholder options and guarantees) – APS2 s 3.2.	Policy Premium Valuation Method. Section 8 of the <i>AAR</i>
Other	Adequate explicit and implicit provisions should also be made for any mismatching of assets and liabilities – APS2 s 3.11.	Section 8 of the <i>AAR</i>
Actuarial Assumptions		
Mortality	Use recent relevant credible experience and trends of the country, the industry and the insurer – APS2 s 3.4.	2016 experience studies conducted.
Morbidity		
Lapses		
Expenses	Appropriate provisions for future expenses of administering existing business – APS2 s 3.3.	2016 expense study conducted.
Discount rate	Deterministic or stochastic factors used should be consistent with the asset valuation method – APS2 s 3.6.	Section 8 of the <i>AAR</i>

Item Under Review	Requirement of the CAA Standard	Comments
Other	Ensure that adequate margins are included in the valuation assumptions or methods, including credit taken for reinsurance – APS2 s 3.10.	Section 10 of the AAR
Other Items		
Data	The Actuary must take all reasonable steps to ensure data accuracy, establish reserves for inaccuracy and qualify certificate of solvency to the regulator if material – APS2 s 3.1.	Sections 4 & 5 of the AAR
Reinsurance	Take account of reinsurance arrangements including implicit financing provisions and the possibility that the reinsurance contracts may lapse or prove unenforceable. Also consider the possibility of failure of or dispute with a reinsurer or the reinsurers’ investments or financial instruments counterparty- APS 2 s 3.8, 3.9, 3.10.	Section 17 & 18 of AAR
Changes in Methodology	All material valuation methods should be stated APS 2 s 2.3.	Section 8 of the AAR
Changes in Assumptions	All material assumptions should be stated – APS 2 s 2.3.	Section 6 of the AAR
Capital Adequacy	All material risks to the solvency of the insurer should be identified – APS 2 s 2.4.	Section 22 of <i>SLI AAR</i> and 2016 <i>DCAT</i> report

Section 4 – Adequacy of Results

SLECI's Proposed Portfolio Net Actuarial Liabilities

The following is a summary of the net actuarial liabilities as at the *Valuation Date* for SLECI's proposed portfolio.

Table 4.1: SLECI's Proposed Portfolio Net Actuarial Liabilities as at the *Valuation Date*

Product Line	Net Actuarial Liabilities Allowing Negative Reserves (EC\$)	Negative Reserves (EC\$)	Net Actuarial Liabilities Disallowing Negative Reserves (EC\$)	Cash Surrender Value Deficiencies Allowing Negative Reserves(EC\$)
Participating	71,308,327	86,703	71,395,030	31,086,760
Non-Participating	5,343,567	56,267,156	61,610,723	56,569,799
Universal Life	44,048,552	28,976,112	73,024,664	76,551,513
Annuities	34,373,938	393,444	34,767,382	3,519,691
Group Life and AD&D	573,547	-	573,547	-
Group Creditor	471,767	-	471,767	-
Individual Health	479,011	-	479,011	-
Group Health	4,583,511	-	4,583,511	-
Total¹	161,182,266	85,723,415	246,905,680	167,727,763
June 30, 2017^{2,3}	159,096,625	93,632,567⁴	252,729,192	

¹Net actuarial liability totals do not sum due to rounding effect amounting to EC\$46.

Source: Values were compiled from the relevant EC Form 1's.

²For June 2017 exchange rate BD\$1 = \$EC1.35

³Including the Dec 2016 Anguilla Contracts values

⁴Estimated

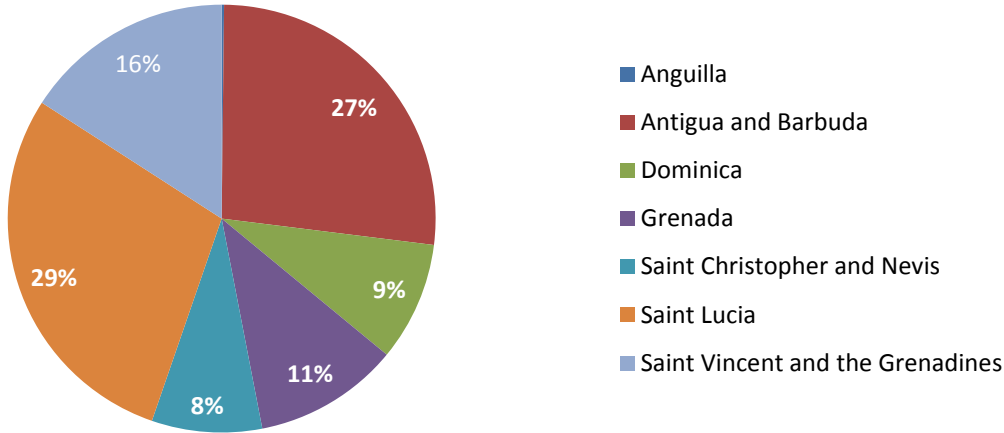
Table 4.1 above indicates that SLECI's proposed portfolio net actuarial liabilities consist of approximately 9% of SLI's existing net actuarial liabilities after disallowing negative reserves for the *Anguilla Contracts*, Antigua and Barbuda, Dominica, Grenada, Saint Christopher and Nevis, Saint Lucia and Saint Vincent and the Grenadines. As this 9% is much lower than the 22% of policies, 23% of net sum assured and 18% of office yearly premiums of SLI's existing business determined in Section 1, this suggests that SLECI's proposed portfolio may consist of much "newer" business than SLI's remaining business as well as a difference in product mix.

We have verified for a sample of cells from the GGY AXIS datasets that the assumptions examined in Section 3 of this report were appropriately modelled to determine the net actuarial liabilities that were calculated by GGY

AXIS. Reasonableness testing was also conducted on product lines where the percentage of premium method had been employed to calculate the reserves.

To help determine the materiality of the expected change in the Saint Lucia premium tax rate mentioned in Section 3, we first explore the distribution of *SLECI's* proposed portfolio net actuarial liabilities by territory in Chart 4.2 below. Given that the Saint Lucia business only accounts for 29% of the net actuarial liabilities, we believe that this change does not materially affect the overall portfolio net actuarial liabilities.

Chart 4.2: Distribution of *SLECI's* Proposed Portfolio Net Actuarial Liabilities (Disallowing Negative Reserves) as at December 31, 2016 by Territory



The calculated liabilities include Provisions for Adverse Deviation (PADs) of approximately 39% or \$60m of the total liabilities. In addition to this margin the negative reserves add a further \$80m to the reserves.

Based on the data modelled and the valuation methods and assumptions I am of the opinion that the net actuarial liabilities in Table 4.1 are a fair representation of *SLECI's* proposed portfolio.

Sensitivity Testing

A dynamic capital adequacy report based on *SLI's* net actuarial liabilities as at the *Valuation Date* was not available as at the date of this report. However, the *DCAT2016* (based on net actuarial liabilities as at December 31, 2015), suggests that the major risks for *SLI*, and likely *SLECI* as well, would be decreasing interest rates, higher mortality experience and high expenses.

Sufficiency of Transfer Assets

Based on the *Legislation* in the territories for *SLECI's* proposed portfolio, Dominica has the most stringent solvency requirements regarding foreign companies operating in their territory. According to S54(1)(a) of the Commonwealth of Dominica Insurance Act 4, *SLECI* would require a minimum transfer of assets of 110% of its policyholder long term insurance liabilities after deduction for policy loans, accrued interest on policy loans, and

outstanding premiums owed by policyholders. If there are no deductions, the minimum transfer of assets to *SLECI* would be approximately EC\$ 272 million as at December 31, 2016.

As at June 30, 2017, the net actuarial liabilities are approximately EC\$253 million. Assuming no deductions, the minimum transfer of assets to *SLECI* would be approximately EC\$ 278 million. The carrying value of the *Transfer Assets* is EC\$373.5 million as at June 30, 2017. We estimate the maximum solvency ratio (assets / liabilities) to be approximately 148% under the St. Lucia Solvency requirements, assuming all the assets are admissible and no other liabilities as at June 30, 2017. A ratio of 100% is required.

We should also note that the value of the *Transfer Assets* exceeds the cash surrender value of the Sagicor EC portfolio as at June 30, 2017.

Section 5 – Impact on Relevant Parties

MCCSR

SFCL calculates its capital adequacy using the Canadian Minimum Continuing Capital Surplus Requirement (“MCCSR”), which is a risk based measure. This includes a C-1 risk (default) measure on all Government debt securities in accordance with the Sovereign S & P ratings.

SLI is a subsidiary of SFCL and also calculates its MCCSR ratio on a consolidated basis.

Table 5.1 below shows SFCL’s consolidated MCCSR ratio for 2012 to 2016.

Table 5.1: SFCL’s MCCSR Ratio

Year	2012	2013	2014	2015	2016
SFCL MCCSR Ratio	253%	259%	273%	301%	291%

Given that SLECI is a subsidiary of SFCL, this Scheme would not affect SFCL’s MCCSR Ratio. However SLI’s MCCSR ratio would be affected.

We were provided with the MCCSR calculations for SLI as at December 31, 2016 and June 30, 2017. These SLI ratios are not publicly published, however they are provided to the ECCU regulators. The June 2017 MCCSR decreased 9.5% from December 31, 2016 but still above the benchmark 150%. Using the value of the June 2017 liabilities, negative reserves, cash value deficiencies and *Transfer Assets*, we estimate that the Scheme will result in a 15% increase in the June 2017 MCCSR. The improvement in the MCCSR after the Scheme is due mainly to the reduced deductions in respect of negative reserves and cash value deficiencies which are proportionately higher for the transferred EC portfolio relative to all of SLI. Consequently, SLI would still be capitalized above the minimum 150% MCCSR ratio after the Scheme and thus SLI’s policyholders would not be materially adversely affected. Furthermore, given the sufficiency of the *Transfer Assets* examined in Section 4, we also are of the opinion that SLECI’s policyholders would not be adversely affected as a result of the Scheme.

Participating Policyholders

The contractual benefits of the transferring policies are set out in the policy terms and conditions. Under the Scheme, no changes to these terms and conditions are proposed.

The Agreement does not specify any unique treatment for participating policyholders after the Scheme. From our discussions with SLI, we understand that existing dividend crediting policy strategies are expected to continue for both SLI and SLECI participating policyholders after the Scheme.

Subsequent to our initial review and recommendation to consider establishing a separate participating account for the transferred participating policies, the Appointed Actuary conducted an analysis and provided an opinion and recommendations with respect to the treatment of the existing participating policyholders as follows:

'It is my strong opinion that the existing Participating policyowners will be better served by converting their participating policies into non-participating policies. Maintaining a Closed Participating Fund would also generate additional expenses for SLECI, including separate accounting, my annual certification as to the level of bonuses and dividends, and possibly some additional audit procedures.

Therefore, I recommend the following:

- 1. The combined Open and Closed Participating policies should be converted to non-participating policies from the time of the transfer of the Business to SLECI.*
- 2. The level of participating benefits in the form of bonuses and/or dividends should be frozen at the current level and converted to fully guaranteed bonuses and/or dividends and valued in the same way as non-participating business.*
- 3. SLECI should communicate this decision to the OECS Regulators as part of the transfer.'*

Based on the Appointed Actuary's analysis, I support his opinion and recommendations regarding the treatment of the transferred participating policyholders.

Section 6 – Opinion

I have produced this report in my role as the independent actuary for this *Scheme*. It is my opinion that:

1. The actuarial review conducted by *Eckler* was done in accordance with generally acceptable actuarial standards and employed methods and assumptions that were reasonable, adequate and in accordance with statutory requirements for the purpose of evaluating *SLECI*'s proposed portfolio.
2. The value placed on *SLECI*'s proposed net actuarial liabilities from the *Eckler Reports* is reasonable and adequate.
3. The solvency positions of both *SLI* and *SLECI* after the transfer would not be materially adversely affected.
4. The security of policyholders of both *SLI* and *SLECI* would not be materially adversely impacted as a result of the *Scheme*.
5. The Appointed Actuary's recommendation to convert participating policies to non-participating policies with guaranteed dividend and bonuses frozen at the current levels is based on sound analysis and represents a fair and reasonable treatment of these policyholders.

I am available to discuss the contents of this report should you have any questions.

Yours truly,



Marcia Tam-Marks, FSA

Fellow of the Society of Actuaries

MORNEAU SHEPELL LTD.
895 Don Mills Road, Suite 700
Toronto ON M3C 1W3

October 12, 2017

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APPENDIX “D”

Audited Financial Statements of Sagicor Life Inc.

**For the financial year ended
December 31, 2016**

Sagicor Life Inc

Consolidated Financial Statements
December 31, 2016
(expressed in BDS dollars)

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016

Independent Auditor's Report	61
Consolidated Financial Statements:	
Statement of Financial Position	66
Statement of Income	67
Statement of Comprehensive Income	68
Statement of Changes in Equity	69
Statement of Cash Flows	70
Notes to Financial Statements:	
1 Incorporation and Principal Activities	71
2 Accounting Policies	72
3 Critical Accounting Estimates and Judgements	99
4 Investment Property	102
5 Property, Plant and Equipment	103
6 Associates and Joint Ventures	105
7 Intangible Assets	109
8 Financial Investments	113
9 Reinsurance Assets	116
10 Income Tax Assets	116
11 Miscellaneous Assets and Receivables	117
12 Actuarial Liabilities	118
13 Other Insurance Liabilities	123
14 Investment Contract Liabilities	124
15 Deposit and Security Liabilities	125
16 Provisions	125
17 Income Tax Liabilities	125
18 Accounts Payable and Accrued Liabilities	126
19 Share Capital	126
20 Reserves	127
21 Participating Accounts	128
22 Premium Revenue	128

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTSDecember 31, 2016

23	Net Investment Income	129
24	Fees and Other Revenue	130
25	Policy Benefits and Change in Actuarial Liabilities	130
26	Interest Expense	131
27	Employee Costs	131
28	Equity Compensation Benefits	132
29	Employee Retirement Benefits	136
30	Income Taxes	143
31	Deferred Income Taxes	144
32	Dividends per Common Share	147
33	Other Comprehensive Income	148
34	Cash Flows	150
35	Subsidiary Acquisition and Ownership Changes	152
36	Contingent Liabilities	152
37	Related Party Transactions	153
38	Fair Value of Property	154
39	Financial Risk	155
40	Insurance Risk – Property & Casualty Contracts	185
41	Insurance Risk – Life, Annuity & Health Contracts	189
42	Fiduciary Risk	196
43	Statutory Restrictions on Assets	197
44	Capital Management	197
45	Subsidiary and Associated Companies	200
46	Events after December 31, 2016	204



Independent auditor's report

To the Shareholder of Sagicor Life Inc

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Sagicor Life Inc ('the Company') and its subsidiaries (together 'the Group') as at December 31, 2016, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2016;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the financial statements, which include 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 consolidated 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 Group 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.

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Our audit approach

Audit scope

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industries in which the Group operates.

A full scope audit was performed for four components. These four components were: Sagikor Life Inc (Barbados branch), Sagikor Life Inc (EC branches) and Sagikor Life Inc (Trinidad Branch) (included together within Sagikor Life Inc) and Sagikor Group Jamaica Limited ("Sagikor Jamaica"). Additionally, based on our professional judgement, two components: Barbados Farms Limited and Sagikor General Insurance Inc. were selected to perform an audit on specified account balances due to the materiality of certain individual balances to the Group consolidated financial statements as a whole. We performed analytical procedures with respect to the remaining components. All of the individually significant components were audited by a PwC network Firm.

In establishing the overall group audit strategy and plan, we determined the type of work that is needed to be performed at the components by the group engagement team and by the component auditors. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work of those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole. The Group audit team held meetings with each component team for which a full scope audit was performed. The Group team, on a rotational basis, selects one component for a detailed review of their audit work. This year the Group audit team reviewed the audit work of PwC Trinidad who are the component auditors for Sagikor Life Inc (Trinidad branch). The Group team engagement leader and senior manager also reviewed all reports with regards to the audit approach and findings submitted in detail by all full scope components.

In total, by performing these procedures, we achieved the following coverage on the financial statement line items:

Revenue	89%
Total assets	89%



Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Other Matter

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

PricewaterhouseCoopers SRL

PricewaterhouseCoopers SRL
Bridgetown, Barbados
March 31, 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2016

Amounts expressed in BDS \$000

	Notes	2016	2015
ASSETS			
Investment property	4	161,323	158,344
Property, plant and equipment	5	324,197	334,798
Associates and Joint Ventures	6	174,586	169,059
Intangible assets	7	158,647	170,976
Financial investments	8	7,803,245	7,537,007
Reinsurance assets	9	85,355	99,309
Income tax assets	10	119,154	132,683
Miscellaneous assets and receivables	11	373,424	338,197
Cash resources		533,046	482,720
Total assets		9,732,977	9,423,093
LIABILITIES			
Actuarial liabilities	12	2,965,204	2,936,907
Other insurance liabilities	13	349,436	351,871
Investment contract liabilities	14	690,509	669,521
Total policy liabilities		4,005,149	3,958,299
Deposit and security liabilities	15	2,978,005	2,879,394
Provisions	16	187,262	163,633
Income tax liabilities	17	35,920	18,152
Accounts payable and accrued liabilities	18	326,452	340,285
Total liabilities		7,532,788	7,359,763
EQUITY			
Share capital	19	529,507	523,614
Reserves	20	(133,113)	(127,144)
Retained earnings		1,285,258	1,200,619
Total shareholder's equity		1,681,652	1,597,089
Participating accounts	21	2,581	2,766
Non-controlling interests in subsidiaries		515,956	463,475
Total equity		2,200,189	2,063,330
Total equity and liabilities		9,732,977	9,423,093

These financial statements have been approved for issue by the Board of Directors on March 31, 2017.



Director



Director

CONSOLIDATED INCOME STATEMENT

Year ended December 31, 2016

Amounts expressed in BDS \$000

	Notes	2016	2015
REVENUE			
Premium revenue	22	1,322,898	1,512,648
Reinsurance premium expense	22	(143,753)	(145,694)
Net premium revenue		1,179,145	1,366,954
Net investment income	23	608,741	549,263
Fees and other revenue	24	200,908	177,461
Loss arising on acquisition	35	-	(2,050)
Total revenue		1,988,794	2,091,628
BENEFITS			
Policy benefits and change in actuarial liabilities	25	877,906	1,018,822
Policy benefits and change in actuarial liabilities reinsured	25	(37,196)	(36,711)
Net policy benefits and change in actuarial liabilities		840,710	982,111
Interest expense	26	117,187	112,225
Total benefits		957,897	1,094,336
EXPENSES			
Administrative expenses		414,790	408,338
Commissions and related compensation		167,829	177,981
Premium and asset taxes		19,500	27,548
Depreciation and amortisation		39,207	34,582
Total expenses		641,326	648,449
INCOME BEFORE TAXES			
Income taxes	30	(70,783)	(45,623)
NET INCOME FOR THE YEAR			
		318,788	303,220
NET INCOME ATTRIBUTABLE TO:			
Shareholder		223,512	218,990
Participating policyholders		220	2,569
Non-controlling interests		95,056	81,661
		318,788	303,220

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31, 2016

Amounts expressed in BDS \$000

	Notes	2016	2015
NET INCOME FOR THE YEAR		<u>318,788</u>	<u>303,220</u>
OTHER COMPREHENSIVE INCOME	33		
Items net of tax that may be reclassified subsequently to income:			
Available for sale financial assets:			
Unrealised gains/(losses) arising on revaluation		59,229	(133,240)
(Gains)/losses transferred to income		(152)	10,696
Net change in actuarial liabilities		(9,372)	26,862
Retranslation of foreign currency operations		<u>(56,962)</u>	<u>(31,372)</u>
		<u>(7,257)</u>	<u>(127,054)</u>
Items net of tax that will not be reclassified subsequently to income:	33		
Unrealised gains/(losses) arising on revaluation of owner occupied property		10,289	(689)
Losses arising on defined benefit plans		(24,993)	(9,801)
Other items		<u>(255)</u>	<u>-</u>
		<u>(14,959)</u>	<u>(10,490)</u>
Other comprehensive loss for the year		<u>(22,216)</u>	<u>(137,544)</u>
TOTAL COMPREHENSIVE INCOME		<u>296,572</u>	<u>165,676</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Shareholder		197,544	152,497
Participating policyholders		263	2,497
Non-controlling interests		<u>98,765</u>	<u>10,682</u>
		<u>296,572</u>	<u>165,676</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended December 31, 2016

Amounts expressed in BDS \$000

	Share capital	Reserves	Retained earnings	Share- holder's Equity	Par ⁽¹⁾ accounts	Non- controlling interest	Total
	Note 19	Note 20			Note 21		
2016							
Balance, beginning of year	523,614	(127,144)	1,200,619	1,597,089	2,766	463,475	2,063,330
Total comprehensive income	-	(8,468)	206,012	197,544	263	98,765	296,572
Transactions with holders of equity instruments:							
Capital contribution	5,893	-	-	5,893	-	-	5,893
Change in reserve for equity compensation benefits	-	(96)	-	(96)	-	(99)	(195)
Dividends declared (note 32)	-	-	(116,538)	(116,538)	-	(35,367)	(151,905)
Transfers and other movements	-	2,595	(4,835)	(2,240)	(448)	(10,818)	(13,506)
Balance, end of year	529,507	(133,113)	1,285,258	1,681,652	2,581	515,956	2,200,189
Balance, beginning of year	520,093	(56,698)	1,052,879	1,516,274	729	482,964	1,999,967
Total comprehensive income	-	(60,659)	213,156	152,497	2,497	10,682	165,676
Transactions with holders of equity instruments:							
Capital contribution	3,521	-	-	3,521	-	-	3,521
Change in reserve for equity compensation benefits	-	(603)	-	(603)	-	(625)	(1,228)
Dividends declared (note 32)	-	-	(76,607)	(76,607)	-	(29,669)	(106,276)
Transfers and other movements	-	(9,184)	11,191	2,007	(460)	123	1,670
Balance, end of year	523,614	(127,144)	1,200,619	1,597,089	2,766	463,475	2,063,330

⁽¹⁾ Participating

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 2016

Amounts expressed in BDS \$000

	Notes	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before taxes		389,571	348,843
Adjustments for non-cash items, interest and dividends	34.1	(363,017)	(146,594)
Interest and dividends received		492,707	479,351
Interest paid		(115,486)	(112,467)
Income taxes paid		(49,778)	(54,367)
Changes in operating assets	34.1	(235,612)	(802,284)
Changes in operating liabilities	34.1	210,973	128,190
Net cash flows - operating activities		<u>329,358</u>	<u>(159,328)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Property, plant and equipment, net	34.2	(29,177)	(29,892)
Investment in associates and joint ventures		(375)	(57,972)
Intangible assets, net		(3,517)	(27,532)
Net cash flows - investing activities		<u>(33,069)</u>	<u>(115,396)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Shares issued to minority interest		(13,267)	-
Dividends received from associates and joint ventures		3,574	960
Dividends paid to common shareholders		(107,447)	(63,485)
Dividends paid to non-controlling interests		(35,647)	(29,200)
Net cash flows - financing activities		<u>(152,787)</u>	<u>(91,725)</u>
Effects of exchange rate changes		<u>(8,760)</u>	<u>(7,080)</u>
Net increase/(decrease) in cash and cash equivalents		134,742	(373,529)
Cash and cash equivalents, beginning of year		<u>460,386</u>	<u>833,915</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	34.3	<u>595,128</u>	<u>460,386</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

1. INCORPORATION AND PRINCIPAL ACTIVITIES

Sagicor Life Inc is the name adopted by The Barbados Mutual Life Assurance Society following its conversion on December 6, 2002 from a mutual company to a company with share capital 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 inforce participating policies of The Society, to manage and protect the future bonus and dividend levels on pre-demutualization participating policies.

The Company is a wholly owned subsidiary of Sagicor Financial Corporation Limited (the Parent Company) which was continued as an exempted company under the laws of Bermuda on July 20, 2016. The Parent Company was originally incorporated on December 6, 2002 under the Companies Act of Barbados as a public limited liability holding company.

On February 1, 2005, the Company amalgamated with its wholly-owned subsidiary Life of Barbados Limited. The amalgamated company continues as Sagicor Life Inc.

The principal activities of the Sagicor Life Inc Group are as follows:

- Life and health insurance
- Annuities and pension administration services
- Property and casualty insurance
- Banking, investment management and other financial services

The Group operates across the Caribbean. Further details of the Group's holdings and operations are set out in note 45.

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

2. ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

The consolidated financial statements are prepared under the historical cost convention except as modified by the revaluation of investment property, owner-occupied property, available for sale investment securities, financial assets and liabilities held at fair value through income, 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 consolidated financial statements, are disclosed in note 3.

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

Amendments to IFRS

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2016, and have not been applied in preparing these consolidated financial statements (see note 2.24). There are no new standards, amendments to standards and interpretations effective for the financial year that have a significant effect on the consolidated financial statements.

2.2 Basis of consolidation**(a) Subsidiaries**

Subsidiaries are entities over which the Group has control. The Group has control over an entity when the Group is exposed to the variable returns from its ownership interest in the entity and when the Group has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are de-consolidated from the date on which control ceases.

All material intra-group balances, transactions and gains are eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

2. ACCOUNTING POLICIES (continued)**2.2 Basis of consolidation (continued)****(a) Subsidiaries (continued)**

The Group uses the acquisition method of accounting when control over entities and insurance businesses is obtained by the Group. The cost of an acquisition is measured as the fair value of the identifiable assets given, the equity instruments issued and the liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date irrespective of the extent of any non-controlling interest. Acquisition-related costs are expensed as incurred.

The excess of the cost of the acquisition, the non-controlling interest recognised and the fair value of any previously held equity interest in the acquiree, over the fair value of the of the net identifiable assets acquired is recorded as goodwill. If there is no excess and there is a shortfall, the Group reassesses the net identifiable assets acquired. If after reassessment, a shortfall remains, the acquisition is deemed to be a bargain purchase and the shortfall is recognised in income as a gain on acquisition.

Subsequent ownership changes in a subsidiary, without loss of control, are accounted for as transactions between owners in the statement of changes in equity.

Non-controlling interest balances represent the equity in a subsidiary not attributable to Sagicor's interests.

On an acquisition by acquisition basis, the Group recognises at the date of acquisition the components of any non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's net identifiable assets. The latter option is only available if the non-controlling interest component is entitled to a proportionate share of net identifiable assets of the acquiree in the event of liquidation. For certain components of non-controlling interest, other IFRS may override the fair value option.

Non-controlling interest balances are subsequently re-measured by the non-controlling's proportionate share of changes in equity after the date of acquisition.

(b) Sale of subsidiaries

On the sale of or loss of control of a subsidiary, the Group de-recognises the related assets, liabilities, non-controlling interest and associated goodwill of the subsidiary. The Group reclassifies its share of balances of the subsidiary previously recognised in other comprehensive income either to income or to retained earnings as appropriate. The gain (or loss) on sale recorded in income is the excess (or shortfall) of the fair value of the consideration received over the de-recognised and reclassified balances.

(c) Associates and joint venture

The investments in associated companies, which are not majority-owned or controlled but where significant influence exists, are included in these consolidated financial statements under the equity method of accounting.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

2. ACCOUNTING POLICIES (continued)**2.2 Basis of consolidation (continued)****(c) Associates and joint venture (continued)**

Investments in associate and joint venture companies are originally recorded at cost and include intangible assets identified on acquisition. Accounting policies have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.

The Group recognises in income its share of associates and joint venture companies' post acquisition income and its share of the amortisation and impairment of intangible assets which were identified on acquisition. Unrealised gains or losses on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest. The Group recognises in other comprehensive income, its share of post acquisition other comprehensive income.

(d) Pension and investment funds

Insurers have issued deposit administration and unit linked contracts in which the full return of the assets supporting these contracts accrue directly to the contract-holders. As these contracts are not operated under separate legal trusts, they have been consolidated in these financial statements.

The Group manages a number of segregated pension funds, mutual funds and unit trusts. These funds are segregated and investment returns on these funds accrue directly to unit-holders. Consequently the assets, liabilities and activity of these funds are not included in these consolidated financial statements unless the Group has a significant holding in the fund. Where a significant holding exists, the Group either consolidates the assets, liabilities and activity of the fund and accounts for any non-controlling interest as a financial liability or accounts for the fund as an associate.

2.3 Foreign currency translation**(a) Functional and presentational currency**

Items included in the financial statements of each reporting unit of the Group are measured using the currency of the primary economic environment in which the entity operates (the functional currency). A reporting unit may be an individual subsidiary, a branch of a subsidiary or an intermediate holding company group of subsidiaries.

The consolidated financial statements are presented in thousands of Barbados dollars, which is the Group's presentational currency.

(b) Reporting units

The results and financial position of reporting units that have a functional currency other than the Group's presentational currency are translated as follows:

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

2. ACCOUNTING POLICIES (continued)**2.3 Foreign currency translation (continued)****(b) Reporting units (continued)**

(iii) Resulting exchange differences are recognised in other comprehensive income.

Currencies which are pegged to the United States dollar are converted to the Barbados dollar by reference to the pegged rates. Currencies which float are converted to the Barbados dollar by reference to the average of buying and selling rates quoted by the respective central banks.

Exchange rates of the other principal operating currencies to the Barbados dollar were as follows:

	2016 closing rate	2016 average rate	2015 closing rate	2015 average rate
United States dollar	0.5000	0.5000	0.5000	0.5000
Eastern Caribbean dollar	1.3500	1.3500	1.3500	1.3500
Jamaica dollar	63.9912	62.3777	59.9879	58.3561
Trinidad & Tobago dollar	3.3729	3.3095	3.2098	3.1706

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are recorded in other comprehensive income. On the disposal or loss of control of a foreign entity, such exchange differences are transferred to income.

Goodwill and other intangible assets recognised on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity, and are translated at the rate ruling on December 31.

(c) Transactions and balances

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

2. ACCOUNTING POLICIES (continued)**2.4 Investment property**

Investment property consists of freehold lands and freehold properties which are held for rental income and/or capital appreciation. Investment property is recorded initially at cost. In subsequent financial years, investment property is recorded at fair values as determined by independent valuation, with the appreciation or depreciation in value being taken to investment income. Fair value represents the price (or estimates thereof) that would be agreed upon in an orderly transaction between market participants at valuation date.

Investment property includes property partially owned by the Group and held under joint operations with third parties for which the Group recognises its share of the joint operation's assets, liabilities, revenues, expenses and cash flows.

Transfers to or from investment property are recorded when there is a change in use of the property. Transfers to owner-occupied property or to real estate developed for resale are recorded at the fair value at the date of change in use. Transfers from owner-occupied property are recorded at their fair value and any difference with carrying value at the date of change in use is dealt with in accordance with note 2.5.

Investment property may include property of which a portion is held for rental to third parties and the other portion is occupied by the Group. In such circumstances, the property is accounted for as an investment property if the Group's occupancy level is not significant in relation to the total available occupancy. Otherwise, it is accounted for as an owner-occupied property.

Rental income is recognised on an accrual basis.

2.5 Property, plant and equipment

Property, plant and equipment are recorded initially at cost. Subsequent expenditure is capitalised when it will result in future economic benefits to the Group.

Owner-occupied property is re-valued at least every three years to its fair value as determined by independent valuation. Fair value represents the price (or estimates thereof) that would be agreed upon in an orderly transaction between market participants at valuation date. Revaluation of a property may be conducted more frequently if circumstances indicate that a significant change in fair value has occurred. Movements in fair value are reported in other comprehensive income, unless there is a cumulative depreciation in respect of an individual property, which is then recorded in income. Accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset.

Owner-occupied property includes property held under joint operations with third parties for which the Group recognises its share of the joint operation's assets, liabilities, revenues, expenses and cash flows. On the disposal of owner-occupied property, the amount included in the fair value reserve is transferred to retained earnings.

The Group, as lessor, enters into operating leases with third parties to lease assets. Operating leases are leases in which the Group maintains substantially the risks of ownership and the associated assets are recorded as property, plant and equipment. Income from operating leases is recognised on the straight-line basis over the term of the lease.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

2. ACCOUNTING POLICIES (continued)**2.5 Property, plant and equipment (continued)**

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

Asset	Estimated useful life
Buildings	40 to 50 years
Furnishings and leasehold improvements	10 years or lease term
Computer and office equipment	3 to 10 years
Vehicles	4 to 5 years
Leased equipment and vehicles	5 to 6 years

Lands are not depreciated.

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 property, plant and equipment are determined by comparing the net sale proceeds to the carrying value.

2.6 Intangible assets**(a) Goodwill**

Goodwill (defined in note 2.2(a)) arising from an acquisition of a subsidiary or insurance business is allocated to appropriate cash generating units which are defined by the Group's operating segments. Goodwill arising in a reportable operating segment is allocated to that segment. Goodwill arising in a Group entity, which is not within a reportable operating segment, is allocated to that entity's own operations, or, if that entity is managed in conjunction with another Group entity, to their combined operations.

Goodwill arising from an investment in an associate is included in the carrying value of the investment.

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

On the disposal of a subsidiary or insurance business, the associated goodwill is de-recognised and is included in the gain or loss on disposal. On the disposal of a subsidiary or insurance business forming part of a reportable operating segment, the proportion of goodwill disposed is the proportion of the fair value of the asset disposed to the total fair value of the operating segment.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

2. ACCOUNTING POLICIES (continued)**2.6 Intangible assets (continued)****(b) Other intangible assets**

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

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

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

Class of intangible asset	Asset	Estimated useful life
Customer related	Customer relationships	4 - 20 years
	Broker relationships	10 years
Contract based	Licences	15 years
Technology based	Software	2 – 10 years

2.7 Financial assets**a) Classification**

The Group classifies its financial assets into four categories:

- held to maturity financial assets;
- available for sale financial assets;
- financial assets at fair value through income;
- loans and receivables.

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

Held to maturity financial assets are non-derivative financial instruments with fixed or determinable payments and fixed maturities that management has both the intent and ability to hold to maturity.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

2. ACCOUNTING POLICIES (continued)**2.7 Financial assets (continued)**a) Classification (continued)

Financial assets in the category at fair value through income comprise designated assets or held for trading assets. These are set out below.

- Assets designated by management on acquisition form part of managed portfolios whose performance is evaluated on a fair value basis in accordance with documented investment strategies. They comprise investment portfolios backing deposit administration and unit linked policy contracts for which the full return on the portfolios accrue to the contract-holders.
- Held for trading securities are acquired principally for the purpose of selling in the short-term or if they form part of a portfolio of financial assets in which there is evidence of short-term profit taking. Derivatives are also classified as held for trading unless designated as hedges.

Available for sale financial assets are non-derivative financial instruments intended to be held for an indefinite period of time and which may be sold in response to liquidity needs or changes in interest rates, exchange rates and equity prices.

(b) Recognition and measurement

Purchases and sales of financial investments are recognised on the trade date. Interest income arising on investments is accrued using the effective yield method. Dividends are recorded in revenue when due.

Held to maturity assets, loans and receivables are carried at amortised cost less provision for impairment.

Financial assets in the category at fair value through income are measured initially at fair value and are subsequently re-measured at their fair value based on quoted prices or internal valuation techniques. Realised and unrealised gains and losses are recorded as net gains in investment income. Interest and dividend income are recorded under their respective heads in investment income. Interest income on financial assets at fair value through income is calculated using the effective interest rate method.

Financial assets in the available for sale category are measured initially at fair value and are subsequently re-measured at their fair value based on quoted prices or internal valuation techniques. Unrealised gains and losses, net of deferred income taxes, are reported in other comprehensive income. Either on the disposal of the asset or if the asset is determined to be impaired, the previously recorded unrealised gain or loss is transferred to investment income. Discounts and premiums on available for sale securities are amortised using the effective yield method.

(c) 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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

2. ACCOUNTING POLICIES (continued)**2.7 Financial assets (continued)****(d) Impaired financial assets**

A financial asset is considered impaired if its carrying amount exceeds its estimated recoverable amount.

An impairment loss for assets carried at amortised cost is calculated as the difference between the carrying amount and the present value of expected future cash flows discounted at the original effective interest rate. The carrying value of impaired financial assets is reduced by impairment losses.

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

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

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

(e) Securities purchased for resale

Securities purchased for resale are treated as collateralised financing transactions and are recorded at the amount at which they are acquired. The difference between the purchase and resale price is treated as interest and is accrued over the life of the agreements using the effective yield method.

(f) Finance leases

The Group, as lessor, enters into finance leases with third parties to lease assets. Finance leases are leases in which the Group has transferred substantially the risks of ownership to the lessee. The finance lease, net of unearned finance income, is recorded as a receivable and the finance income is recognised over the term of the lease using the effective yield method.

(g) Embedded derivatives

The Group holds certain bonds and preferred equity securities that contain options to convert into common shares of the issuer. These options are considered embedded derivatives.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

2. ACCOUNTING POLICIES (continued)**2.7 Financial assets (continued)**(g) Embedded derivatives (continued)

If the measurement of an embedded derivative can be separated from its host contract, the embedded derivative is carried at current market value and is presented with its related host contract. Unrealised gains and losses are recorded as investment income.

If the measurement of an embedded derivative cannot be separated from its host contract, the full contract is accounted for as a financial asset at fair value through income.

2.8 Real estate developed or held for resale

Lands being made ready for resale along with the cost of infrastructural works are classified as real estate held for resale and are stated at the lower of carrying value and fair value less costs to sell.

Real estate acquired through foreclosure is classified as real estate held for resale and is stated at the lower of carrying value and fair value less costs to sell.

Gains and losses realised on the sale of real estate are included in revenue at the time of sale.

2.9 Policy contracts(a) Classification

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

The Group defines insurance risk as an insured event that could cause an insurer to pay significant additional benefits in a scenario that has a discernible 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 insurer; or
 - the profit or loss of a fund or insurer issuing the contract.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

2. ACCOUNTING POLICIES (continued)**2.9 Policy contracts (continued)****(a) Classification (continued)**

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

Residual gains in the participating accounts constitute discretionary participation features which the Group classifies as equity (see also note 2.19).

(b) Recognition and measurement**(i) Property and casualty insurance contracts**

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

Property insurance contracts provide coverage for the risk of property damage or of loss of property. Commercial property, homeowners' property, motor and certain marine property are common types of risks covered. For commercial policyholders insurance may include coverage for loss of earnings arising from the inability to use property which has been damaged or lost.

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

Premium revenue is recognised as earned on a pro-rated basis over the term of the respective policy coverage. If alternative insurance risk exposure patterns have been established over the term of the policy coverage, then premium revenue is recognised in accordance with the risk exposure. The provision for unearned premiums represents the portion of premiums written relating to the unexpired terms of coverage.

Claims and loss adjustment expenses are recorded as incurred. Claim reserves are established for both reported and un-reported claims. Claim reserves represent estimates of future payments of claims and related expenses less anticipated recoveries with respect to insured events that have occurred up to the date of the financial statements.

An insurer may obtain reinsurance coverage for its property and casualty insurance risks. The reinsurance ceded premium is expensed on a pro-rata basis over the term of the respective policy coverage or of the reinsurance contract as appropriate. Reinsurance claim recoveries are established at the time of the recording of the claim liability and are computed on a basis which is consistent with the computation of the claim liability. Profit sharing commission due to the Group is accrued as commission income when there is reasonable certainty of earned profit.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

2. ACCOUNTING POLICIES (continued)**2.9 Policy contracts (continued)****(b) Recognition and measurement (continued)****(i) Property and casualty insurance contracts (continued)**

Commissions and premium taxes payable are recognised on the same basis as premiums earned. At the date of the financial statements, commissions and premium taxes attributable to unearned premiums are recorded as deferred policy acquisition costs. Profit sharing commission payable by the Group arises from contracts between an insurer and a broker; it is accrued on an individual contract basis and recognised when the reinsurance premium is recorded.

(ii) Health insurance contracts

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

Premium revenue is accrued 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-rata basis over the term of the respective policy coverage. The provision for unearned premiums represents the portion of premiums written relating to the unexpired terms of coverage.

Claims are recorded on settlement. Reserves are recorded as described in note 2.10.

An insurer 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.

(iii) 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, 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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

2 ACCOUNTING POLICIES (continued)**2.9 Policy contracts (continued)****(b) Recognition and measurement (continued)****(iii) Long-term traditional insurance contracts (continued)**

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 2.10.

An insurer 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 claim recoveries are established at the time of claim notification.

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

(iv) 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.

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 date of the contract, or on the annuity payment date. Reserves for future policy liabilities are recorded as described in note 2.10.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

2 ACCOUNTING POLICIES (continued)**2.9 Policy contracts (continued)****(b) Recognition and measurement (continued)****(iv) Long-term universal life and unit linked insurance contracts (continued)**

An insurer 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.

(v) Reinsurance contracts assumed

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

Reinsurance contracts assumed include blocks of life and annuity policies assumed from third party insurers. In some instances, the Group also administers these policies.

(vi) Reinsurance contracts held

As noted in sections (i) to (iv) above, an insurer may obtain reinsurance coverage for insurance risks underwritten. The Group 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 originating insurer of its liability.

Reinsurance contracts held by an insurer 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 an insurer 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 an insurer under reinsurance contracts held are included in accounts payable and accrued liabilities and in actuarial liabilities.

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

(vii) Deposit administration and other investment contracts

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

2 ACCOUNTING POLICIES (continued)**2.9 Policy contracts (continued)**(b) Recognition and measurement (continued)(vii) Deposit administration and other investment contracts (continued)

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

- amortised cost where the insurer is obligated to provide investment returns to the pension scheme in the form of interest;
- fair value through income where the insurer 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 Group may provide pension administration services to the pension schemes. The Group earns fee income for both pension administration and investment services, it is accrued monthly.

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 Group 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 2.10.

(d) Liability adequacy tests

At the date of the financial statements, liability adequacy tests are performed by each insurer 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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

2 ACCOUNTING POLICIES (continued)**2.10 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 Canadian accepted actuarial standards. 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 resulting provisions for adverse deviations will be included in future income to the extent they are released when they are no longer required to cover adverse experience. Assumptions used to project benefits, expenses and taxes are based on insurer 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 an explicit projection 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.

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 the 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 asset credit losses, expected investment management expenses and a margin for adverse deviation.

Under this methodology, assets of each insurer 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 available for sale securities, 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 of available for sale securities.

Certain life insurance policies issued by the insurer contain equity linked policy side funds. The investment returns on these unitised funds accrue directly to the policies with the insurer 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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

2 ACCOUNTING POLICIES (continued)**2.10 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.

2.11 Financial liabilities

During the ordinary course of business, the Group issues investment contracts or otherwise assumes financial liabilities that expose the Group to financial risk. The recognition and measurement of the Group's principal types of financial liabilities are disclosed in note 2.9(b) (vii) and in the following paragraphs.

(a) Securities sold for re-purchase

Securities sold for re-purchase are treated as collateralised financing transactions and are recorded at the amount at which the securities were sold. Securities sold subject to repurchase are not derecognised but treated as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral. The difference between the sale and re-purchase price is treated as interest and is accrued over the life of the agreements using the effective yield method.

The liability is extinguished when the obligation specified in the contract is discharged, assigned, cancelled, or has expired.

(b) Deposit liabilities

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

(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, 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) 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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

2 ACCOUNTING POLICIES (continued)**2.12 Provisions**

Provisions are recognised when the Group 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.

2.13 Derivative financial instruments and hedging activities

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, bonds, interest rates, foreign exchange, credit spreads, commodities or other indices. Derivatives enable users to increase, reduce or alter exposure to credit or market risk. The Group transacts derivatives for three primary purposes: to create risk management solutions for customers, for proprietary trading purposes, and to manage its own exposure to credit and market risk.

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into, and subsequently are re-measured at their fair value at each financial statement date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as risk management objectives and strategies for undertaking various hedging transactions. The Group also documents its assessments, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

For cash flow hedges, gains and losses relating to the effective portion of changes in the fair value of derivatives are initially recognised in other comprehensive income, and are transferred to the statement of income when the forecast cash flows affect income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of income.

Gains and losses from changes in the fair value of derivatives that do not qualify for hedge accounting are included in net investment income or interest expense.

2.14 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.

2.15 Presentation of current and non-current assets and liabilities

In note 39.2, the maturity profiles of financial and insurance assets and liabilities are identified. For other assets and liabilities, balances presented in notes 4 to 7, 9 to 11, 13, 16, 17 and 31 are non-current unless otherwise stated in those notes.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

2 ACCOUNTING POLICIES (continued)**2.16 Employee benefits****(a) Pension benefits**

Group companies have various pension schemes in place for their employees. Some schemes are defined benefit plans and others are defined contribution plans.

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

Actuarial gains and losses arising from experience adjustments and 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.

For defined contribution plans, the Group pays contributions to the pension schemes on a mandatory or contractual basis. Once paid, the Group has no further payment obligations. Contributions are recognised in income in the period in which they are due.

(b) Other retirement benefits

Certain Group subsidiaries provide supplementary health and life insurance benefits to qualifying employees upon retirement. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and 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.

(c) Profit sharing and bonus plans

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

(d) Equity compensation benefits

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

(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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

2 ACCOUNTING POLICIES (continued)**2.16 Employee benefits (continued)****(d) Equity compensation benefits (continued)****(i) Equity-settled share-based transactions with staff (continued)**

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.

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.

(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 of listed entities within the Group. 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.

(e) 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 Group 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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

2 ACCOUNTING POLICIES (continued)

2.17 Taxes

(a) Premium taxes

Insurers are subject to tax on premium revenues generated in certain jurisdictions. The principal rates of tax are summarised in the following table.

Premium tax rates	Life insurance and non-registered annuities	Health insurance	Property and Casualty insurance
Barbados	3% - 6%	4%	3% - 5%
Jamaica	Nil	Nil	Nil
Trinidad and Tobago	Nil	Nil	Nil

Premium tax is recognised gross in the statement of income.

(b) Asset tax

The Group is subject to an asset tax in Jamaica and Barbados. In Jamaica, the asset tax is levied on insurance, securities dealers and deposit taking institutions, and is 0.25% of adjusted assets held at the end of the year. In Barbados, the asset tax is levied on insurance, deposit taking institutions and credit unions and is 0.20% of adjusted assets held at the end of a period. Taxes are accrued monthly.

(c) Income taxes

The Group is subject to taxes on income in the jurisdictions in which business operations are conducted. Rates of taxation in the principal jurisdictions for the current year are set out in the next table.

Income tax rates	Life insurance and non-registered annuities	Registered annuities	Other lines of Business
Barbados	5% of gross investment income	Nil	25% of net income
Jamaica	25% of profit before tax	Nil	25% - 33.33% of profit before tax
Trinidad and Tobago	15% (deductions granted only in respect of expenses pertaining to long-term business investment income)	Nil	25% of net income

(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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

2 ACCOUNTING POLICIES (continued)**2.17 Taxes (continued)**(c) Income taxes (continued)(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 and once they relate to the same entity. 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.

2.18 Common shares(a) Common shares

In exchange for consideration received, the Company has 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.

Where a Group entity purchases the Company's common shares, the consideration paid, including any directly attributable cost, is deducted from share capital and is recorded as treasury shares. Where such shares are subsequently sold to a third party, the deduction from share capital is reversed, and any difference with net consideration received is recorded in retained earnings.

(b) Dividends

On the declaration by the Company's directors of common share dividends payable, the total value of the dividend is recorded as an appropriation of retained earnings.

2.19 Participating accounts(a) "Closed" participating account

For participating policies of the Company in force at de-mutualisation, the Company established a closed participating account in order to protect the guaranteed benefits and future policy dividends, bonuses and other non-guaranteed benefits of the afore-mentioned policies. The rules of this account require that premiums, benefits, actuarial reserve movements, investment returns, expenses and taxes, attributable to the said policies, are recorded in a closed participating fund. Policy dividends and bonuses of the said policies are paid from the participating fund on a basis substantially the same as prior to de-mutualisation.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

2. ACCOUNTING POLICIES (continued)**2.19 Participating accounts (continued)**(a) “Closed” participating account (continued)

Distributable profits of the closed participating account are distributed to the participating policies in the form of declared bonuses and dividends. Undistributed profits remain in the participating account for the benefit of participating policyholders.

The participating account also includes an ancillary fund comprising the required provisions for adverse deviations as determined in the computation of actuarial liabilities of the said policies. Changes in the ancillary fund are not recorded in the participating account, but are borne by the general operations of the Company.

(b) “Open” participating account

The Company also established an open participating account for participating policies it issues after de-mutualisation. The rules of this account require that premiums, benefits, actuarial reserve movements, investment returns, expenses and taxes, attributable to the said policies are recorded in an open participating account.

The open participating account was established at de-mutualisation. On February 1, 2005, the Company amalgamated with Life of Barbados Limited, and participating policies of the latter were transferred to the open participating account. Accordingly, the liabilities of these participating policies and matching assets were transferred to the open participating account. The liabilities transferred included an ancillary fund comprising the provisions for adverse deviations on the transferred policies. Changes in the ancillary fund are not recorded in the participating account, but are borne by the general operations of the Company.

Additional assets to support the profit distribution to shareholders (see below) were also transferred to the account.

Distributable profits of the open participating account are shared between participating policies and shareholders in a ratio of 90:10. Profits are distributed to the participating policies in the form of declared bonuses and dividends. Profits which are distributed to shareholders are included in the allocation of Group net income to shareholders. Undistributed profits / (losses) remain in the participating account in equity.

(c) Financial statement presentation

The assets and liabilities of the participating accounts are included but not presented separately in the financial statements. The revenues, benefits and expenses of the participating accounts are also included but not presented separately in the financial statements. However, the overall surplus of assets held in the participating funds over the associated liabilities is presented in equity as the participating accounts. The overall net income and other comprehensive income that are attributable to the participating funds are disclosed as allocations.

The initial allocation of additional assets to the participating funds is recognised in equity as a transfer from retained earnings to the participating accounts. Returns of additional assets from the participating funds are accounted for similarly.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

2. ACCOUNTING POLICIES (continued)**2.20 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.

2.21 Interest income and expenses

Interest income and expenses are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective yield method based on the initial transaction price. Interest includes coupon interest and accrued discount and premium on financial instruments.

2.22 Fees and other revenue

Fees and non-insurance commission income are recognised on an accrual basis when the service has been provided. Fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-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.

2.23 Cash flows

The following classifications apply to the cash flow statement.

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 tangible and intangible assets to be utilised in the business and in respect of changes in subsidiary holdings, insurance businesses, and associated company and joint venture investments. 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.

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,
- less other borrowings from financial institutions made for the purpose of meeting cash commitments and which have maturities of three months or less from origination.

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

2. ACCOUNTING POLICIES (continued)

2.24 Future accounting developments and reporting changes

Certain new standards and amendments to existing standards have been issued but are not effective for the periods covered by these financial statements. The changes in standards and interpretations which may have a significant effect on future presentation, measurement or disclosure of the Group's financial statements are summarised in the following tables.

IFRS (Effective Date)	Subject/Comments
IFRS 9 – Financial Instruments (January 1, 2018)	<p data-bbox="552 630 1476 976">IFRS 9, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39.</p> <p data-bbox="552 997 1476 1123">For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.</p> <p data-bbox="552 1144 1476 1312">IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.</p> <p data-bbox="552 1333 1476 1711">In September 2016, the IASB issued Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4) to address concerns by preparers on implementing IFRS 9 before the new insurance standard, IFRS 17, is released. The amended IFRS 4 will provide all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before IFRS 17 is issued (known as the overlay approach), and also give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021 (known as the deferral approach). Entities deferring application of IFRS 9 will continue to apply the IAS 39.</p> <p data-bbox="552 1732 1476 1761">The Group is yet to assess IFRS 9's full impact.</p>

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

2. ACCOUNTING POLICIES (continued)

2.24 Future accounting developments and reporting changes (continued)

IFRS (Effective Date)	Subject/Comments
IFRS 15 – Revenue from contracts with customers (January 1, 2017)	IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The Group is assessing the impact of IFRS 15.
IFRS 16 – Leases (Annual periods beginning on or after 1 January 2019 with earlier application permitted if IFRS 15, 'Revenue from Contracts with Customers', is also applied.)	<p>This standard replaces the current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees.</p> <p>Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group is yet to assess the impact of IFRS 16.</p>
Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (January 1, 2017)	<p>Amendments made to IAS 12 in January 2016 clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Specifically, the amendments confirm that: A temporary difference exists whenever the carrying amount of an asset is less than its tax base at the end of the reporting period.</p> <p>An entity can assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit.</p> <p>Where the tax law restricts the source of taxable profits against which particular types of deferred tax assets can be recovered, the recoverability of the deferred tax assets can only be assessed in combination with other deferred tax assets of the same type.</p> <p>Tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets.</p> <p>The Group is assessing the impact of the amendment to IAS 12.</p>

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

2. ACCOUNTING POLICIES (continued)

2.24 Future accounting developments and reporting changes (continued)

IFRS (Effective Date)	Subject/Comments
<p>Disclosure Initiative – Amendments to IAS 7 (January 1, 2017)</p>	<p>Going forward, entities will be required to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows (eg drawdowns and repayments of borrowings) and non-cash changes such as acquisitions, disposals, accretion of interest and unrealised exchange differences.</p> <p>Changes in financial assets must be included in this disclosure if the cash flows were, or will be, included in cash flows from financing activities. This could be the case, for example, for assets that hedge liabilities arising from financing liabilities.</p> <p>Entities may include changes in other items as part of this disclosure, for example by providing a ‘net debt’ reconciliation. However, in this case the changes in the other items must be disclosed separately from the changes in liabilities arising from financing activities.</p> <p>The information may be disclosed in tabular format as a reconciliation from opening and closing balances, but a specific format is not mandated.</p> <p>The Group is assessing the impact of the amendment to IAS 7.</p>
<p>Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28 (In December 2016 the IASB decided to defer the application date of this amendment until such time as the IASB has finalised its research project on the equity method.)</p>	<p>The IASB has made limited scope amendments to IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures.</p> <p>The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a ‘business’ (as defined in IFRS 3 Business Combinations).</p> <p>Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor’s investment in the associate or joint venture. The amendments apply prospectively. The Group is yet to assess the impact of the amendment.</p>

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

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 Group's reported assets, liabilities, income and other comprehensive income. The items which may have the most effect on the Group's financial statements are set out below.

3.1 Impairment of financial assets

An available for sale debt security or a loan or a receivable is considered impaired when management determines that it is probable that all amounts due according to the original contract terms will not be collected. This determination is made after considering the payment history of the borrower, the discounted value of collateral and guarantees, and the financial condition and financial viability of the borrower.

The determination of impairment may either be considered by individual asset or by a grouping of assets with similar relevant characteristics.

3.2 Recognition and measurement of intangible assets

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

For significant amounts of intangibles arising from a business combination, the Group utilises independent professional advisors to assist management in determining the recognition and measurement of these assets.

3.3 Impairment of intangible assets**(a) Goodwill**

The assessment of goodwill impairment involves the determination of the value of the cash generating business units to which the goodwill has been allocated. Determination of the value involves the estimation of future cash flows or of income after tax of these business units and the expected returns to providers of capital to the business units and / or to the Group as a whole. For the Sagicor Life reporting segment, the Group uses the value in use methodology for testing goodwill impairment. For the Sagicor Jamaica reporting segment the Group uses the fair value less cost to sell methodology and for Sagicor General Insurance Inc the value in use methodology.

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)**3.3 Impairment of intangible assets (Continued)**(b) Other intangible assets

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

3.4 Fair value of securities not quoted in an active market

The fair value of securities not quoted in an active market may be determined using reputable pricing sources (such as pricing agencies), indicative prices from bond/debt market makers or other valuation techniques. Broker quotes as obtained from the pricing sources may be indicative and not executable or binding. The Group exercises judgement on the quality of pricing sources used. Where no market data is available, the Group may value positions using its own models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. The inputs into these models are primarily discounted cash flows. The models used to determine fair values are periodically reviewed by experienced personnel.

The models used for debt securities are based on net present value of estimated future cash flows, adjusted as appropriate for liquidity, and credit and market risk factors.

3.5 Valuation of actuarial liabilities(a) Canadian Actuarial Standards

The objective of the valuation of policy liabilities is to determine the amount of the insurer'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.

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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)**3.5 Valuation of actuarial liabilities (Continued)****(a) Canadian Actuarial Standards continued**

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 insurer. 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 41.

(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. The 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, and are, as far as is practicable, standardised across geographical areas. Provisions are determined within a specific range established by the Canadian Standards of Practice.

The principal assumptions and margins used in the determination of actuarial liabilities are summarised in note 12.3. 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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

4. INVESTMENT PROPERTY

The investment property for the year is as follows:

	2016	2015
Balance, beginning of year	158,344	177,534
Additions at cost	14	221
Transfer from real estate development for resale (note 11)	1,109	-
Transfers from / (to) property, plant and equipment (note 5)	1,692	(6,819)
Disposals and divestitures	(1,650)	(10,510)
Change in fair values	3,693	(1,631)
Effects of exchange rate changes	(1,879)	(451)
Balance, end of year	161,323	158,344

Investment property includes \$21,206 (2015 - \$22,890) which represents the Group's proportionate interest in joint operations summarised in the following table.

Country	Description of property	Percentage owned by the Group
Barbados	Freehold lands	50%
	Freehold office buildings	25%- 33%
Trinidad & Tobago	Freehold office building	60%

Pension Funds managed by the Group own the remaining 50% interests of freehold lands in Barbados, and a 33% interest in a freehold office building in Barbados.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

5. PROPERTY, PLANT AND EQUIPMENT

	Owner-occupied properties		Office furnishing, equipment & vehicles	Operating lease vehicles & equipment	Total
	Land	Land & buildings			
2016					
Net book value, beginning of year	76,061	161,388	72,921	24,428	334,798
Additions at cost	-	5,359	20,761	7,737	33,857
Transfers to investment property (note 4)	(1,692)	-	-	-	(1,692)
Transfers to intangible assets (note 7)	-	-	(5,770)	-	(5,770)
Other transfers	-	-	1,225	-	1,225
Disposals and divestitures	-	(1,506)	(1,015)	(3,224)	(5,745)
Change in fair values	-	(3,166)	-	-	(3,166)
Depreciation charge	-	(2,210)	(15,473)	(5,934)	(23,617)
Effects of exchange rate changes	-	(4,156)	(1,537)	-	(5,693)
Net book value, end of year	74,369	155,709	71,112	23,007	324,197
Represented by:					
Cost or valuation	74,369	162,007	218,707	37,509	492,592
Accumulated depreciation	-	(6,298)	(147,595)	(14,502)	(168,395)
	74,369	155,709	71,112	23,007	324,197

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

5. PROPERTY, PLANT AND EQUIPMENT

	Owner-occupied properties		Office furnishing, equipment & vehicles	Operating lease vehicles & equipment	Total
	Land	Land & buildings			
2015					
Net book value, beginning of year	76,439	155,801	75,940	26,876	335,056
Additions at cost	-	1,934	25,270	5,866	33,070
Transfers from investment property (note 4)	-	6,819	-	-	6,819
Transfers to intangible assets (note 7)	-	-	(12,695)	-	(12,695)
Transfers to real estate developed or held for sale (note 11)	(44)	-	-	-	(44)
Other transfers	-	11	277	-	288
Disposals and divestitures	(334)	(217)	(1,606)	(2,038)	(4,195)
Change in fair values	-	1,629	-	-	1,629
Depreciation charge	-	(2,158)	(13,179)	(6,276)	(21,613)
Effects of exchange rate changes	-	(2,431)	(1,086)	-	(3,517)
Net book value, end of year	76,061	161,388	72,921	24,428	334,798
Represented by:					
Cost or valuation	76,061	168,631	209,237	39,409	493,338
Accumulated depreciation	-	(7,243)	(136,316)	(14,981)	(158,540)
	76,061	161,388	72,921	24,428	334,798

Land and buildings consist largely of commercial office buildings.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

6. ASSOCIATES AND JOINT VENTURES

6.1 Interest in Associates and Joint Ventures

Name of Entity	Country of Incorporation	% of ownership interest		Nature of relationship	Measurement Method	Carrying Amount	
		2016	2015			2016	2015
RGM Limited	Trinidad & Tobago	33%	33%	Associate	Equity Method	44,689	46,394
FamGuard Corporation Limited ⁽¹⁾	Bahamas	20%	20%	Associate	Equity Method	27,397	28,116
Primo Holding Limited	Barbados	38%	38%	Associate	Equity Method	710	724
Sagicor Costa Rica SCR, S.A.	Costa Rica	50%	50%	Joint Venture	Equity Method	6,216	12,654
Sagicor Real Estate X-Fund Ltd. ⁽²⁾	St. Lucia	29%	29%	Associate	Equity Method	95,574	81,171
						174,586	169,059

⁽¹⁾ FamGuard Corporation Limited is listed on the Bahamas International Securities Exchange. The proportionate share of market value calculated on the basis of the year-end closing rate of \$11.64 per share was \$22,000 (2015 - \$22,400).

⁽²⁾ The Sagicor Real Estate X-Fund Limited is traded on the Jamaica Stock Exchange. The proportionate share of market value calculated on the basis of the year-end closing rate of \$0.19 (J\$12.25) per share was \$133,015 (2015 - \$116,691).

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

6. ASSOCIATES AND JOINT VENTURES (continued)

6.2 Summarised Financial Information

	RGM Limited		FamGuard Corporation Limited		Primo Holding Limited		Sagicor Costa Rica SCR, S.A.		Sagicor Real Estate X-Fund Ltd.	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
ASSETS										
Financial Investments	-	-	538,307	502,623	-	-	19,530	15,680	244,258	187,878
Cash Resources	13,376	23,658	31,370	20,183	-	-	7,122	7,214	18,956	39,943
Other investments and assets	252,234	265,470	122,576	127,243	2,100	2,100	9,900	3,734	429,105	336,612
Total assets	265,610	289,128	692,253	650,049	2,100	2,100	36,552	26,628	692,319	564,433
LIABILITIES										
Policy liabilities	-	-	441,658	412,004	-	-	7,521	3,657	-	-
Other liabilities	131,541	149,943	26,145	21,932	407	371	16,598	287	381,338	303,597
Total liabilities	131,541	149,943	467,803	433,936	407	371	24,119	3,944	381,338	303,597
Net Assets	134,069	139,185	224,450	216,113	1,693	1,729	12,433	22,684	310,981	260,836

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

6. ASSOCIATES AND JOINT VENTURES (continued)

6.2 Summarised Financial Information (continued)

	RGM Limited		FamGuard Corporation Limited		Primo Holding Limited		Sagicor Costa Rica SCR, S.A.		Sagicor Real Estate X-Fund Ltd.	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Reconciliation to carrying amounts:										
Investment, beginning of year	46,394	42,156	28,116	25,710	724	736	12,654	12,923	81,171	-
Additions	-	845	-	-	-	-	375	303	-	56,908
Accounts assumed on acquisition	-	-	-	-	-	-	-	-	-	24,576
Transfers	-	-	-	-	-	-	(5,772)	-	-	-
Dividends received	(939)	-	(1,160)	(960)	-	-	-	-	(1,475)	-
Share of income/(loss) before taxes	2,315	3,354	480	1,918	(14)	(12)	132	(567)	7,936	1,614
Share of amortisation or impairment of intangible assets which were identified on acquisition	-	-	(144)	(143)	-	-	-	-	-	-
Share of income taxes	(804)	496	-	-	-	-	-	-	-	-
Share of other comprehensive income/(loss)	-	-	105	1,591	-	-	(527)	-	13,524	342
Effects of exchange rate changes	(2,277)	(457)	-	-	-	-	(646)	(5)	(5,582)	(2,269)
Investment, end of year	44,689	46,394	27,397	28,116	710	724	6,216	12,654	95,574	81,171

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

6. ASSOCIATES AND JOINT VENTURES (continued)

6.2 Summarised Financial Information (continued)

	RGM Limited		FamGuard Corporation Limited		Primo Holding Limited		Sagicor Costa Rica SCR, S.A.		Sagicor Real Estate X-Fund Ltd.	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Summarised statement of comprehensive income										
REVENUE										
Net premium revenue	-	-	181,506	180,506	-	-	11,569	11,786	-	-
Net investment and other income	47,043	51,238	57,186	52,887	-	-	1,335	767	165,730	113,307
Total revenue	47,043	51,238	238,692	233,393	-	-	12,904	12,553	165,730	113,307
BENEFITS AND EXPENSES										
Benefits	-	-	156,211	151,342	-	-	6,785	10,692	-	-
Expenses	39,832	41,051	73,523	68,410	36	31	5,252	2,926	134,822	88,200
Total benefits and expenses	39,832	41,051	229,734	219,752	36	31	12,037	13,618	134,822	88,200
INCOME BEFORE TAXES										
Income taxes	(2,389)	1,493	-	-	-	-	(602)	(69)	(3,831)	(2,875)
NET INCOME FOR THE PERIOD	4,822	11,680	8,958	13,641	(36)	(31)	265	(1,134)	27,077	22,232
Other comprehensive income	-	-	1,267	1,763	-	-	(1,340)	-	46,140	1,417
Total comprehensive income	4,822	11,680	10,225	15,404	(36)	(31)	(1,075)	(1,134)	73,217	23,649
Dividends received from associates and joint ventures	939	-	1,160	960	-	-	-	-	1,475	-

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

7. INTANGIBLE ASSETS

(a) Analysis and changes for the year

	Goodwill	Customer & broker relationships	Software	Total
2016				
Net book value, beginning of year	90,543	32,881	47,552	170,976
Additions at cost	-	-	3,517	3,517
Transfer from property, plant and equipment (note 5)	-	-	5,770	5,770
Amortisation/impairment charges	-	(3,437)	(12,009)	(15,446)
Effects of exchange rate changes	(2,722)	(1,970)	(1,478)	(6,170)
Net book value, end of year	87,821	27,474	43,352	158,647
Represented by:				
Cost or valuation	87,821	71,158	107,595	266,574
Accumulated depreciation and impairments	-	(43,684)	(64,243)	(107,927)
	87,821	27,474	43,352	158,647
2015				
Net book value, beginning of year	93,286	38,258	16,667	148,211
Additions at cost	-	-	27,532	27,532
Transfer from property, plant and equipment (note 5)	-	-	12,695	12,695
Amortisation/impairment charges	(1,169)	(3,674)	(7,983)	(12,826)
Divestitures and disposals	-	-	(577)	(577)
Effects of exchange rate changes	(1,574)	(1,703)	(782)	(4,059)
Net book value, end of year	90,543	32,881	47,552	170,976
Represented by:				
Cost or valuation	90,543	75,907	100,715	267,165
Accumulated depreciation and impairments	-	(43,026)	(53,163)	(96,189)
	90,543	32,881	47,552	170,976

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

7. INTANGIBLE ASSETS (continued)

(b) Impairment of intangible assets

Goodwill arises from past acquisitions and is allocated to cash generating units (CGUs). Goodwill and intangible assets with an indefinite useful life are tested annually for impairment. Goodwill by reportable Parent Company operating segment (see note 45) is as follows:

Goodwill	2016	2015
Sagicor Life Inc	53,150	54,120
Sagicor Life Jamaica	26,102	27,854
Other operating companies	8,569	8,569
	87,821	90,543

The recoverable amount of a CGU is determined as the higher of its value in use or its fair value less costs to sell.

For those CGU's which the fair value less costs to sell methodology is used, financial projections are used as inputs to determine maintainable earnings over time to which is applied an appropriate earnings multiple. For those CGU's which the value in use methodology is used, cash flows are extracted from financial projections to which are applied appropriate discount factors and residual growth rates, or alternatively, the cash flows from the financial projections are extended to 50 years using an actuarial appraisal value technique which incorporates appropriate discount rates and solvency capital requirements.

As disclosed in note 2.6 (a) goodwill is allocated to the Group's reportable operating segments. During the year the Group combined the Barbados, Eastern Caribbean, Dutch Caribbean, the Bahamas and Central America segment with its Trinidad and Tobago operating segment. Goodwill is allocated to this combined segment and has been tested for impairment at this level.

The Group obtains independent professional advice in order to select the relevant discount factors, residual growth rates and earnings multiples.

The carrying values of goodwill and the impairment test factors used are considered in the following sections.

(c) Sagicor Life operating segment

	2016	2015
Carrying value of goodwill	53,150	54,120

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

7. INTANGIBLE ASSETS (continued)

(i) Years ended December 31, 2016 & 2015

An actuarial appraisal value technique was adopted to test goodwill impairment. The principal assumptions included the following:

- Discount rates of 7 - 11% (2015, 7 - 11%) for individual life and annuity inforce business,
- New individual life and annuity business was included for the five year period 2017 to 2021,
- Annual growth rate for new individual life and annuity business was 0% - 21.8% for 2017 and 5 - 19.7 % from 2018 to 2021 (2015 – 14% - 49% and 0-24.2% from 2017 to 2020),
- Discount rates of 11 - 15% (2015, 11 - 15%) for new individual life and annuity business,
- Required Minimum Continuing Capital and Surplus Ratio (MCCSR) of 175%.

Sensitivity

The excess of the appraisal value over carrying value of the operating segment was also tested by varying the discount rates and capital ratios. The results are set out in the following tables. Negative amounts illustrate the extent of possible impairment.

Sagicor Life Operating Segment.			MCCSR target ratio		
			Low	Mid	High
Discount rate	Inforce	New business	150%	175%	200%
Low	7%	11%	572,506	563,780	554,136
Mid	9%	13%	271,940	252,908	232,052
High	11%	15%	52,660	27,408	8,358

(d) Sagicor Jamaica operating segment

	2016	2015
Carrying value of goodwill	26,102	27,854

The fair value less cost to sell methodology was adopted to test goodwill impairment in both years. The pre-tax multiple used for the segment was 5.9 (2015– 5.9) which was derived from an after tax factor of 7 (2015 – 7.4) using an iterative method.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

7. INTANGIBLE ASSETS (continued)

(d) *Sagicor Jamaica operating segment (continued)**Sensitivity*

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

	2016 test		
	Scenario 1	Scenario 2	Scenario 3
After tax earnings multiples	8.2	5.4	4.9
Reduction in forecast earnings	n/a	10%	10%
Excess of recoverable amount (of 49.11% interest)	253,362	10	n/a
Impairment (of 49.11% interest)	Nil	Nil	(37,110)

(e) *Sagicor General Insurance Inc*

	2016	2015
Carrying value of goodwill	8,569	8,569

The Group recognised goodwill on the acquisition of its interests in Sagicor General Insurance Inc. The value in use methodology has been used to test goodwill impairment in both years. The after tax discount factor was 12.5% (2015 – 12.5%) which was derived from a pre-tax factor of 12.8% (2015 – 13.1%) using an iterative method. The residual growth rate was 4.4% (2015 – 4.4%).

Sensitivity

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

	2016 test		
	Scenario 1	Scenario 2	Scenario 3
After tax discount factor	12.5	12.5	15.0
Residual growth rate	4.4	3.7	3.7
Reduction in residual growth rate	n/a	16%	16%
Increase in after tax discount factor	n/a	n/a	20%
Excess of recoverable amount (of 53.0% interest)	78,340	58,672	44,050
Impairment (of 53.0% interest)	Nil	Nil	Nil

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

8. FINANCIAL INVESTMENTS

8.1 Analysis of financial investments

	2016		2015	
	Carrying value	Fair value	Carrying value	Fair Value
Held to maturity securities:				
Debt securities	41,329	43,375	41,060	43,880
Available for sale securities:				
Debt securities	2,637,254	2,637,254	2,698,328	2,698,328
Equity securities	141,812	141,812	124,647	124,647
	2,779,066	2,779,066	2,822,975	2,822,975
Financial assets at fair value through income:				
Derivative financial instruments (note 39.6)	2,728	2,728	3,206	3,206
Debt securities	328,010	328,010	273,454	273,454
Equity securities	247,048	247,048	253,153	253,153
Mortgage loans	80,694	80,694	94,104	94,104
	658,480	658,480	623,917	623,917
Loans and receivables:				
Debt securities	1,971,709	2,083,369	1,900,110	1,967,194
Mortgage loans	526,606	526,719	536,298	536,803
Policy loans	211,950	215,891	202,111	202,111
Finance loans and finance leases	1,017,950	982,262	872,322	838,428
Securities purchased under agreements to resell	10,454	10,454	16,128	16,128
Deposits	585,701	585,701	522,086	522,086
	4,324,370	4,404,396	4,049,055	4,082,750
Total financial investments	7,803,245	7,885,317	7,537,007	7,573,522

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

8. FINANCIAL INVESTMENTS (continued)

8.1 Analysis of financial investments (continued)

	2016	2015
Non-derivative financial assets at fair value through income comprise:		
Assets designated at fair value upon initial recognition	633,400	620,711
Asset held for trading	22,352	-
	655,752	620,711
Debt securities comprise:		
Government and government-guaranteed debt securities	3,526,748	3,528,419
Corporate debt securities	1,406,750	1,311,052
Other securities	44,804	73,481
	4,978,302	4,912,952

Deposits include 311,209 (2015 - \$\$291,648) placed with the Parent Company and other affiliated companies. These bear interest at 6.5% to 8.5% per annum and have no fixed dates of repayment.

Corporate debt securities include \$57,576 (2015 - \$20,539) in bonds issued by an associated company.

Equity securities include \$2,271 (2015 – 1,926) in mutual funds managed by the Group.

8.2 Pledged assets

Debt and equity securities include \$760,289 (2015 - \$468,421) as collateral for loans payable and other funding instruments.

Debt securities are pledged as collateral under repurchase agreements with customers and other financial institutions and for security relating to overdraft and other facilities with other financial institutions. As of December 31, 2016, these pledged assets totalled 1,190,628 (2015 - \$1,053,648). Of these assets pledged as security, \$159,362 (2015 – \$103,097) represents collateral for securities sold under agreements to repurchase in instances when the transferee has the right by contract or by custom to sell or re-pledge the collateral.

8.3 Returns accruing to the benefit of contract-holders

Financial investments include the following amounts for which the full income and capital returns accrue to the holders of unit linked policy and deposit administration contracts.

	2016	2015
Debt securities	267,723	205,282
Equity securities	247,048	244,733
Mortgage loans	80,542	94,104
	595,313	544,119

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

8. FINANCIAL INVESTMENTS (continued)

8.4 Reclassification of financial investments

In 2008, the Group reclassified certain securities from the available for sale classification to the loans and receivables classification. The assets reclassified were primarily Government of Jamaica debt securities with a maturity date of 2018 and after, which are held to back long-term insurance liabilities.

The reclassifications were made because the markets for these securities were considered by management to have become inactive.

The following disclosures are in respect of these reclassified assets.

	2016		2015	
	Carrying value	Fair Value	Carrying value	Fair value
Government debt securities maturing after September 2018 and other securities	55,181	71,757	88,676	103,635

Cumulative net fair value gain / (loss)

	2016	2015
Cumulative net fair value gain/(loss), beginning of year	8,123	3,472
Net fair value gains	3,800	2,824
Disposals	(1,942)	1,893
Effect of exchange rate changes	(177)	(66)
Cumulative net fair value gain, end of year	9,804	8,123

The net fair value gain or loss approximates the fair value gain or loss that would have been recorded in total comprehensive income had the reclassification not been made. The disposal amount represents the net gain/loss that would have been reclassified from other comprehensive income to income on disposal.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

9. REINSURANCE ASSETS

	<u>2016</u>	<u>2015</u>
Reinsurers' share of:		
Actuarial liabilities (note 12.1)	554	869
Policy benefits payable (note 13.2)	41,251	55,728
Provision for unearned premiums (note 13.3)	43,550	42,712
	<u>85,355</u>	<u>99,309</u>

The provision for unearned premiums disclosed above is expected to mature within one year of the financial statements date.

10. INCOME TAX ASSETS

	<u>2016</u>	<u>2015</u>
Deferred income tax assets (note 31)	72,562	82,046
Income and withholding taxes recoverable	46,592	50,637
	<u>119,154</u>	<u>132,683</u>

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

11. MISCELLANEOUS ASSETS AND RECEIVABLES

	2016	2015
Net defined benefit assets (note 29)	2,666	2,132
Real estate developed or held for resale (iv)	20,094	21,184
Prepaid and deferred expenses (including policy deferred acquisition costs) (iv)	45,368	39,301
Premiums receivable	92,257	84,205
Legal claim (iii)	105,440	85,805
Amounts due from parent company (i)	14,510	16,101
Amounts due from affiliated companies (i)	2,098	2,067
Other accounts receivable (ii)	90,991	87,402
	373,424	338,197

(i) Amounts due from parent company and affiliated companies are unsecured, carry no fixed dates of repayment and are repayable in cash.

(ii) Other accounts receivable include \$19,759 (2015 – \$10,956) due from managed funds.

(iii) Legal claim

In March 2014, the Supreme Court of Jamaica granted judgement in favour of a claimant in a case brought against Sagicor Bank of Jamaica Limited (formerly RBC Royal Bank of Jamaica Limited). This claim pre-dated the acquisition of control of the Bank by Sagicor Group Jamaica Limited, and also pre-dated the acquisition of control of the Bank by RBTT International Limited from Finsac Limited ('Finsac') in 2001. By virtue of the Share Sale Agreement entered into between Finsac, RBTT Financial Holdings Limited and RBTT International Limited, Finsac agreed to fully indemnify RBTT International Limited (now SGJ Holdings (St. Lucia) Limited). Though the judgement is being appealed, the amount computed as settlement has been recorded as payable to the claimant and correspondingly receivable from Finsac (note 18).

During 2016, interest was accrued on this liability and resulted in an increase in the amount outstanding to \$105.4 million.

(iv) Real estate developed for resale includes \$15,527 (2015 - \$15,485) which is expected to be realised within one year of the financial statements date. These balances also include \$Nil (2015 - \$Nil) which represents the Group's proportionate interest in joint ventures. Prepaid and deferred expenses are also expected to be realised within one year of the financial statements date.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

12. ACTUARIAL LIABILITIES

12.1 Analysis of actuarial liabilities

	Gross liability		Reinsurers' share	
	2016	2015	2016	2015
Contracts issued to individuals:				
Life insurance - participating policies	474,523	476,532	-	-
Life insurance and annuity - non-participating policies	1,277,029	1,294,439	-	-
Health insurance	26,834	9,597	113	(1)
Unit linked funds	354,907	332,468	-	-
Reinsurance contracts held	57,787	55,963	-	-
	2,191,080	2,168,999	113	(1)
Contracts issued to groups:				
Life insurance	30,639	32,627	235	533
Annuities	674,592	664,313	-	-
Health insurance	68,893	70,968	206	337
	774,124	767,908	441	870
Total actuarial liabilities	2,965,204	2,936,907	554	869

The following notes are in respect of the foregoing table:

- Life insurance includes coverage for disability and critical illness.
- Actuarial liabilities include \$153,513 (2015 - \$164,450) in assumed reinsurance from a related party.
- The liability for reinsurance contracts held occurs because the reinsurance premium costs exceed the mortality costs assumed in determining the gross liability of a policy contract.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

12. ACTUARIAL LIABILITIES (continued)

12.2 Movement in actuarial liabilities

	Gross amount		Reinsurers' share	
	2016	2015	2016	2015
Balance, beginning of year	2,936,907	2,755,289	869	1,995
Change in actuarial liabilities:				
Recorded in income (note 25)	92,479	249,631	(162)	(1,123)
Recorded in other comprehensive income	9,372	(26,862)	-	-
Other movements	1	(1,358)	(124)	-
Effect of exchange rate changes	(73,555)	(39,793)	(29)	(3)
Balance, end of year	2,965,204	2,936,907	554	869

Analysis of changes in actuarial liabilities:

Arising from increments and decrements of inforce policies and from the issuance of new policies	158,084	339,922	(286)	(1,123)
Arising from changes in assumptions for mortality, lapse, expenses, investment yields and asset default	(50,974)	(71,422)	-	-
Other changes:				
Actuarial modelling, refinements, improvements and corrections	-	-	-	-
Other items	(5,259)	(45,731)	124	-
	101,851	222,769	(162)	(1,123)

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

12. ACTUARIAL LIABILITIES (continued)**12.3 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 each insurer 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, insurers update 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 insurer 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 insurers to determine the persistency of the most recent period. Assumptions for lapse experience are generally based on five-year averages.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

12. ACTUARIAL LIABILITIES (continued)**12.3 Assumptions – life insurance and annuity contracts (continued)****(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 established for each geographic area and is summarised in the following table.

Ultimate rate of return:	2016	2015
Barbados	6.75%	6.5%
Jamaica	5.00%	5.0% - 5.50%
Trinidad & Tobago	5.00%	4.75%
Other Caribbean	4.5% - 6.75%	4.5% - 6.5%

(e) Assumptions for operating expenses and taxes

Policy acquisition and policy maintenance expense costs for the long-term business of each insurer are 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 investment income. For income taxes levied on net income, actuarial liabilities are adjusted for policy related recognised deferred tax assets and liabilities.

(f) Asset defaults

The AA of each insurer includes a provision for asset default in the modelling of the cash flows. The provision is based on industry and Group 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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

12. ACTUARIAL LIABILITIES (continued)**12.3 Assumptions – life insurance and annuity contracts (continued)**(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:

Provisions for adverse deviations:	2016	2015
Mortality and morbidity	165,407	149,682
Lapse	115,238	104,427
Investment yields and asset default	133,634	134,801
Operating expenses and taxes	21,193	20,342
Other	16,116	15,559
	<u>451,588</u>	<u>424,811</u>

12.4 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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

13. OTHER INSURANCE LIABILITIES

13.1 Analysis of other insurance liabilities

	2016	2015
Dividends on deposit and other policy balances	116,466	117,246
Policy benefits payable	164,604	167,205
Provision for unearned premiums	68,366	67,420
	349,436	351,871

13.2 Policy benefits payable

(a) Analysis of policy benefits payable

	Gross liability		Reinsurers' share	
	2016	2015	2016	2015
Life insurance and annuity benefits	109,061	99,631	13,431	18,280
Health claims	8,564	6,753	3,372	2,725
Property and casualty claims	46,979	60,821	24,448	34,723
	164,604	167,205	41,251	55,728

(b) Movement in policy benefits payable

	Gross amount		Reinsurers' share	
	2016	2015	2016	2015
Balance, beginning of year	167,205	157,232	55,728	53,687
Policy benefits incurred	774,360	764,157	37,234	37,945
Policy benefits paid	(773,492)	(752,254)	(51,233)	(35,628)
Effect of exchange rate changes	(3,469)	(1,930)	(478)	(276)
Balance, end of year	164,604	167,205	41,251	55,728

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

13. OTHER INSURANCE LIABILITIES (continued)

13.3 Provision for unearned premiums

(a) Analysis of provision for unearned premiums

	Gross liability		Reinsurers' share	
	2016	2015	2016	2015
Property and casualty insurance	67,553	64,798	43,550	42,712
Health insurance	813	2,622	-	-
	68,366	67,420	43,550	42,712

(b) Movement in provision for unearned premiums

	Gross amount		Reinsurers' share	
	2016	2015	2016	2015
Balance, beginning of year	67,420	67,203	42,712	40,303
Premiums written	150,008	145,558	97,877	97,513
Premium revenue	(148,868)	(145,365)	(96,925)	(95,103)
Effect of exchange rate changes	(194)	24	(114)	(1)
Balance, end of year	68,366	67,420	43,550	42,712

The provision for unearned premium is expected to mature within a year of the financial statements date.

14. INVESTMENT CONTRACT LIABILITIES

	2016		2015	
	Carrying value	Fair value	Carrying Value	Fair Value
At amortised cost:				
Deposit administration liabilities	256,690	256,690	255,763	255,559
Other investment contracts	172,484	172,484	163,404	163,404
	429,174	429,174	419,167	418,963
At fair value through income:				
Unit linked deposit administration liabilities	261,335	261,335	250,354	250,354
	690,509	690,509	669,521	669,317

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

15 DEPOSIT AND SECURITY LIABILITIES

	2016		2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
At amortised cost:				
Other funding instruments	430,386	423,636	423,397	425,454
Customer deposits	1,830,309	1,830,837	1,339,035	1,544,022
Securities sold under agreements to repurchase	641,148	641,148	1,039,216	1,039,015
Bank overdrafts	3,877	3,877	4,316	4,316
	<u>2,905,720</u>	<u>2,899,498</u>	<u>2,805,964</u>	<u>3,012,807</u>
At fair value through income:				
Structured products	69,557	69,557	70,224	70,224
Derivative financial instruments (note 39.6)	2,728	2,728	3,206	3,206
	<u>72,285</u>	<u>72,285</u>	<u>73,430</u>	<u>73,430</u>
	<u>2,978,005</u>	<u>2,971,783</u>	<u>2,879,394</u>	<u>3,086,237</u>

Other funding instruments consist of loans from banks and other financial institutions.

Structured products are offered by a banking subsidiary. A structured product is a pre-packaged investment strategy created to meet specific needs that cannot be met from the standard financial instruments available in the market. Structured products can be used as an alternative to a direct investment, as part of the asset allocation process to reduce risk exposure of a portfolio, or to capitalise on current market trends.

Collateral for other funding instruments and securities sold under agreements to resell is set out in note 8.2.

16 PROVISIONS

	2016	2015
Net defined benefit liabilities (note 29)	187,148	163,121
Other	114	512
	<u>187,262</u>	<u>163,633</u>

17 INCOME TAX LIABILITIES

	2016	2015
Deferred income tax liabilities (note 31)	6,083	6,312
Income taxes payable	29,837	11,840
	<u>35,920</u>	<u>18,152</u>

Income taxes payable are expected to be settled within one year of the financial statements date.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

18 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2016	2015
Due to parent company (ii)	1,682	1,539
Due to affiliated companies (ii)	4,612	16,014
Amounts due to policyholders	40,720	31,051
Amounts due to reinsurers	15,889	31,184
Legal claim (i)	105,440	85,805
Other accounts payable and accrued liabilities	158,109	174,692
	326,452	340,285

(i) In March 2014, the Supreme Court of Jamaica granted judgement in favour of a claimant in a case brought against Sagicor Bank of Jamaica Limited (formerly RBC Royal Bank of Jamaica Limited). This claim pre-dated the acquisition of control of the Bank by Sagicor Group Jamaica Limited, and also pre-dated the acquisition of control of the Bank by RBTT International Limited from Finsac Limited ('Finsac') in 2001. By virtue of the Share Sale Agreement entered into between Finsac, RBTT Financial Holdings Limited and RBTT International Limited, Finsac agreed to fully indemnify RBTT International Limited (now SGJ Holdings (St. Lucia) Limited). Though the judgement is being appealed, the amount computed as settlement has been recorded as payable to the claimant and correspondingly receivable from Finsac (note 11).

During 2016, interest was accrued on this liability and resulted in an increase in the amount outstanding to \$105.4 million.

(ii) Amounts due to parent company and affiliated companies are unsecured, carry no fixed dates of repayment and are repayable in cash.

19 SHARE CAPITAL

The Company is authorised to issue an unlimited number of common shares issuable in series, and an unlimited number of preference shares issuable in series.

	2016		2015	
	Number of shares '000	\$000	Number of shares '000	\$000
Issued and fully paid common shares of no par value:				
Balance, beginning of year	277,320	497,571	277,320	497,571
Balance, end of year	277,320	497,571	277,320	497,571
Capital contributions:				
Balance, beginning of year	-	26,043	-	22,522
Contributed by Parent Company re ESOP and LTI	-	5,893	-	3,521
Balance, end of year	-	31,936	-	26,043
Total share capital	277,320	529,507	277,320	523,614

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

20 RESERVES

	<<<<< Fair value Reserves >>>>>			Currency translation reserves	Other reserves	Total reserves
	Owner occupied property	Available for sale assets	Actuarial reserves			
2016						
Balance, beginning of year	50,092	(56,593)	22,329	(176,300)	33,328	(127,144)
Other comprehensive income	4,274	29,749	(6,209)	(36,282)	-	(8,468)
Transactions with holders of equity instruments:						
Allocated to reserve for equity compensation benefits	-	-	-	-	251	251
Eliminated from reserve for equity compensation benefits	-	-	-	-	(347)	(347)
Transfers to retained earnings and other movements	-	(1)	1	-	2,595	2,595
Balance, end of year	54,366	(26,845)	16,121	(212,582)	35,827	(133,113)
2015						
Balance, beginning of year	50,495	11,708	(2,498)	(159,514)	43,111	(56,698)
Other comprehensive income	(403)	(68,297)	24,827	(16,786)	-	(60,659)
Transactions with holders of equity instruments:						
Allocated to reserve for equity compensation benefits	-	-	-	-	178	178
Eliminated from reserve for equity compensation benefits	-	-	-	-	(781)	(781)
Transfers to retained earnings and other movements	-	(4)	-	-	(9,180)	(9,184)
Balance, end of year	50,092	(56,593)	22,329	(176,300)	33,328	(127,144)

Other reserves comprise reserves for equity compensation benefits of \$963 (2015 - \$1,059) and statutory reserves of \$34,864 (2015 - \$32,269).

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

21 PARTICIPATING ACCOUNTS

The movements in the participating accounts during the year and the amounts in the financial statements relating to participating accounts were as follows:

	Closed participating account		Open participating account	
	2016	2015	2016	2015
Movement for the year:				
Balance, beginning of the year	(1,215)	(1,900)	3,981	2,629
Total comprehensive income / (loss)	(1,354)	685	1,617	1,812
Return of transfer to support profit distribution to shareholders	5	-	(453)	(460)
Balance, end of year	(2,564)	(1,215)	5,145	3,981
	Closed participating account		Open participating account	
	2016	2015	2016	2015
Financial statement amounts:				
Assets	164,611	169,817	393,998	400,017
Liabilities	167,175	171,032	388,853	396,036
Revenues	15,111	15,647	44,522	50,904
Benefits	15,338	13,622	37,833	44,067
Expenses	856	1,167	3,259	4,073
Income taxes	373	243	1,754	810

The Group has the ability to reduce future policy bonuses and dividends in order to eliminate a deficit in a participating account.

22 PREMIUM REVENUE

	Gross revenue		Reinsurance expense	
	2016	2015	2016	2015
Life insurance	680,287	670,438	38,682	40,532
Annuities	201,872	400,038	-	-
Health insurance	307,217	310,719	8,033	10,059
Property and casualty insurance	133,522	131,453	97,038	95,103
	1,322,898	1,512,648	143,753	145,694

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

23 NET INVESTMENT INCOME

	2016	2015
Investment income:		
Interest income	511,269	503,478
Dividend income	3,542	3,530
Rental income from investment property	7,632	8,329
Net investment gains	93,098	54,217
Share of operating income of associates and joint ventures	10,849	6,307
Other investment income	158	147
	626,548	576,008
Investment expenses:		
Allowances for impairment losses	10,265	20,641
Direct operating expenses of investment property	4,213	3,894
Other direct investment expenses	3,329	2,210
	17,807	26,745
Net investment income	608,741	549,263

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

The capital and income returns of most investments designated at fair value through income accrue to the holders of unit linked policy and deposit administration contracts which do not affect net income of the Group.

Further details of interest income and investment gains are set out below:

(a) Interest income

	2016	2015
Debt securities	320,120	327,249
Mortgage loans	36,968	37,053
Policy loans	15,282	15,435
Finance loans and finance leases	112,332	100,803
Securities purchased under agreements to resell	1,167	927
Deposits	25,027	22,172
Other balances	373	(161)
	511,269	503,478

Interest from deposits include \$21,713 (2015 - \$18,421) from parent company.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

23 NET INVESTMENT INCOME (continued)(b) Net investment gains

	2016	2015
Debt securities	60,801	14,105
Equity securities	29,230	43,294
Investment property	3,693	(1,684)
Other financial investments	(626)	(1,498)
	<u>93,098</u>	<u>54,217</u>

24 FEES AND OTHER REVENUE

	2016	2015
Fee income – assets under administration	50,940	46,656
Fee income – deposit administration and policy funds	3,478	3,626
Commission income on insurance and reinsurance contracts	28,930	27,232
Other fees and commission income	56,575	51,873
Foreign exchange gains	24,670	5,599
Other operating and miscellaneous income	36,315	42,475
	<u>200,908</u>	<u>177,461</u>

25 POLICY BENEFITS AND CHANGE IN ACTUARIAL LIABILITIES

	Gross amount		Ceded to reinsurers	
	2016	2015	2016	2015
Policy benefits:				
Life insurance benefits	304,723	307,130	9,456	7,983
Annuity benefits	206,434	189,971	-	-
Health insurance claims	238,854	228,369	7,895	5,438
Property & casualty insurance claims	35,416	43,721	20,007	24,413
Total policy benefits	<u>785,427</u>	<u>769,191</u>	<u>37,358</u>	<u>37,834</u>
Change in actuarial liabilities (note 12.2)	92,479	249,631	(162)	(1,123)
Total policy benefits and change in actuarial liabilities	<u>877,906</u>	<u>1,018,822</u>	<u>37,196</u>	<u>36,711</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

26 INTEREST EXPENSE

	2016	2015
Insurance contracts	5,200	5,128
Investment contracts	31,859	27,124
Other funding instruments	10,593	12,771
Deposits	32,407	23,510
Securities	37,038	43,389
Other Items	90	303
	<u>117,187</u>	<u>112,225</u>

The Group 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.

The capital and income returns of most financial liabilities designated at fair value through income accrue directly from the capital and income returns of financial assets designated at fair value through income. Therefore, the interest expense of these financial liabilities does not affect the net income of the Group.

27 EMPLOYEE COSTS

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

	2016	2015
Administrative staff salaries, directors' fees and other short-term benefits	167,515	174,392
Social security and defined contribution retirement costs	14,782	14,889
Equity-settled compensation benefits (note 28.1 to 28.2)	6,316	6,723
Defined benefit expense (note 29(b))	21,322	20,002
	<u>209,935</u>	<u>216,006</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

28 EQUITY COMPENSATION BENEFITS

28.1 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.

The movement in restricted share grants during the year is as follows.

	2016		2015	
	Number of grants '000	Weighted average price	Number of grants '000	Weighted average price
Balance, beginning of year	1,173	BDS\$1.82	1,186	BDS\$2.06
Grants issued	1,367	BDS\$1.88	1,138	BDS\$1.67
Grants vested	(1,391)	BDS\$1.84	(1,095)	BDS\$1.89
Grants lapsed/forfeited	(106)	BDS\$2.06	(56)	BDS\$2.69
Balance, end of year	1,043	BDS\$1.84	1,173	BDS\$1.82

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

28 EQUITY COMPENSATION BENEFITS (continued)

28.1 The Parent Company (continued)

(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 Parent Company shares at the time that the option is granted. From 2009, options are granted at the fair market price of the Parent Company shares prevailing one year before the option is granted. Options vest over four years, 25% each on the first four anniversaries of the grant date. Options are exercisable up to 10 years from the grant date.

The movement in share options during the year is as follows.

	2016		2015	
	Number of options '000	Weighted average exercise price	Number of options '000	Weighted average exercise price
Balance, beginning of year	6,404	BDS\$2.92	5,121	BDS\$3.15
Options granted	2,095	BDS\$1.72	1,292	BDS\$2.10
Options lapsed/forfeited	(781)	BDS\$3.28	(9)	BDS\$3.29
Balance, end of year	7,718	BDS\$2.60	6,404	BDS\$2.92
Exercisable at the end of the year	3,934	BDS\$3.17	3,736	BDS\$3.44

Further details of share options and the assumptions used in determining their pricing are as follows:

	2016	2015
Share price at grant date	BDS\$1.72 - 5.00	BDS\$2.10 - 5.00
Fair value of options at grant date	BDS\$0.31 - 1.38	BDS\$0.45 - 1.38
Expected volatility	19.3% - 35.8%	19.3% - 35.8%
Expected life	7.0 years	7.0 years
Expected dividend yield	2.6% - 4.7%	2.6% - 3.8%
Risk-free interest rate	4.8% - 6.8%	4.8% - 6.8%

The expected volatility of options is based on statistical analysis of monthly share prices over the 7 years (2015 – 7 years) prior to grant date.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

28 EQUITY COMPENSATION BENEFITS (continued)**28.1 The Parent Company (continued)**(c) ESOP

From 2006, the Parent Company approved awards under the ESOP in respect of permanent administrative employees and sales agents of the Parent Company and certain subsidiaries. The ESOP is administered by Trustees under a discretionary trust. The amount awarded is used by the Trustees to acquire Parent 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.

28.2 Sagicor Group Jamaica Limited (SGJ)(a) Long-term incentive plan

The Sagicor Jamaica group offers stock grants and stock options to senior executives as part of its long-term incentive plan. The group has set aside 150,000,000 of its authorised but un-issued shares of J\$0.10 each for the stock grants and stock options.

In January 2007, the Sagicor Jamaica group introduced a new Long Term Incentive (LTI) plan which replaced the previous Stock Option plan. Under the LTI plan, executives are entitled but not obliged to purchase the group's stock at a pre-specified price at some future date. The options are granted each year on the date of the Board of Directors Human Resources Committee meeting following the performance year at which the stock option awards are approved. Stock options vest in 4 equal installments beginning the first December 31 following the grant date and for the next three December 31 dates thereafter (25% per year). Options are not exercisable after the expiration of 7 years from the date of grant. The number of stock options in each stock option award is calculated based on the LTI opportunity via stock options (percentage of applicable salary) divided by the Black-Scholes value of a stock option of Sagicor Group Jamaica Limited stock on 31 March of the measurement year. The exercise price of the options is the closing bid price on 31 March of the measurement year.

In December 2013, the Sagicor Group of companies in Jamaica was reorganized to establish a new holding company which directly or indirectly carries the Group's holdings in member companies. As a consequence Sagicor Life Jamaica (SLJ) was delisted from the Jamaica Stock Exchange (JSE) and Sagicor Group Jamaica Limited (SGJ) was listed. Further, to harmonize compensation plans across the group and considering the pending delisting of the subsidiary, Sagicor Investments Jamaica Limited (SIJL), all outstanding options in SIJL as at December 2013 were converted to corresponding SGJ options with equivalent monetary value. From the 2013 measurement year, all executives of the group participate in the SGJ LTI plan.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

28 EQUITY COMPENSATION BENEFITS (continued)

28.2 Sagicor Group Jamaica Limited (SGJ) (continued)

Details of the share options outstanding are set out in the following table. J\$ represents Jamaica dollars.

	2016		2015	
	Number of options '000	Weighted average exercise price	Number of options '000	Weighted average exercise price
Balance, beginning of year	53,644	J\$8.63	70,025	J\$8.19
Options granted	12,463	J\$10.52	10,849	J\$9.50
Options exercised	(18,924)	J\$8.56	(19,657)	J\$7.25
Options lapsed/forfeited	(2,238)	J\$9.09	(7,573)	J\$9.40
Balance, end of year	44,945	J\$8.83	53,644	J\$8.63
Exercisable at the end of the year	26,509	J\$9.47	36,529	J\$8.64

Further details of share options and the assumptions used in determining their pricing are as follows:

	2016	2015
Fair value of options outstanding	J\$31,770,000	J\$53,646,000
Share price at grant date	J\$4.20 – 14.10	J\$4.20 – 14.10
Exercise price	J\$4.20 – 14.10	J\$4.20 – 14.10
Standard deviation of expected share price returns	26.0%	27.0%
Weighted average remaining contractual term	0.25 – 7 years	0.08 – 7 years
Risk-free interest rate	9.19%	9.58%

The expected volatility is based on statistical analysis of daily share prices over three years.

(b) Employee share purchase plan

Sagicor Life Jamaica has in place a share purchase plan which enables its administrative and sales staff to purchase shares at a discount. The proceeds from shares issued under this plan totalled \$2,595 (2015 – \$624).

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

29 EMPLOYEE RETIREMENT BENEFITS

The Group maintains a number of defined contribution and defined benefit retirement benefit plans for eligible sales agents and administrative employees. The plans for sales agents and some administrative employees provide defined contribution benefits. The plans for administrative employees in Barbados, Jamaica, Trinidad, Eastern Caribbean and certain other Caribbean countries provide defined benefits based on final salary and number of years active service. Also, in these countries, retired employees may be eligible for medical and life insurance benefits which are partially or wholly funded by the Group.

The principal defined benefit retirement plans are as follows:

Funded Plans	Unfunded Plans
Sagicor Life Barbados & Eastern Caribbean Pension	Sagicor Life Trinidad Pension
Sagicor Life Jamaica Pension	Sagicor Life (Heritage Life of Barbados – Barbados & Eastern Caribbean) Pension
Sagicor Investments Jamaica Pension	Group medical and life plans

The above plans also incorporate employees of the Company and other subsidiaries, whose attributable obligations and attributable assets are separately identified for solvency, contribution rate and reporting purposes.

The assets of the Sagicor Life Trinidad and Sagicor Life (Heritage Life of Barbados) pension plans are held under deposit administration contracts with the Company and because these assets form part of the Group's assets, these plans are presented as unfunded in accordance with IAS 19 (revised).

The above pension plans are registered with the relevant regulatory authorities in the Caribbean and are governed by Trust Deeds which conform with the relevant laws. The plans are managed by the Group under the direction of appointed Trustees.

The group medical and life obligations arise from employee benefit insurance plans where benefits are extended to retirees.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

29 EMPLOYEE RETIREMENT BENEFITS (continued)

(a) Amounts recognised in the financial statements

	2016	2015
Present value of funded retirement obligations	437,373	406,823
Fair value of retirement plan assets	(401,673)	(373,466)
	35,700	33,357
Present value of unfunded retirement obligations	90,584	75,526
Present value of unfunded medical and life benefits	58,198	52,106
Amounts recognised in the financial statements	184,482	160,989
Represented by:		
Amounts held on deposit by the Group as deposit administration contracts	88,764	75,222
Other recognised liabilities	98,384	87,899
Total recognised liabilities (note 16)	187,148	163,121
Recognised assets (note 11)	(2,666)	(2,132)
	184,482	160,989

Pension plans have purchased annuities from insurers in the Group 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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

29 EMPLOYEE RETIREMENT BENEFITS (continued)

(b) Movements in balances

	2016			Total
	Medical and life benefits	Retirement obligations	Retirement plan assets	
Net liability / (asset), beginning of year	52,106	482,349	(373,466)	160,989
Current service cost	2,858	11,889	-	14,747
Interest expense / (income)	4,214	31,866	(28,999)	7,081
Past service cost and gains / losses on settlements	-	(506)	-	(506)
Net expense recognised in income	7,072	43,249	(28,999)	21,322
(Gains) / losses from changes in assumptions	(5,185)	(13,791)	627	(18,349)
Gains from changes in experience	8,801	50,776	(15,073)	44,504
Return on plan assets excluding interest income	-	-	4,013	4,013
Net gains recognised in other comprehensive income	3,616	36,985	(10,433)	30,168
Contributions made by the Group	-	-	(22,489)	(22,489)
Contributions made by employees and retirees	-	14,245	(10,494)	3,751
Benefits paid	(1,094)	(25,125)	21,623	(4,596)
Other items	-	(5,059)	5,678	619
Effect of exchange rate movements	(3,502)	(18,687)	16,907	(5,282)
Other movements	(4,596)	(34,626)	11,225	(27,997)
Net liability / (asset), end of year	58,198	527,957	(401,673)	184,482

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

29 EMPLOYEE RETIREMENT BENEFITS (continued)

(b) Movements in balances (continued)

	2015			Total
	Medical and life benefits	Retirement obligations	Retirement plan assets	
Net liability / (asset), beginning of year	46,508	420,053	(323,961)	142,600
Current service cost	2,436	11,464	-	13,900
Interest expense / (income)	4,279	30,574	(28,934)	5,919
Past service cost and gains / losses on settlements	-	-	183	183
Net expense recognised in income	6,715	42,038	(28,751)	20,002
(Gains) / losses from changes in assumptions	12,344	28,682	(2,931)	38,095
Gains from changes in experience	(10,019)	(3,534)	(15,597)	(29,150)
Return on plan assets excluding interest income	-	-	5,376	5,376
Net gains recognised in other comprehensive income	2,325	25,148	(13,152)	14,321
Contributions made by the Group	-	-	(15,366)	(15,366)
Contributions made by employees and retirees	-	13,852	(10,260)	3,592
Benefits paid	(1,033)	(24,217)	22,430	(2,820)
Other items	-	18,116	(15,989)	2,130
Effect of exchange rate movements	(2,409)	(12,644)	11,583	(3,470)
Other movements	(3,442)	(4,893)	(7,602)	(15,934)
Net liability / (asset), end of year	52,106	482,349	(373,466)	160,989

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

29 EMPLOYEE RETIREMENT BENEFITS (continued)

(c) Retirement plan assets

	2016	2015
Equity unit linked pension funds under Group management:		
Sagicor Equity Fund (Barbados)	52,802	52,930
Sagicor Bonds Fund (Barbados)	35,777	33,242
Sagicor Pooled Investment Funds (Jamaica):		
Equity Funds	71,640	46,088
Mortgage & Real Estate Fund	52,971	39,774
Fixed Income Fund	31,051	30,544
Foreign Currency Funds	36,370	33,313
Money Market Fund	4,516	32,845
Other Funds	34,614	28,746
	319,741	297,482
Other assets	81,932	75,984
Total plan assets	401,673	373,466

The equity unit linked pension funds are funds domiciled in Barbados and Jamaica. Annual reports of these funds are available to the public.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

29 EMPLOYEE RETIREMENT BENEFITS (continued)

(d) Significant actuarial assumptions

The significant actuarial assumptions for the principal geographic areas as of December 31, 2016 were as follows:

Pension plans	Barbados & Eastern Caribbean	Jamaica	Trinidad
Discount rate - local currency benefits	7.75%	9.00%	5.00%
Discount rate - US\$ indexed benefits	n/a	5.00%	n/a
Expected return on plan assets	7.75%	9.00%	5.00%
Future promotional salary increases	3.00%	6.50%	2.00%
Future inflationary salary increases	1.50% - 2.00%	6.00%	2.00%
Future pension increases	2.00%	3.00%	0.00%
Future increases in National Insurance Scheme Ceilings	3.50%	n/a	4.00%
Mortality table	UP94 with projection scale AA		UP94 with projection scale AA
Termination of active members	3% up to age 30, reducing to 1% at age 50, 0% at age 51	5% - 10% up to age 30, reducing to 5% at age 50, 0% at age 51	3.0% up to age 30, reducing to 1% at age 50, 0% at age 51
Early retirement	100% at the earliest possible age to receive unreduced benefits	n/a	100% at the earliest possible age to receive unreduced benefits

Group medical and life plans	Jamaica
Long term increase in health costs	8.00%

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

29 EMPLOYEE RETIREMENT BENEFITS (continued)

(e) Sensitivity of actuarial assumptions

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

	Barbados & Eastern Caribbean	Jamaica	Trinidad
Base pension obligation	122,291	313,344	27,274
Change in absolute assumption	Increase / (decrease) in pension obligations		
Decrease discount rate by 1.0%	15,263	20,934	3,333
Increase discount rate by 1.0%	(10,166)	(16,416)	(2,395)
Decrease salary growth rate by 0.5%	(2,755)	(6,557)	(701)
Increase salary growth rate by 0.5%	3,376	7,582	817
Increase average life expectancy by 1 year	2,804	2,683	716
Decrease average life expectancy by 1 year	(2,126)	(2,727)	(666)

The sensitivity of the medical and life benefits obligations to individual changes in actuarial assumptions is summarised below:

	Jamaica
Base medical and life obligation	58,198
Change in absolute assumption	Increase / (decrease) in medical and life obligations
Decrease discount rate by 1.0%	14,402
Increase discount rate by 1.0%	(10,718)
Decrease salary growth rate by 0.5%	(332)
Increase salary growth rate by 0.5%	387
Increase average life expectancy by 1 year	1,906
Decrease average life expectancy by 1 year	(1,900)

(f) 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 1 - 3 years. These full valuations contain recommendations for Group and employee contribution levels which are implemented by the Group as the recommendations are made.

For the 2017 financial year, the total Group contributions to its defined benefit pension plans are estimated at \$24,010.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

30 INCOME TAXES

Group companies operating in Caribbean countries are largely taxed according to the taxation rules of the country where the operations are carried out. The principal rates of taxation are summarised in note 2.17(c). The income tax expense and the income subject to taxation in the statement of income are set out in the following table.

	2016	2015
Income tax expense:		
Current tax		
Current tax on profits for the year	68,723	49,752
Adjustments to current tax of prior periods	517	106
Total current tax expense	<u>69,240</u>	<u>49,858</u>
Deferred tax		
Decrease/(increase) in deferred tax assets	996	(3,482)
Decrease in deferred tax liabilities	(257)	(257)
Total deferred tax expense/(release)	<u>739</u>	<u>(3,739)</u>
Share of tax of associated companies	804	(496)
	<u>70,783</u>	<u>45,623</u>

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

	2016	2015
Income before income tax expense	<u>389,571</u>	<u>348,843</u>
Taxation at the applicable rates on income subject to tax	77,719	64,342
Adjustments to current tax for items not subject to / allowed for tax	(21,001)	(26,274)
Other current tax adjustments	(441)	349
Adjustments for current tax of prior periods	2,123	(514)
Movement in unrecognised deferred tax asset	3,894	425
Deferred tax relating to the origination of temporary differences	(20)	13
Deferred tax relating to changes in tax rates or new taxes	(70)	774
Deferred tax that arises from the write down / (reversal of a write down) of a tax asset	395	(86)
Tax on distribution of profits from policyholder funds	1,339	2,092
Other taxes	6,845	4,502
	<u>70,783</u>	<u>45,623</u>

In addition to the above, the income tax on items in other comprehensive income is set out in note 33.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

31 DEFERRED INCOME TAXES

	2016	2015
Analysis of deferred income tax assets:		
Defined benefit liabilities	27,163	22,062
Unrealised losses on financial investments	13,838	24,812
Unused tax losses	29,987	43,739
Other items	1,574	(8,567)
Total deferred income tax assets (note 10)	72,562	82,046
Deferred income tax assets to be recovered within one year	6,465	4,134
Unrecognised balances:		
Tax losses	7,897	9,360
Potential deferred income tax assets	1,981	2,374
Expiry period for unrecognised tax losses:		
2016	-	44
2017	278	1,115
2018	2,953	3,824
2019	1,163	427
2020	2,517	3,950
After 2020	986	-
	7,897	9,360

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

31 DEFERRED INCOME TAXES (continued)

Deferred income tax assets movements:	Defined benefit liabilities	Unrealised losses on financial investments	Unused tax losses	Other items	Total
2016					
Balance, beginning of year as previously reported	22,062	24,812	43,739	(8,567)	82,046
(Charged)/credited to:					
Profit or Loss	1,378	593	(11,511)	8,544	(996)
Other comprehensive income	5,216	(10,258)	-	1,373	(3,669)
Effects of exchange rate changes	(1,493)	(1,309)	(2,241)	224	(4,819)
Balance, end of year	27,163	13,838	29,987	1,574	72,562
2015					
Balance, beginning of year as previously reported	14,734	2,186	52,752	(13,052)	56,620
(Charged)/credited to:					
Profit or Loss	3,508	476	(6,933)	6,431	3,482
Other comprehensive income	4,544	22,885	-	(2,372)	25,057
Effects of exchange rate changes	(724)	(735)	(2,080)	426	(3,113)
Balance, end of year	22,062	24,812	43,739	(8,567)	82,046

	2016	2015
Analysis of deferred income tax liabilities:		
Accelerated tax depreciation	3,280	3,612
Pensions and other retirement benefits	660	246
Accrued interest	2,002	1,889
Unrealised gains on financial investments	8	10
Offset-able deferred income tax assets in respect of unused tax losses and other items	(422)	-
Other items	555	555
Total deferred income tax liabilities (note 17)	6,083	6,312
Deferred income tax liabilities to be settled within one year	5,984	1,755

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

31 DEFERRED INCOME TAXES (continued)

Deferred income tax liabilities movements:	Accelerated tax depreciation	Defined benefit assets	Accrued interest	Unrealised gains on financial investments	Offset-able deferred income tax assets	Other Items	Total
2016							
Balance, beginning of year as previously reported	3,612	246	1,889	10	-	555	6,312
Charged/(credited) to:							
Profit or Loss	(333)	359	150	(11)	(422)	-	(257)
Other comprehensive income	-	41	(16)	10	-	-	35
Effects of exchange rate changes	1	14	(21)	(1)	-	-	(7)
Balance, end of year	3,280	660	2,002	8	(422)	555	6,083
2015							
Balance, beginning of year as previously reported	3,550	167	1,926	654	-	797	7,094
Charged/(credited) to:							
Profit or Loss	62	132	(39)	(170)	-	(242)	(257)
Other comprehensive income	-	(53)	-	(476)	-	-	(529)
Equity	-	-	2	2	-	-	4
Balance, end of year	3,612	246	1,889	10	-	555	6,312

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

32 DIVIDENDS PER COMMON SHARE

	2016		2015	
	cents per share	\$000	cents per share	\$000
Dividends declared:				
Final dividend in respect of the prior year	16.51	45,793	13.99	38,800
Interim dividend in respect of the current year	16.94	38,497	13.63	37,807
Special dividend	11.63	32,248	-	-
	45.08	116,538	27.62	76,607
Dividends declared after the date of the financial statements:				
Special dividend	-	-	5.55	15,400
Final dividend in respect of the current year	-	-	16.51	45,793
	-	-	22.06	61,193

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

33 OTHER COMPREHENSIVE INCOME

The following additional information is provided in respect of items in other comprehensive income (OCI).

	2016				
	OCI tax expense	After tax OCI is attributable to			
		Share-holders	Par ⁽¹⁾ policy-holders	Non-controlling interests	Total
Items that may be reclassified subsequently to income:					
Available for sale assets:					
Unrealised (losses)/gains arising on revaluation	(10,232)	29,028	(2,584)	32,785	59,229
Losses transferred to income	(20)	721	-	(873)	(152)
Net change in actuarial liabilities	-	(6,209)	2,585	(5,748)	(9,372)
Retranslation of foreign currency operations	-	(36,282)	42	(20,722)	(56,962)
	(10,252)	(12,742)	43	5,442	(7,257)
Items that will not be reclassified subsequently to income:					
Unrealised losses arising on revaluation of owner occupied property	(1,878)	4,274	-	6,015	10,289
(Losses)/gains on defined benefit plans	5,175	(17,245)	-	(7,748)	(24,993)
Other	-	(255)	-	-	(255)
	3,297	(13,226)	-	(1,733)	(14,959)
Total	(6,955)	(25,968)	43	3,709	(22,216)
Allocated to equity reserves		(8,468)			
Allocated to retained earnings		(17,500)			
		(25,968)			

⁽¹⁾ Participating

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

33 OTHER COMPREHENSIVE INCOME (continued)

	2015				
	OCI tax expense	After tax OCI is attributable to			
		Share-holders	Par ⁽¹⁾ policy-holders	Non-controlling interests	Total
Items that may be reclassified subsequently to income:					
Available for sale assets:					
Unrealised (losses)/gains arising on revaluation	23,302	(72,770)	1,733	(62,203)	(133,240)
Losses transferred to income	82	4,473	-	6,223	10,696
Net change in actuarial liabilities	-	24,827	(1,733)	3,768	26,862
Retranslation of foreign currency operations	-	(16,786)	(72)	(14,514)	(31,372)
	23,384	(60,256)	(72)	(66,726)	(127,054)
Items that will not be reclassified subsequently to income:					
Unrealised losses arising on revaluation of owner occupied property	(2,318)	(403)	-	(286)	(689)
(Losses)/gains on defined benefit plans	4,520	(5,834)	-	(3,967)	(9,801)
	2,202	(6,237)	-	(4,253)	(10,490)
Total	25,586	(66,493)	(72)	(70,979)	(137,544)
Allocated to equity reserves		(60,659)			
Allocated to retained earnings		(5,834)			
		(66,493)			

⁽¹⁾ Participating

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

34 CASH FLOWS

34.1 Operating activities

	2016	2015
Adjustments for non-cash items, interest and dividends:		
Interest and dividend income	(514,811)	(507,008)
Net investment gains	(93,098)	(54,217)
Gain arising on acquisition	-	2,050
Net increase in actuarial liabilities	92,641	250,754
Interest expense and finance costs	117,187	112,225
Depreciation and amortisation	39,207	34,582
Increase in provision for unearned premiums	117	(2,186)
Other items	(4,260)	17,206
	<u>(363,017)</u>	<u>(146,594)</u>
Changes in operating assets:		
Investment property	1,636	10,236
Debt securities	(920)	(501,396)
Equity securities	1,109	(50,082)
Mortgage loans	804	(94,214)
Policy loans	(10,936)	(2,530)
Finance loans and finance leases	(198,259)	(86,293)
Securities purchased under agreement to resell	3,826	11,294
Deposits	23,052	16,489
Other assets and receivables	(55,924)	(105,788)
	<u>(235,612)</u>	<u>(802,284)</u>

The gross changes in investment property, debt securities and equity securities are as follows.

	Investment property		Debt securities		Equity securities	
	2016	2015	2016	2015	2016	2015
Disbursements	(14)	(221)	(3,266,277)	(1,990,084)	(188,360)	(85,528)
Disposal proceeds	1,650	10,457	3,265,357	1,488,688	189,469	35,446
	<u>1,636</u>	<u>10,236</u>	<u>(920)</u>	<u>(501,396)</u>	<u>1,109</u>	<u>(50,082)</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

34 CASH FLOWS (continued)**34.1 Operating activities (continued)**

	2016	2015
Changes in operating liabilities:		
Insurance liabilities	8,078	2,915
Investment contract liabilities	43,051	26,880
Other funding instruments	7,434	61,766
Deposits	573,315	275,600
Securities	(401,219)	(274,168)
Other liabilities and payables	(19,686)	35,197
	<u>210,973</u>	<u>128,190</u>

34.2 Investing activities

	2016	2015
Property, plant and equipment:		
Purchases	(33,857)	(33,070)
Disposal proceeds	4,680	3,178
	<u>(29,177)</u>	<u>(29,892)</u>

34.3 Cash and cash equivalents

	2016	2015
Cash resources	533,046	482,720
Call deposits and other liquid balances	217,312	75,022
Bank overdrafts	(3,877)	(4,316)
Other short-term borrowings	(151,353)	(93,040)
	<u>595,128</u>	<u>460,386</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

35 SUBSIDIARY ACQUISITION AND OWNERSHIP CHANGES

On June 27, 2014, the Group acquired 100% of the share capital of RBC Royal Bank (Jamaica) Limited and its subsidiary, RBC Securities (Jamaica) Limited.

The net assets acquired amounted to \$226,857 for a purchase consideration of \$168,756. This gave rise to negative goodwill of \$58,101. The acquisition was recorded based on provisionally determined values in 2015. These balances were finalized during 2015, and an adjustments was made during this year of \$2.05 million as it was not material to the Group.

36 CONTINGENT LIABILITIES

Guarantee and financial facilities at the date of the financial statements for which no provision has been made in these financial statements include the following:

	<u>2016</u>	<u>2015</u>
Customer guarantees and letters of credit	45,026	54,307

There are equal and offsetting claims against customers in the event of a call on the above commitments for customer guarantees and letters of credit.

(a) Legal proceedings

The Group and the company are subject to various claims, disputes and legal proceedings, as part of the normal course of business. Provision is made for such matters when, in the opinion of management and its professional advisors, it is probable that a payment will be made by the Group, and the amount can be reasonably estimated.

In respect of claims asserted against the Group which, according to the principles outlined above, have not been provided for, management is of the opinion that such claims are either without merit, can be successfully defended, cannot be reasonably estimated or will result in exposure to the Group which is immaterial to both the financial position and results of operations.

Significant matters as follows:

- (i) Suit has been filed by a customer against one of the Group's, subsidiaries for breach of contract, and breach of trust in the amount of US\$8,928,500, being loss allegedly suffered as a result of what the claimants say is the unlawful withholding of insurance proceeds by the subsidiary. No provision was made in these financial statements for this claim as the probability of success against the Group is considered low prior to the matter being heard.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

36 CONTINGENT LIABILITIES (continued)(a) Legal proceedings (continued)

- (ii) Suit has been filed by an independent contractor against one of the Group's subsidiaries for breach of contract arising from alleged contractual agreement. The Claimant alleges that the company failed to pursue initiatives contemplated by the contract with a third party and that by not doing so, it caused the Claimant company significant losses which they have estimated at over US\$300,000,000. No provision was made in these financial statements for this claim as the claim has been stayed to accommodate arbitration as required under the Agreement between the parties coupled with the probability of success against the Group is considered low.

(b) Tax assessments

The Group 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 Group which are in addition to accrued tax liabilities. No provisions have been made in these financial statements for such potential tax assessments.

37 RELATED PARTY TRANSACTIONS

Certain related party transactions and balances are included in notes 4, 8, 11, 12, 18, 22, 23, 24, 28, 29 and 42 of the financial statements. Key management related party transactions and balances are summarised below.

Key management

Key management comprises directors and senior management of the Company and of Group subsidiaries. Key management includes those persons at or above the level of Vice President or its equivalent. Compensation of and loans to these individuals are summarised in the following tables:

Compensation	2016	2015
Salaries, directors' fees and other short-term benefits	20,849	23,173
Equity-settled and cash settled compensation benefits	3,713	4,196
Pension and other retirement benefits	1,482	2,580
	26,044	29,949

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

37 RELATED PARTY TRANSACTIONS (continued)

	Mortgage loans	Other loans	Total loans
Balance, beginning of year	10,984	1,672	12,656
Advances	564	1,183	1,747
Repayments	(1,673)	(800)	(2,473)
Effects of exchange rate changes	-	(71)	(71)
Balance, end of year	9,875	1,984	11,859
Interest rates prevailing during the year	3.75 % - 7.00%	5.95% - 8.00%	

38 FAIR VALUE OF PROPERTY

Investment and owner-occupied property are carried at fair value as determined by independent valuations using internationally recognised valuation techniques. Direct sales comparisons, when such data is available, and income capitalisation methods, when appropriate, are included in the assessment of fair values. The highest and best use of a property may also be considered in determining its fair value.

Some tracts of land are currently used for farming operations or are un-developed or are leased to third parties. In determining the fair value of all lands, their potential for development within a reasonable period is assessed, and if such potential exists, the fair value reflects that potential. These lands are mostly in Barbados and the Group has adopted a policy of orderly development and transformation to realise their full potential over time.

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

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

The results of applying the fair value hierarchy to the Group's property as of December 31, 2016 are as follows:

	Level 1	Level 2	Level 3	Total
Investment property	-	-	161,323	161,323
Owner-occupied lands	-	-	74,369	74,369
Owner-occupied land and buildings	-	-	155,709	155,709
	-	-	391,401	391,401

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

38 FAIR VALUE OF PROPERTY (continued)

For Level 3 investment property, reasonable changes in fair value would affect net income. For Level 3 owner occupied property, reasonable changes in fair value would affect other comprehensive income. The following table represents the movements in Level 3 property for the current year.

	Investment property	Owner-occupied property		Total
		Land	Land and buildings	
Balance, beginning of year	158,344	76,061	161,388	395,793
Additions	14	-	5,359	5,373
Transfers in / (out)	2,801	(1,692)	-	1,109
Fair value changes recorded in net investment income	3,693	-	-	3,693
Fair value changes recorded in other comprehensive income	-	-	(3,166)	(3,166)
Depreciation	-	-	(2,210)	(2,210)
Disposals and divestitures	(1,650)	-	(1,506)	(3,156)
Effect of exchange rate changes	(1,879)	-	(4,156)	(6,035)
Balance, end of year	161,323	74,369	155,709	391,401

39 FINANCIAL RISK

The Group'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 Group 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 40 and 41.

The overriding objective of the Group'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 Group accepts certain levels of risk in order to generate returns, and the Group 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.

39.1 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 Group. Credit risks are primarily associated with financial investments and reinsurance contracts held.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

39 FINANCIAL RISK

39.1 Credit risk (continued)

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 Group 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	1	Minimal risk	AAA, AA	Aaa, Aa	AAA, AA	aaa, aa	
	Investment grade	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			DDD		
		9	Doubtful	D	C	DD	d
		10	Loss			D	

The Group 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 loans and finance leases;
- Reinsurance exposures, comprising reinsurance assets for life, annuity and health insurance (see note 41.3) or realistic disaster scenarios for property and casualty insurance (see note 40.2).

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

39 FINANCIAL RISK (continued)

39.1 Credit risk (continued)

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

	2016		2015	
	\$000	%	\$000	%
Investment portfolios	6,107,503	71.6%	5,933,886	72.3%
Lending portfolios	1,837,200	21.5%	1,704,835	20.8%
Reinsurance assets	41,805	0.5%	56,597	0.7%
Other financial assets	308,024	3.6%	278,786	3.4%
Total financial statements exposures	8,294,532	97.2%	7,974,104	97.2%
Loan commitments	164,175	1.9%	139,872	1.7%
Customer guarantees and letters of credit	45,026	0.5%	54,307	0.7%
Other	30,523	0.4%	38,759	0.4%
Total off financial statements exposures	239,724	2.8%	232,938	2.8%
Total	8,534,256	100.0%	8,207,042	100.0%

The amounts in respect of customer guarantees and letters of credit represent potential claims against customers in the event of a call on customer guarantees and letters of credit issued by the Group.

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

39 FINANCIAL RISK (continued)

39.1 Credit risk (continued)

	Sagicor Risk Rating - 2016	2016	Sagicor Risk Rating - 2015	2015
Investment portfolios:				
Government of Jamaica	5	1,608,102	5	1,803,792
Government of Barbados	5	607,945	5	614,369
Government of Trinidad and Tobago	2	452,188	2	400,614
Government of Aruba	3	135,103	3	141,142
The Bank of Nova Scotia Group	2	57,405	2	80,451
CIBC Group	2	42,913	2	66,992
Government of St. Lucia	3	159,348	5	162,824
Lending portfolios:				
Value Assets International S.A / Egret Ltd	4	57,407	3	59,560

(a) Investment portfolios

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

Investment portfolios		2016 Exposure		2015 Exposure	
Risk Rating	Classification	\$000	%	\$000	%
1	Minimal risk	171,776	3	118,187	2
2	Low risk	906,907	15	879,138	15
3	Moderate risk	1,109,299	18	1,078,990	18
4	Acceptable risk	424,493	7	363,331	6
5	Average risk	2,973,999	49	3,026,159	51
6	Higher risk	115,568	2	46,290	1
7	Special mention	30	0	36	0
8	Substandard	557	0	5,365	0
TOTAL RATED EXPOSURES		5,702,629	94	5,517,496	93
UN-RATED EXPOSURES		404,874	6	416,390	7
TOTAL		6,107,503	100	5,933,886	100

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

39 FINANCIAL RISK (continued)

39.1 Credit risk (continued)

(b) Lending portfolios

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

Lending portfolios

Risk Rating	Classification	2016 Exposure		2015 Exposure	
		\$000	%	\$000	%
1	Minimal risk	804,192	43	848,082	50
2	Low risk	284,938	16	154,700	9
3	Moderate risk	385,422	21	318,378	19
4	Acceptable risk	153,985	8	60,564	4
5	Average risk	70,399	4	53,305	3
6	Higher risk	50,675	3	17,703	1
7	Special mention	30,659	2	46,690	3
8	Substandard	17,406	1	17,906	1
9	Doubtful	15,064	1	9,385	1
10	Loss	24,308	1	19,397	1
TOTAL RATED EXPOSURES		1,837,048	100	1,546,110	92
UN-RATED EXPOSURES		152	0	158,725	8
TOTAL		1,837,200	100	1,704,835	100

Exposure to credit risk is also managed in part by obtaining collateral and guarantees for mortgage loans and finance loans and finance leases. For mortgage loans, the collateral is real estate property, and the approved loan limit is 75% to 95% of collateral value. For finance loans and finance leases, the collateral often comprises a vehicle or other form of security and the approved loan / lease limit is 50% to 100% of the collateral value. Unsecured finance loans and finance leases are only granted when the initial amount is less than \$10,205.

Policy loans are advanced on the security of the underlying insurance policy cash values. Cash loans are advanced to a maximum of 80% to 90% of the cash surrender value. Automatic premium loans are advanced to the extent of available cash surrender value.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

39 FINANCIAL RISK (continued)**39.1 Credit risk (continued)**(b) Lending portfolios (continued)

Exposure to the lending portfolios by geographic area is as follows.

	2016	2015
Barbados	391,196	406,499
Jamaica	927,349	779,043
Trinidad & Tobago	290,818	300,773
Other Caribbean	226,602	217,196
USA	1,235	1,324
	<u>1,837,200</u>	<u>1,704,835</u>

(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 Group is most exposed to the risk of past due assets with respect to its financial investments namely, its debt securities, mortgage loans, finance loans and finance leases.

Debt securities are assessed for impairment when amounts are past due, when the borrower is experiencing cash flow difficulties, or when the borrower's credit rating has been downgraded. Mortgage loans less than 90 to 180 days past due and finance loans and finance leases less than 90 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. Accumulated allowances for impairment reflect the Group's assessment of total individually impaired assets at the date of the financial statements. The following tables set out the carrying values of debt securities, mortgage loans, finance loans and finance leases, analysed by past due or impairment status.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

39 FINANCIAL RISK (continued)

39.1 Credit risk (continued)

(c) Past due and impaired financial investments

2016	Debt securities	Mortgage loans	Finance loans & leases
Neither past due nor impaired	4,958,787	483,987	858,153
Past due up to 3 months, but not impaired	19,135	50,615	145,894
Past due up to 12 months, but not impaired	-	7,160	1,357
Past due up to 5 years, but not impaired	-	20,412	-
Past due over 5 years, but not impaired	-	6,101	-
Total past due, but not impaired	19,135	84,288	147,251
Impaired assets (net of impairment)	380	39,025	12,566
Total carrying value	4,978,302	607,300	1,017,970
Accumulated allowances on impaired assets	45	15,230	21,589
Accrued interest on impaired assets	-	935	-
2015	Debt securities	Mortgage loans	Finance loans & leases
Neither past due nor impaired	4,900,829	500,526	738,277
Past due up to 3 months, but not impaired	7,412	60,374	119,671
Past due up to 12 months, but not impaired	-	7,782	1,963
Past due up to 5 years, but not impaired	-	22,274	-
Past due over 5 years, but not impaired	-	4,980	-
Total past due, but not impaired	7,412	95,410	121,634
Impaired assets (net of impairment)	4,711	34,466	12,411
Total carrying value	4,912,952	630,402	872,322
Accumulated allowances on impaired assets	472	5,416	31,558
Accrued interest on impaired assets	3	921	97

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

39 FINANCIAL RISK (continued)**39.1 Credit risk (continued)**(c) Past due and impaired financial investments (continued)

The Group is also exposed to impaired premiums receivable. Property and casualty insurers frequently provide settlement terms to customers and intermediaries which extend up to 3 months. However, under the terms of insurance contracts, insurers can usually lapse an insurance policy for non-payment of premium, or if there is a claim, recover any unpaid premiums from the claim proceeds.

(d) Repossessed assets

The Group 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 Group will seek to dispose of by sale. In some instances, the Group may provide re-financing to a new purchaser on customary terms.

(e) Renegotiated assets

The Group 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 Group classifies these amounts as past due, unless the original agreement is formally revised, modified or substituted.

39.2 Liquidity risk

Liquidity risk is the exposure that the Group 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 Group to mitigate liquidity risks particularly in operations with significant maturing short-term liabilities. For long-term insurance contracts, the Group 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.

Group companies monitor cash inflows and outflows in each operating currency. Through experience and monitoring, the Group is able to maintain sufficient liquid resources to meet current obligations.

Investment property may be held to back insurance liabilities. As these assets are relatively illiquid, the insurers hold less than 5% of their total assets in investment property.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

39.2 Liquidity risk (continued)

(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.

2016	Contractual un-discounted cash flows			
	Within 1 year	1 to 5 years	After 5 years	Total
Financial liabilities:				
Investment contract liabilities	692,028	-	-	692,028
Deposit and security liabilities:				
Other funding instruments	402,957	31,504	24,066	458,527
Customer deposits	1,811,369	87,904	275	1,899,548
Structured products	38,782	30,775	-	69,557
Securities sold under agreements to repurchase	650,989	1,433	-	652,422
Derivative financial instruments	709	2,019	-	2,728
Bank overdrafts	3,877	-	-	3,877
Accounts payable and accrued liabilities	220,566	106,872	3,710	331,148
Total financial liabilities	3,821,277	260,507	28,051	4,109,835
Off financial statement commitments:				
Loan commitments	164,175	-	-	164,175
Operating lease and rental payments	6,795	8,729	-	15,524
Customer guarantees and letters of credit	30,951	4,907	9,168	45,026
Other – guarantees, acceptances and other financial facilities	14,999	-	-	14,999
Total off financial statements commitments	216,920	13,636	9,168	239,724
Total	4,038,197	274,143	37,219	4,349,559

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

39.2 Liquidity risk (continued)

(a) Financial liabilities and commitments (continued)

2015	Contractual un-discounted cash flows			
	Within 1 year	1 to 5 years	After 5 years	Total
Financial liabilities:				
Investment contract liabilities	600,460	69,305	-	669,765
Deposit and security liabilities:				
Other funding instruments	394,994	21,351	24,609	440,954
Customer deposits	1,182,806	157,264	1,401	1,341,471
Structured products	47,597	24,536	-	72,133
Securities sold under agreements to repurchase	1,049,155	56	-	1,049,211
Derivative financial instruments	2,104	1,102	-	3,206
Bank overdrafts	4,316	-	-	4,316
Accounts payable and accrued liabilities	254,325	103,261	155	357,741
Total financial liabilities	3,535,757	376,875	26,165	3,938,797
Off financial statement commitments:				
Loan commitments	139,872	-	-	139,872
Operating lease and rental payments	2,202	7,529	-	9,731
Customer guarantees and letters of credit	47,466	6,007	834	54,307
Other – guarantees, acceptances and other financial facilities	26,348	-	-	26,348
Total off financial statements commitments	215,888	13,536	834	230,258
Total	3,751,645	390,411	26,999	4,169,055

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

39 FINANCIAL RISK (continued)

39.2 Liquidity risk (continued)

(b) Insurance liabilities

The Group's monetary 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.

	Expected discounted cash flows			
	Maturing within 1 year	Maturing 1 to 5 years	Maturing after 5 years	Total
2016				
Actuarial liabilities	116,544	365,923	2,482,737	2,965,204
Other insurance liabilities	159,886	30,594	90,590	281,070
Total	276,430	396,517	2,573,327	3,246,274

	Expected discounted cash flows			
	Maturing within 1 year	Maturing 1 to 5 years	Maturing after 5 years	Total
2015				
Actuarial liabilities	124,021	357,335	2,455,551	2,936,907
Other insurance liabilities	162,173	31,000	91,278	284,451
Total	286,194	388,335	2,546,829	3,221,358

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

39 FINANCIAL RISK (continued)

39.2 Liquidity risk (continued)

(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. For this disclosure, monetary insurance assets comprise policy loans and reinsurance assets.

	Contractual or expected discounted cash flows			
	Maturing within 1 year	Maturing 1 to 5 years	Maturing after 5 years	Total
2016				
Debt securities	523,177	883,180	3,571,945	4,978,302
Mortgage loans	23,553	58,925	524,822	607,300
Policy loans	3,845	27,038	181,067	211,950
Finance loans and finance leases	266,882	305,475	445,593	1,017,950
Securities purchased under agreements to resell	10,454	-	-	10,454
Deposits	582,937	206	2,558	585,701
Derivative financial instruments	709	2,019	-	2,728
Reinsurance assets: share of actuarial liabilities	554	-	-	554
Reinsurance assets: other	30,953	10,298	-	41,251
Premiums receivable	92,257	-	-	92,257
Other accounts receivable	89,736	110,418	12,885	213,039
Cash resources	501,289	-	31,757	533,046
Total	2,126,346	1,397,559	4,770,627	8,294,532

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

39 FINANCIAL RISK (continued)

39.2 Liquidity risk (continued)

(c) Financial and insurance assets (continued)

2015	Contractual or expected discounted cash flows			
	Maturing within 1 year	Maturing 1 to 5 years	Maturing after 5 years	Total
Debt securities	355,520	1,304,098	3,253,334	4,912,952
Mortgage loans	33,536	51,825	545,041	630,402
Policy loans	4,216	12,364	185,531	202,111
Finance loans and finance leases	147,329	129,896	595,097	872,322
Securities purchased under agreements to resell	16,128	-	-	16,128
Deposits	513,695	3,853	4,538	522,086
Derivative financial instruments	2,104	1,102	-	3,206
Reinsurance assets: share of actuarial liabilities	869	-	-	869
Reinsurance assets: other	45,138	10,590	-	55,728
Premiums receivable	84,205	-	-	84,205
Other accounts receivable	100,169	86,949	4,257	191,375
Cash resources	441,252	-	41,468	482,720
Total	1,744,161	1,600,677	4,629,266	7,974,104

39.3 Interest rate risk

The Group 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 Group 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 insurer 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 Group 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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

39 FINANCIAL RISK (continued)

39.3 Interest rate risk (continued)

(c) Financial and insurance assets (continued)

Interest rate changes may also result in losses if asset and liability cash flows are not closely matched with respect to timing and amount.

The Group 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 insurer 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 Group 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 Group holds many of its fixed rate debt securities to maturity and therefore mitigates the transient interest rate changes in these markets.

The tables following summarise the exposures to interest rates on the Group's monetary insurance and financial liabilities (excluding actuarial liabilities which are disclosed in note 41.4). 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.

2016	Exposure within 1 year	Exposure of 1 to 5 years	Exposure after 5 years	Not exposed to interest	Total
Other insurance liabilities	63,412	9,410	90,590	117,658	281,070
Investment contract liabilities	690,509	-	-	-	690,509
Deposit and security liabilities:					
Other funding instruments	416,045	3,129	10,368	844	430,386
Customer deposits	1,406,097	173,595	275	250,342	1,830,309
Structured products	38,636	30,578	-	343	69,557
Securities sold under agreements to repurchase	637,370	1,394	-	2,384	641,148
Derivative financial instruments	-	-	-	2,728	2,728
Bank overdrafts	3,877	-	-	-	3,877
Accounts payable and accruals	10,432	105,442	-	210,578	326,452
Total	3,266,378	323,548	101,233	584,877	4,276,036

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

39 FINANCIAL RISK (continued)

39.3 Interest rate risk (continued)

2015	Exposure within 1 year	Exposure of 1 to 5 years	Exposure after 5 years	Not exposed to interest	Total
Other insurance liabilities	67,036	9,720	91,278	116,417	284,451
Investment contract liabilities	600,216	69,305	-	-	669,521
Deposit and security liabilities:					
Other funding instruments	402,391	7,697	12,484	825	423,397
Customer deposits	955,867	157,021	1,401	224,746	1,339,035
Structured products	45,853	23,932	-	439	70,224
Securities sold under agreements to repurchase	1,033,887	341	-	4,988	1,039,216
Derivative financial instruments	-	-	-	3,206	3,206
Bank overdrafts	4,316	-	-	-	4,316
Accounts payable and accruals	1,962	85,807	-	252,516	340,285
Total	3,111,528	353,823	105,163	603,137	4,173,651

The tables following summarise the exposures to interest rate and reinvestment risks of the Group'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.

2016	Exposure within 1 year	Exposure of 1 to 5 years	Exposure after 5 years	Not exposed to interest	Total
Debt securities	897,746	754,161	3,248,900	77,495	4,978,302
Equity securities	-	-	-	388,860	388,860
Mortgage loans	30,617	81,996	488,180	6,507	607,300
Policy loans	3,661	26,371	174,392	7,526	211,950
Finance loans and leases	926,973	49,040	40,781	1,156	1,017,950
Securities purchased under agreements to resell	10,355	-	-	99	10,454
Deposits	581,462	206	2,558	1,475	585,701
Derivative financial instruments	-	-	-	2,728	2,728
Reinsurance assets: other	2,086	-	-	39,165	41,251
Premiums receivable	4,604	-	-	87,653	92,257
Other accounts receivable	7,264	106,087	-	99,688	213,039
Cash resources	441,561	-	-	91,485	533,046
Total	2,906,329	1,017,861	3,954,811	803,837	8,682,838

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

39 FINANCIAL RISK (continued)

39.3 Interest rate risk (continued)

2015	Exposure within 1 year	Exposure of 1 to 5 years	Exposure after 5 years	Not exposed to interest	Total
Debt securities	770,912	1,130,185	2,934,858	76,997	4,912,952
Equity securities	-	-	-	377,800	377,800
Mortgage loans	73,180	86,186	464,937	6,099	630,402
Policy loans	4,023	11,891	179,311	6,886	202,111
Finance loans and leases	749,817	51,325	68,780	2,400	872,322
Securities purchased under agreements to resell	16,081	-	-	47	16,128
Deposits	513,198	3,816	3,804	1,268	522,086
Derivative financial instruments	-	-	-	3,206	3,206
Reinsurance assets: other	224	-	-	55,504	55,728
Premiums receivable	2,990	-	-	81,215	84,205
Other accounts receivable	1,593	86,673	-	103,109	191,375
Cash resources	306,534	-	-	176,186	482,720
Total	2,438,552	1,370,076	3,651,690	890,717	8,351,035

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

	2016	2015
Financial assets:		
Debt securities	6.7%	7.1%
Mortgage loans	6.2%	6.5%
Policy loans	7.7%	8.0%
Finance loans and finance leases	12.6%	12.7%
Securities purchased under agreements to resell	9.2%	2.4%
Deposits	0.8%	0.9%
Financial liabilities		
Investment contract liabilities	6.5%	5.6%
Other funding instruments	2.5%	3.4%
Customer deposits	2.1%	1.9%
Securities sold under agreements to repurchase	4.5%	3.7%

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

39 FINANCIAL RISK (continued)

39.3 Interest rate risk (continued)

(a) Sensitivity

Sensitivity to interest rate risk is considered by operating subsidiaries. The effects of changes in interest rates of assets backing actuarial liabilities are disclosed in note 41.4. The Group's property and casualty operations are not exposed to a significant degree of interest rate risk, since the majority of its interest bearing instruments has short-term maturities. The sensitivity of the Group's principal operating subsidiaries engaged in banking, investment management and other financial services are considered in the following paragraphs.

Sagicor Investments Jamaica Limited and Sagicor Bank Jamaica Limited

The following table indicates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, on net income and total comprehensive income (TCI) of the above companies which operate in Jamaica.

The sensitivity of income is the effect of the assumed changes in interest rates on income based on the floating rate of debt securities and financial liabilities. The sensitivity of TCI is calculated by revaluing fixed rate available-for-sale financial assets for the effects of the assumed changes in interest rates. The correlation of a number of variables will have an impact on market risk. It should be noted that movements in these variables are non-linear and are assessed individually.

2016				2015			
Change in interest rate		Effect on net income	Effect on TCI	Change in interest rate		Effect on net income	Effect on TCI
JMD	USD			JMD	USD		
- 1%	- 0.5%	2,113	26,282	- 1%	- 0.5%	8,290	20,438
+2.5%	+2%	(7,379)	(93,032)	+2.5%	+2%	(13,675)	(71,758)

38.4 Foreign exchange risk

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

In order to manage the risk associated with movements in currency exchange rates, the Group seeks to maintain investments and cash in each operating currency, which are sufficient to match liabilities denominated in the same currency.

Exceptions are made to invest limited proportions in United States dollar assets which are held to back liabilities in Caribbean currencies. Management considers that these assets diversify the range of investments available in the Caribbean, and in the long-term are likely to either maintain capital value and/or provide satisfactory returns.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

39 FINANCIAL RISK (continued)

39.4 Foreign exchange risk (continued)

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

2016	BDS\$ 000 equivalents of balances denominated in					
	Barbados \$	Jamaica \$	Trinidad \$	EC \$	US \$	Other currencies
ASSETS						
Financial investments ⁽¹⁾	1,086,127	1,635,936	787,826	297,617	3,269,768	337,111
Reinsurance assets	11,515	672	20,863	3,640	2,803	2,312
Receivables ⁽¹⁾	52,004	172,465	20,540	26,602	21,296	12,117
Cash resources	26,983	86,759	54,800	29,678	251,777	83,049
	1,176,629	1,895,832	884,029	357,537	3,545,644	434,589
Other assets ⁽²⁾	415,040	675,599	164,256	56,523	131,743	(4,444)
Total assets	1,591,669	2,571,431	1,048,285	414,060	3,677,387	430,145
LIABILITIES						
Actuarial liabilities	772,552	605,550	659,087	123,809	623,678	180,528
Other insurance liabilities ⁽¹⁾	131,573	41,008	55,748	20,210	9,741	22,790
Investment contracts	67,466	132,965	280,484	104,901	87,960	16,733
Deposits and securities	172,501	966,581	2,826	28,828	1,774,219	33,050
Provisions	46,999	96,396	24,974	1,687	3,568	13,638
Accounts payable and accruals	75,195	179,972	25,869	5,661	33,985	5,770
	1,266,286	2,022,472	1,048,988	285,096	2,533,151	272,509
Other liabilities ⁽²⁾	27,696	25,589	38,628	6,970	2,154	3,249
Total liabilities	1,293,982	2,048,061	1,087,616	292,066	2,535,305	275,758
Net position	297,687	523,370	(39,331)	121,994	1,142,082	154,387

⁽¹⁾ Monetary balances⁽²⁾ Non-monetary and income tax balances and retirement plan assets

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

39 FINANCIAL RISK (continued)

39.4 Foreign exchange risk (continued)

2015	BDS\$ 000 equivalents of balances denominated in					
	Barbados \$	Jamaica \$	Trinidad \$	EC \$	US \$	Other currencies
ASSETS						
Financial investments ⁽¹⁾	1,073,464	1,564,949	729,673	291,901	3,163,264	335,956
Reinsurance assets	22,079	2,380	22,135	3,584	4,151	2,268
Receivables ⁽¹⁾	64,984	152,095	20,675	25,862	3,556	8,408
Cash resources	40,003	91,442	76,727	25,945	168,639	79,964
	1,200,530	1,810,866	849,210	347,292	3,339,610	426,596
Other assets ⁽²⁾	400,597	648,486	172,145	57,500	174,790	(4,529)
Total assets	1,601,127	2,459,352	1,021,355	404,792	3,514,400	422,067
LIABILITIES						
Actuarial liabilities	784,044	542,780	660,197	127,895	674,082	147,909
Other insurance liabilities ⁽¹⁾	140,672	37,758	57,978	18,225	7,947	21,871
Investment contracts	69,122	133,239	270,337	99,986	82,024	14,813
Deposits and securities	182,373	952,177	3,096	29,857	1,670,480	41,411
Provisions	40,961	74,473	29,463	1,976	5,630	11,130
Accounts payable and accruals	53,082	171,386	19,414	20,260	52,873	23,270
	1,270,254	1,911,813	1,040,485	298,199	2,493,036	260,404
Other liabilities ⁽²⁾	25,574	9,513	40,179	5,577	2,510	2,219
Total liabilities	1,295,828	1,921,326	1,080,664	303,776	2,495,546	262,623
Net position	305,299	538,026	(59,309)	101,016	1,018,854	159,444

⁽¹⁾ Monetary balances⁽²⁾ Non-monetary and income tax balances and retirement plan assets

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

39 FINANCIAL RISK (continued)**39.4 Foreign exchange risk (continued)**Sensitivity

The Group is exposed to currency risk in its operating currencies whose values have noticeably fluctuated against the Barbados dollar (BBD).

The exposure to currency risk may result in three types of risk, namely:

- Currency risk relating to the future cash flows of monetary balances

This occurs when a monetary balance is denominated in a currency other than the functional currency of the reporting unit to which it belongs. In this instance, a change in currency exchange rates results in the monetary balances being retranslated at the date of the financial statements and the exchange gain or loss is taken to income (note 24).

- Currency risk of reported results of foreign operations

This occurs when a reporting unit's functional currency depreciates or appreciates in value when retranslated to the BBD, which is the Group's presentational currency. In this instance, the conversion of the reporting unit's results at a different rate of exchange results in either less or more income being consolidated in the Group's income statement.

- Currency risk of the Group's investment in foreign operations

This occurs when a reporting unit's functional currency depreciates or appreciates in value when retranslated to the BBD, which is the Group's presentational currency. In this instance, the conversion of the reporting unit's assets and liabilities at a different rate of exchange results in a currency loss or gain which is recorded in the currency translation reserve (note 20). If the reporting unit was disposed of, either wholly or in part, then the corresponding accumulated loss or gain in the currency translation reserve would be transferred to income or retained earnings.

The operating currency whose values noticeably fluctuate against the BBD is the Jamaica dollar (JMD). The theoretical impact of JMD currency risk on reported results and of the Group's investment in foreign operations is considered below.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

39 FINANCIAL RISK (continued)

39.4 Foreign exchange risk (continued)

Sensitivity (continued)JMD currency risk

The effects of 10% depreciation in the JMD relative to the BBD arising from JMD reporting units as of December 31, 2016 and for the year then ended are considered in the following table.

	Amounts denominated in		Total amounts	Effect of a 10% depreciation
	JMD	USD		
Financial position:				
Assets	2,718,776	2,318,342	5,037,118	(271,877)
Liabilities	2,081,309	2,064,482	4,145,791	(208,130)
Net position	637,467	253,860	891,327	(63,747)
Represented by:				
Currency risk of the Group's investment in foreign operations				(63,747)
Income statement:				
Revenue	846,795	158,707	1,005,502	(84,680)
Benefits	(433,685)	(43,078)	(476,763)	43,369
Expenses	(282,046)	(29,212)	(311,258)	28,205
Income taxes	(47,443)	(48)	(47,491)	4,744
Net income	83,621	86,369	169,990	(8,362)
Represented by:				
Currency risk relating to the future cash flows of monetary balances				26,043
Currency risk of reported results of foreign operations				(8,362)
				17,681

A 10% appreciation in the JMD relative to the BBD would have equal and opposite effects to those disclosed above.

39.5 Fair value of financial instruments

(a) 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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

39 FINANCIAL RISK (continued)

39.5 Fair value of financial instruments (continued)

(a) 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 Group 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 Group 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 Group 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 Group's policy liabilities are unit linked, i.e. derive their value from a pool of assets which are carried at fair value. The Group 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.

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

A financial instrument is classified as Level 3 if:

- The fair value is derived from quoted prices of similar instruments that are observable and which would be classified as Level 2; or
- The fair value is derived from inputs that are not based on observable market data.

Level 3 available for sale securities include corporate and government agency debt instruments issued in the Caribbean, primarily in Jamaica and Trinidad. 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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

39 FINANCIAL RISK (continued)

39.5 Fair value of financial instruments (continued)

(a) 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 assets designated fair value through income include mortgage loans, debt securities and equities for which the full income return and capital returns accrue to holders of unit linked policy and deposit administration contracts. These assets are valued with inputs other than observable market data.

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

The following tables show financial asset and financial liabilities carried at fair value by level of the fair value hierarchy.

2016	Level 1	Level 2	Level 3	Total
Available for sale securities:				
Debt securities	1,209,572	1,421,826	5,856	2,637,254
Equity securities	70,700	63,872	7,240	141,812
	1,280,272	1,485,698	13,096	2,779,066
Investments at fair value through income:				
Debt securities	71,441	64,872	191,697	328,010
Equity securities	7,984	239,064	-	247,048
Derivative financial instruments	-	2,728	-	2,728
Mortgage loans	-	-	80,694	80,694
	79,425	306,664	272,391	658,480
Total assets	1,359,697	1,792,362	285,487	3,437,546
Total assets by percentage	40%	52%	8%	100%
Investment contracts:				
Unit linked deposit administration liabilities	-	-	261,335	261,335
	-	-	261,335	261,335
Deposit and security liabilities:				
Structured products	-	-	69,557	69,557
Derivative financial instruments	-	2,728	-	2,728
	-	2,728	69,557	72,285
Total liabilities	-	2,728	330,892	333,620
Total liabilities by percentage	0%	1%	99%	100%

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

39 FINANCIAL RISK (continued)

39.5 Fair value of financial instruments (continued)

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

2015	Level 1	Level 2	Level 3	Total
Available for sale securities:				
Debt securities	710,660	1,934,186	53,482	2,698,328
Equity securities	93,001	22,428	9,218	124,647
	803,661	1,956,614	62,700	2,822,975
Investments at fair value through income:				
Debt securities	31,640	70,096	171,718	273,454
Equity securities	24,200	220,533	8,420	253,153
Derivative financial instruments	-	3,206	-	3,206
Mortgage loans	-	-	94,104	94,104
	55,840	293,835	274,242	623,917
Total assets	859,501	2,250,449	336,942	3,446,892
Total assets by percentage	25%	65%	10%	100%
Investment contracts:				
Unit linked deposit administration liabilities	-	-	250,354	250,354
	-	-	250,354	250,354
Deposit and security liabilities:				
Structured products	-	-	70,224	70,224
Derivative financial instruments	-	3,206	-	3,206
	-	3,206	70,224	73,430
Total liabilities	-	3,206	320,578	323,784
Total liabilities by percentage	0%	1%	99%	100%

Transfers from Level 1 to Level 2 in 2016 – 119,504 (2015 - \$9,610). Transfers from Level 2 to Level 1 in 2016 – Nil (2015 - Nil).

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

39 FINANCIAL RISK (continued)

39.5 Fair value of financial instruments (continued)

(a) Financial instruments carried at fair value (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. Reasonable changes in inputs which could be applied to the valuations of Level 3 instruments designated at fair value are largely offset in income, since the changes in fair value are borne by contract holders. Changes in the valuations of structured products reflect changes in the underlying securities and are borne by the contract holders.

The following tables present the movement in Level 3 instruments for the year.

Assets	2016		2015	
	Available for sale securities	Investments at fair value through income	Total	Total
Balance, beginning of year	62,700	274,242	336,942	255,340
Additions	305	46,838	47,143	149,026
Transfers into Level 3 classification	-	152	152	3,746
Fair value changes recorded in income	985	532	1,517	4,889
Fair value changes recorded in other comprehensive income	(616)	-	(616)	(108)
Disposals and divestitures	(48,332)	(36,097)	(84,429)	(68,931)
Effect of exchange rate changes	(1,946)	(13,276)	(15,222)	(7,020)
Balance, end of year	13,096	272,391	285,487	336,942
Fair value changes recorded in income for investments held at end of year	-	2,108	2,108	1,214

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

39 FINANCIAL RISK (continued)

39.5 Fair value of financial instruments (continued)

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

Liabilities	2016			2015
	Policy liabilities – Unit linked deposit administration	Structured Products	Total	Total
Balance, beginning of year	250,354	70,224	320,578	273,753
Fair value changes recorded in income	375	-	375	(1,363)
Issues	32,915	38,412	71,327	70,387
Settlements	(11,374)	(34,127)	(45,501)	(16,941)
Transfers to instruments carried at amortised cost	-	(503)	(503)	-
Effect of exchange rate changes	(10,935)	(4,449)	(15,384)	(5,258)
Balance, end of year	261,335	69,557	330,892	320,578
Fair value changes recorded in income for instruments held at end of year	375	-	375	(1,363)

(b) Financial instruments carried at amortised cost

The carrying values of the Group's non-traded financial assets and financial liabilities carried at amortised cost approximate their fair value, except as disclosed in notes 8, 14 and 15.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

39 FINANCIAL RISK (continued)

39.5 Fair value of financial instruments (continued)

(b) Financial instruments carried at amortised cost (continued)

	Level 1	Level 2	Level 3	Total
Held to maturity securities:				
Debt securities	-	43,375	-	43,375
Loans and receivables:				
Debt securities	-	776,139	1,307,230	2,083,369
Mortgage loans	-	-	526,719	526,719
Policy loans	-	-	215,891	215,891
Finance loans and finance leases	-	-	982,262	982,262
Securities purchased for resale	-	-	10,454	10,454
	-	776,139	3,042,556	3,818,695
	-	819,514	3,042,556	3,862,070
Investment contracts:				
Deposit administration liabilities	-	19,149	237,541	256,690
Other investment contracts	-	-	172,484	172,484
	-	19,149	410,025	429,174
Deposit and security liabilities:				
Other funding instruments	-	-	423,636	423,636
Customer deposits	-	2,926	1,827,911	1,830,837
Securities sold for repurchase	-	-	641,148	641,148
	-	2,926	2,892,695	2,895,621
	-	22,075	3,302,720	3,324,795

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

39 FINANCIAL RISK (continued)**39.5 Fair value of financial instruments (continued)**(c) Equity price risk

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

Sensitivity

The sensitivity to fair value changes in equity securities arises from those instruments classified as available for sale. 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 Group's available for sale equity securities as of December 31, 2016 on total comprehensive income before tax (TCIBT) are as follows.

Available for sale equities	Carrying value	Effect of a 20% change on TCIBT
Listed on Caribbean stock exchanges and markets	38,550	7,710
Listed on US stock exchanges and markets	47,801	9,560
Listed on other exchanges and markets	55,461	11,092
	141,812	28,362

39.6 Derivative financial instruments and hedging activities

The Group's derivative activities give rise to open positions in portfolios of derivatives. These positions are managed to ensure that they remain within acceptable risk levels, with matching deals being utilised to achieve this where necessary. When entering into derivative transactions, the Group employs its credit risk management procedures to assess and approve potential credit exposures.

Derivatives are carried at fair value and presented in the financial statements as separate assets and liabilities. Asset values represent the cost to the Group of replacing all transactions with a fair value in the Group's favour assuming that all relevant counterparties default at the same time, and that transactions can be replaced instantaneously. Liability values represent the cost to the Group counterparties of replacing all their transactions with the Group with a fair value in their favour if the Group were to default. Derivative assets and liabilities on different transactions are only set off if the transactions are with the same counterparty, a legal right of set-off exists and the cash flows are intended to be settled on a net basis.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

39 FINANCIAL RISK (continued)

39.6 Derivative financial instruments and hedging activities (continued)

The contract or notional amounts of derivatives and their fair values are set out below.

	<<<<<<< 2016 >>>>>>>			<<<<<<< 2015 >>>>>>>		
	Contract / notional amount	Fair Value		Contract / notional amount	Fair Value	
		Assets	Liabilities		Assets	Liabilities
Derivatives held for trading:						
Equity indexed options	64,980	2,728	2,728	40,006	3,206	3,206
	64,980	2,728	2,728	40,006	3,206	3,206

(i) Equity indexed options

The Group has purchased equity indexed options in respect of structured products and in respect of life and annuity insurance contracts.

For certain structured product contracts with customers (note 15), equity indexed options give the holder the ability to participate in the upward movement of an equity index while being protected from downward risk. The Group is exposed to credit risk on purchased options only, and only to the extent of the carrying amount, which is their fair value.

For certain universal life and annuity insurance contracts, an insurer has purchased custom call options that are selected to materially replicate the policy benefits that are associated with the equity indexed components within the policy contract. These options are appropriate to reduce or minimise the risk of movements in specific equity markets. Credit risk that the insurer has regarding the options is mitigated by ensuring that the counterparty is sufficiently capitalized. Both the asset and the associated actuarial liability are valued at fair market value on a consistent basis, with the change in values being reflected in the income statement. The valuations combine external valuations with internal calculations.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

39 FINANCIAL RISK (continued)

38.7 Offsetting financial assets and liabilities

The Group is eligible to present certain financial assets and financial liabilities on a net basis on the balance sheet pursuant to criteria described in note 2 "Accounting Policies: 2.14 Offsetting financial instruments".

The following tables provide information on the impact of offsetting on the consolidated balance sheet, as well as the financial impact of netting for instruments subject to an enforceable master netting arrangement or similar agreement as well as available cash and financial instrument collateral.

2016						
	Gross amounts of financial assets	Gross amounts set off on the balance sheet	Net amounts of financial assets presented on the balance sheet	Impact of master netting arrangements	Financial instruments collateral	Net amount
ASSETS						
Financial investments	7,790,063	-	7,790,063	(1,642,336)	(252,244)	5,895,483
Securities purchases under resale agreement	10,454	-	10,454	-	-	10,454
Derivative financial instruments	2,728	-	2,728	(2,728)	-	-
	<u>7,803,245</u>	<u>-</u>	<u>7,803,245</u>	<u>(1,645,064)</u>	<u>(252,244)</u>	<u>5,905,937</u>
LIABILITIES						
Security Liabilities	2,975,277	-	2,975,277	(831,820)	(171,558)	1,971,899
Derivative financial instruments	2,728	-	2,728	(2,728)	-	-
	<u>2,978,005</u>	<u>-</u>	<u>2,978,005</u>	<u>(834,548)</u>	<u>(171,558)</u>	<u>1,971,899</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

39 FINANCIAL RISK (continued)

39.7 Offsetting financial assets and liabilities (continued)

2015	Gross amounts of financial assets	Gross amounts set off on the balance sheet	Net amounts of financial assets presented on the balance sheet	Impact of master netting arrangements	Financial instruments collateral	Net amount
ASSETS						
Financial investments	7,517,673	-	7,517,673	(1,259,649)	(240,061)	6,017,963
Securities purchases under resale agreement	16,128	-	16,128	-	-	16,128
Derivative financial instruments	3,206	-	3,206	(3,206)	-	-
	<u>7,537,007</u>	<u>-</u>	<u>7,537,007</u>	<u>(1,262,855)</u>	<u>(240,061)</u>	<u>6,034,091</u>
LIABILITIES						
Security Liabilities	2,876,188	-	2,876,188	(1,229,286)	(175,893)	1,471,009
Derivative financial instruments	3,206	-	3,206	(3,206)	-	-
	<u>2,879,394</u>	<u>-</u>	<u>2,879,394</u>	<u>(1,232,492)</u>	<u>(175,893)</u>	<u>1,471,009</u>

40 INSURANCE RISK - PROPERTY & CASUALTY CONTRACTS

Property and casualty insurers in the Group are exposed to insurance risks such as underwriting, claims and availability of reinsurance, and to credit risk in respect of reinsurance counterparties.

Sagicor General Insurance is the principal insurer within the Group that issues property and casualty insurance contracts. It operates mainly in Barbados and Trinidad and Tobago.

The principal insurance risks affecting property and casualty contracts are disclosed in the following sections.

40.1 Underwriting risk

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

40 INSURANCE RISK - PROPERTY & CASUALTY CONTRACTS (continued)**40.1 Underwriting risk (continued)**

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

Inaccurate pricing or inappropriate underwriting of insurance contracts, which may arise from poor pricing or lack of underwriting control, can lead to either financial loss or reputational damage to the insurer.

40.2 Claims risk

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

- attritional losses, which are expected to be of reasonable frequency and are less than established threshold amounts;
- large losses, which are expected to be relatively infrequent and are greater than established threshold amounts;
- catastrophic losses, which are an aggregation of losses arising from one incident or proximate cause, affecting one or more classes of insurance. These losses are infrequent and are generally very substantial.

The insurer records claims based on submissions made by claimants. The insurer may also obtain additional information from loss adjustors, medical reports and other specialist sources. The initial claim recorded may only be an estimate, which has to be refined over time until final settlement occurs. In addition, from the pricing methodology used for risks, it is assumed that at any particular date, there are claims incurred but not reported (IBNR).

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

- invalid or fraudulent claim submissions;
- the frequency of incurred claims;
- the severity of incurred claims;
- the development of incurred claims.

Claims risk may be concentrated in geographic locations, altering the risk profile of the insurer. The most significant exposure for this type of risk arises where a single event could result in a large number of claims. Concentration of risk is mitigated through risk selection, line sizes, event limits, quota share reinsurance and excess of loss reinsurance.

Total insurance coverage on insurance policies provides a quantitative measure of absolute 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 Group at December 31, gross and net of reinsurance, are summarised by class of insurance.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

40 INSURANCE RISK - PROPERTY & CASUALTY CONTRACTS (continued)

40.2 Claims risk (continued)

Total Insurance coverage		2016	2015
Property	Gross	15,346,805	13,452,406
	Net	2,166,563	2,009,547
Motor	Gross	771,955	693,457
	Net	385,977	346,728
Accident & liability	Gross	4,551,542	4,325,469
	Net	2,172,395	2,068,577
Total	Gross	20,670,302	18,471,332
	Net	4,724,935	4,424,852

The insurer assesses its exposures by modelling realistic disaster scenarios of potential catastrophic events. Claims arising from wind storms, earthquakes and floods and events triggering multi-coverage corporate liability claims are considered to be the potential sources of catastrophic losses arising from insurance risks. A realistic disaster scenario modelled for 2016 is presented below and results in estimated gross and net losses.

Scenario:

A Barbados and St. Lucia windstorm having a 200 year return period.

Gross loss Net loss

636,714 10,000

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

40.3 Reinsurance risk

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

- the credit risk of holding a recovery from a reinsurer;
- the unavailability of reinsurance cover in the market at adequate levels or prices;
- the failure of a reinsurance layer upon the occurrence of a catastrophic event.

The Group selects reinsurers which have well established capability to meet their contractual obligations and which generally have a Sagikor credit risk rating of 1 or 2. Insurers also place reinsurance coverage with various reinsurers to limit their exposure to any one reinsurer.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

40 INSURANCE RISK - PROPERTY & CASUALTY CONTRACTS (continued)**40.3 Reinsurance risk (continued)**

The reinsurance programmes are negotiated annually with reinsurers for coverage generally over a 12 month period. It is done by class of insurance, though for some classes there is aggregation of classes and / or subdivision of classes by the location of risk.

For its property risks, insurers use quota share and excess of loss catastrophe reinsurance treaties to obtain reinsurance cover. Catastrophe reinsurance is obtained for multiple claims arising from one event or occurring within a specified time period. However, treaty limits may apply and may expose the insurer to further claim exposure. Under some treaties, when treaty limits are reached, the insurer may be required to pay an additional premium to reinstate the reinsurance coverage. Excess of loss catastrophe reinsurance treaties typically cover up to four separate catastrophic events per year.

For other insurance risks, insurers limit their exposure by event or per person by excess of loss or quota share treaties.

Retention limits represent the level of risk retained by the insurer. Coverage in excess of these limits is ceded to reinsurers up to the treaty limit. Claim amounts in excess of reinsurance treaty limits revert to the insurer. Principal features of retention programs used by Sagicor General Insurance for its property insurance class is summarised in the table below. However, these arrangements are not exhaustive and do not represent a complete schedule of all reinsurance arrangements for each line of insurance business written.

Type of risk	Retention by insurers - currency amounts in thousands
Property	<ul style="list-style-type: none"> • maximum retention of \$9,000 for a single event; • maximum retention of \$10,000 for a catastrophic event; • quota share retention to maximum of 20% in respect of treaty limits; • quota share retention is further reduced to a maximum of \$750 per event.

The effects of reinsurance ceded are disclosed in notes 13, 22 and 25 and information on reinsurance balances is included in notes 9, 18 and 39.

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

- Hurricane with a 200 year return period affecting Barbados and St. Lucia and an earthquake with a 250 year return period affecting Trinidad within a 24 hour period.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

40 INSURANCE RISK - PROPERTY & CASUALTY CONTRACTS (continued)**40.3 Reinsurance risk (continued)**

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

Sagicor Risk Rating	Classification	2016 Exposure	
		\$000	%
1	Minimal risk	507,392	31%
2	Low risk	1,119,524	68%
3	Moderate risk	-	-
4	Acceptable risk	10,482	1%
5	Average risk	-	-
	TOTAL	1,637,398	100%

41 INSURANCE RISK – LIFE, ANNUITY & HEALTH CONTRACTS

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.

41.1 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 insurer.

Risks are priced to achieve an adequate return on capital on the insurer's business as a whole. In determining the pricing of an insurance contract, the insurer 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 insurer's assessment of the risk. Insurers 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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

41 INSURANCE RISK – LIFE, ANNUITY & HEALTH CONTRACTS (continued)**41.1 Contracts without investment returns (continued)****(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 Group 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 Group 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 41.2(b).

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 insurer may adjust the pricing or re-pricing of these contracts.

For health insurance contracts, the concentration of insurance risk is illustrated by the distribution of premium revenue by the location of the insured persons.

2016 Premium revenue by location of insureds	Gross	Ceded	Net
Barbados	44,699	1,743	42,956
Jamaica	155,435	4,007	151,428
Trinidad & Tobago	54,969	1,211	53,758
Other Caribbean	52,114	1,072	51,042
Total	307,217	8,033	299,184

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

41 INSURANCE RISK – LIFE, ANNUITY & HEALTH CONTRACTS (continued)**41.1 Contracts without investment returns (continued)**(b) Sensitivity of incurred claims

The sensitivity of term life and critical illness claims is included in the related disclosure on other long-term contracts in note 41.4. The impact on gross claims of increasing the total liability by 5% for un-reinsured health insurance claims is illustrated in the following table.

	2016		2015	
	Liability	5% increase in liability	Liability	5% increase in liability
Actuarial liability	95,727	4,786	80,565	4,028
Claims payable	8,564	428	6,753	338
	104,291	5,214	87,318	4,366

41.2 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 insurer.

Risks are priced to achieve an adequate return on capital on the insurer's business as a whole. In determining the pricing of a contract, the insurer 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. Insurers annually review their mortality experience and compare it to industry mortality tables. This review may result in future adjustments to the pricing or re-pricing of these contracts.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

41 INSURANCE RISK – LIFE, ANNUITY & HEALTH CONTRACTS (continued)

41.2 Contracts with investment returns (continued)

(b) Mortality and longevity risk (continued)

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

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 Group in respect of both contracts with or without investment returns at December 31, gross and net of reinsurance, are summarised by geographic area below.

Total insurance coverage		2016		2015	
		Individual contracts	Group contracts	Individual contracts	Group contracts
Barbados	Gross	7,711,595	2,676,441	7,434,930	2,638,373
	Net	7,093,281	2,573,127	6,808,555	2,545,122
Jamaica	Gross	14,215,810	9,802,977	13,577,265	9,444,507
	Net	13,923,014	9,738,187	13,266,346	9,386,911
Trinidad & Tobago	Gross	6,645,562	4,759,545	6,598,940	5,183,417
	Net	5,483,363	4,524,810	5,399,184	4,920,366
Other Caribbean	Gross	15,472,109	3,649,942	14,850,749	3,986,409
	Net	13,258,333	3,294,301	12,631,175	3,437,073
Total	Gross	44,045,076	20,888,905	42,461,884	21,252,706
	Net	39,757,991	20,130,425	38,105,260	20,289,472

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

41 INSURANCE RISK – LIFE, ANNUITY & HEALTH CONTRACTS (continued)

41.2 Contracts with investment returns (continued)

(b) Mortality and longevity risk (continued)

Total liability under annuity contracts which represents the present value of future annuity benefits provides a good measure of longevity risk exposure.

Total liability under annuity contracts		2016		2015	
		Individual contracts	Group contracts	Individual contracts	Group contracts
Barbados	Gross	221,088	87,347	228,949	92,575
	Net	221,088	87,347	228,949	92,575
Jamaica	Gross	1,149	587,191	1,018	571,686
	Net	1,149	587,191	1,018	571,686
Trinidad & Tobago	Gross	230,507	-	226,216	-
	Net	230,507	-	226,216	-
Other Caribbean	Gross	53,653	54	48,341	-
	Net	53,653	54	48,341	-
USA	Gross	153,513	-	164,450	-
	Net	153,513	-	164,450	-
Total	Gross	659,910	674,592	668,974	664,261
	Net	659,910	674,592	668,974	664,261

(c) Lapse risk

Lapse risk is that, on average, policyholders will terminate their policies ahead of the insurer'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 Group 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 insurers have 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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

41 INSURANCE RISK – LIFE, ANNUITY & HEALTH CONTRACTS (continued)**41.2 Contracts with investment returns (continued)**(e) Investment risk

A substantial proportion of the Group's financial investments support insurer obligations under life and annuity contracts with investment returns. The financial risks outlined in note 39 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.

41.3 Reinsurance risk

To limit its exposure of potential loss on an insurance policy, the insurer may cede certain levels of risk to a reinsurer. The Group 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 insurer's liability and failure by a reinsurer to honour its commitments could result in losses to the Group.

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 insurer. Coverage in excess of these limits is ceded to reinsurers up to the treaty limit. The principal features of retention programs used by insurers are summarised in the following table.

Type of insurance contract	Retention by insurers - currency amounts in thousands
Health insurance contracts with individuals	Retention per individual to a maximum of \$350
Health insurance contracts with groups	Retention per individual to a maximum of \$350
Life insurance contracts with individuals	Retention per individual life to a maximum of \$1,000
Life insurance contracts with groups	Retention per individual life to a maximum of \$1,000

41.4 Sensitivity arising from the valuation 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.

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 12.3 (b) to (f)), and
- the margins for adverse deviations (note 12.3 (g)).

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

41 INSURANCE RISK – LIFE, ANNUITY & HEALTH CONTRACTS (continued)

41.4 Sensitivity arising from the valuation of actuarial liabilities (continued)

Under Canadian accepted actuarial standards, the AA is required to test the actuarial liability under economic scenarios. The scenarios developed and tested by insurers were as follows:

Sensitivity	Scenario	
	Sagicor Life Inc segment	Sagicor Life Jamaica segment
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.	Assumed increases in the investment portfolio yield rates of 0.5% for 10 years.
Low interest rate	Assumed decreases in investment portfolio yield rates of 0.25% per year for 5 years, with the rates remaining constant thereafter.	Assumed decreases in investment portfolio yield rates of 0.5% per year for 10 years.
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 insurers by segment. Correlations that may exist between scenario assumptions were not explicitly taken into account.

	Sagicor Life Inc segment		Sagicor Life Jamaica segment	
	2016	2015	2016	2015
Base net actuarial liability - \$000	1,872,098	1,879,639	654,367	653,303
Scenario	Increase in liability		Increase in liability	
Worsening rate of lapse	271,455	255,994	95,270	80,305
High interest rate	(168,667)	(153,765)	(197,469)	(202,410)
Low interest rate	312,253	302,583	248,800	272,493
Worsening mortality / morbidity	71,616	68,382	74,417	67,781
Higher expenses	41,429	38,347	29,878	31,944

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

41 INSURANCE RISK – LIFE, ANNUITY & HEALTH CONTRACTS (continued)**41.5 Dynamic capital adequacy testing (DCAT)**

DCAT is a technique used by the Group to assess the adequacy of the insurer's financial position and financial condition in the light of different future economic and policy experience scenarios. DCAT assesses the impact over the next 5 years on the insurer's financial position and financial condition under specific scenarios.

The financial position of an insurer is reflected by the amounts of assets, liabilities and equity in the financial statements at a given date. The financial position therefore relies on the valuation assumptions used for establishing the actuarial liabilities being adequate to measure future adverse deviations in experience. The financial position does not offer any indication of an insurer's ability to execute its business plan.

The financial condition of an insurer at a particular date is its prospective ability at that date to meet its future obligations, especially obligations to policyholders, those to whom it owes benefits and to its shareholders.

The financial condition analysis examines both an insurer's ability to execute its business plan and to absorb adverse experience beyond that provided for when its actuarial liabilities are established.

The purpose of the DCAT is

- to develop an understanding of the sensitivity of the total equity of the insurer and future financial condition to changes in various experience factors and management policies;
- to alert management to material, plausible and imminent threats to the insurer's solvency;
- and to describe possible courses of action to address these threats.

Full DCAT is conducted periodically by some insurers within the Group.

42. FIDUCIARY RISK

The Group provides investment management and pension administration services to investment and pension funds which involve the Group making allocation, purchase and sale decisions in relation to a wide range of investments. These services give rise to fiduciary risk that may expose the Group to claims for mal-administration or under-performance of these funds.

In the ordinary course of business, the Group manages assets of pension funds, mutual funds, unit trusts and other corporate entities which are not included in the Group's financial statements. The investments and cash under administration are as follows:

	<u>2016</u>	<u>2015</u>
Pension and insurance fund assets	3,452,933	3,153,392
Mutual fund, unit trust and other investment fund assets	1,780,469	1,593,549
	<u>5,233,402</u>	<u>4,746,941</u>

Fee income under administration is discussed in note 24.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

43 STATUTORY RESTRICTIONS ON ASSETS

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

Banking subsidiaries may also be required to hold deposits with Central Banks which regulate the conduct of banking operations.

To satisfy the above requirements, invested assets and cash totalling \$2,838,651 (2015 - \$2,592,406) have been deposited with regulators or are held in trust to the order of regulators.

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

44 CAPITAL MANAGEMENT

The Group'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 the shareholder;
- To provide adequate returns to the shareholder;
- To maintain a strong capital base to support the future development of Group operations.

44.1 Capital resources

The principal capital resources of the Group are as follows:

	2016	2015
Shareholder's equity	1,681,652	1,597,089
Non-controlling interests	515,956	463,475
Total capital resources	<u>2,197,608</u>	<u>2,060,564</u>

The Group deploys its capital resources through its operating activities. These operating activities are carried out by Group companies which are either insurance entities or provide other financial services. The capital is deployed in such a manner as to ensure that subsidiaries have adequate and sufficient capital resources to carry out their activities and to meet regulatory requirements.

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

44 CAPITAL MANAGEMENT (continued)**44.2 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 Group has complied with its regulatory requirements at year end.

(b) Sagicor Investments Jamaica Limited and Sagicor Bank Limited

Capital adequacy and the use of regulatory capital are monitored monthly by management employing techniques based on the guidelines developed by the Financial Services Commission (FSC), the Bank of Jamaica (BOJ), Basel II and the Risk Management and Compliance Unit. The required information is filed with the respective Regulatory Authorities at stipulated intervals. The BOJ and the FSC require each regulated entity to hold the minimum level of regulatory capital, and to maintain a minimum ratio of total regulatory capital to the risk-weighted assets.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off financial statements exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the capital adequacy ratios. During 2016 and 2015, all applicable externally imposed capital requirements were complied with.

	Sagicor Investments Jamaica		Sagicor Bank Jamaica	
	2016	2015	2016	2015
Actual capital base to risk weighted assets	13%	14%	14%	14%
Required capital base to risk weighted assets	10%	10%	10%	10%

44.3 Financial covenants

The Company has guaranteed certain Parent Company and affiliated company borrowing facilities.

8.875% Senior Notes

Under an indenture entered into by the Parent Company on the issue of the senior notes. The Group has to comply with a number of covenants. Under these arrangements all subsidiaries have been designated as 'restricted subsidiaries' of the Parent Company and are therefore subject to a number of compliance obligations. Restricted subsidiaries are prohibited from creating encumbrances or restrictions on their ability to make distributions to the parent. In addition, there are certain limitations placed on affiliate transactions which can be entered into by the subsidiaries. At December 31, 2016, the Group was in compliance with the compliance obligations.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

44 CAPITAL MANAGEMENT (continued)**44.3 Financial covenants (continued)**4.85% notes due 2019

Under an indenture and a trust deed entered into by the Parent Company on the issue of the notes, the Parent Company group has to comply with permitted lien covenants, which will not allow the Company nor any of its subsidiaries to directly or indirectly, incur or permit to exist any lien to secure any indebtedness or any guarantee of indebtedness, other than permitted liens, without effectively providing that the senior notes and notes are secured equitably and rateably with (or, if the obligation to be secured by the lien is subordinated in right of payment to the notes, prior to) the obligations so secured for so long as such obligations are so secured.

Permitted liens are liens existing on the dates of issue of the notes, certain liens which would arise in the course of normal business, and other liens whose outstanding principal amounts in aggregate outstanding principal amount do not exceed 10% of the consolidated net tangible assets of the Parent Company group (as is defined in the indenture and trust deed). As of December 31, 2016 and 2015, the Parent Company group satisfied these requirements.

International Finance Corporation (IFC)

On March 31, 2011, the Company's parent Sagicor Financial Corporation Limited (SFCL) and IFC entered into subscription and policy agreements to facilitate an investment by IFC in common and preference shares of SFCL.

Under these agreements, there are certain compliance obligations applicable to 'key subsidiaries' of SFCL. The Company, Sagicor Life Jamaica Limited and Sagicor Investments Jamaica have been defined as key subsidiaries and are subject to these compliance obligations.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

45. SUBSIDIARY AND ASSOCIATED COMPANIES

The tables below identify the principal operating companies in the Group, their principal activities, their country of incorporation and the effective equity interest held by Sagicor Life Inc. The tables are assembled on the basis of the reported Parent Company operating segments.

(a) Sagicor Life Inc

These comprise the Company and Group subsidiaries conducting life, health and annuity insurance business, and pension administration services in (i) Barbados, Eastern Caribbean, Dutch Caribbean, Bahamas and Central America and (ii) Trinidad and Tobago. As these two segments are broadly similar in products, services, distribution, administrative and regulatory environment, they are presented on an aggregated basis. The companies are set out in the following table.

Sagicor Life Segment Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagicor Life Inc ⁽ⁱ⁾	Life and health insurance, annuities and pension administration services	Barbados	100%
Sagicor Life Aruba NV	Life and health insurance, annuities and pension administration services	Aruba	100%
Capital Life Insurance Company Bahamas Limited	Life insurance	The Bahamas	100%
Sagicor Panamá, SA	Life and health insurance	Panamá	100%
Nationwide Insurance Company Limited	Life insurance	Trinidad & Tobago	100%
Associates			
RGM Limited	Property ownership and management	Trinidad & Tobago	33%
FamGuard Corporation Limited	Investment holding company	Bahamas	20%
Principal operating company: Family Guardian Insurance Company Limited	Life and health insurance and annuities	Bahamas	20%
Primo Holding Limited	Property investment	Barbados	38%

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

45. SUBSIDIARY AND ASSOCIATED COMPANIES (continued)

(b) Sagicor Jamaica

This segment comprises Group subsidiaries conducting life, health, annuity, property and casualty insurance business, and pension administration services and financial services in Jamaica, Cayman Islands and Costa Rica.

All Jamaican subsidiaries are now wholly owned by Sagicor Group Jamaica Limited. The companies comprising this segment are as follows.

Sagicor Jamaica Segment Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagicor Group Jamaica Limited	Group holding company	Jamaica	49.11%
Sagicor Life Jamaica Limited	Life and health insurance and annuities	Jamaica	49.11%
Sagicor Life of the Cayman Islands Limited	Life insurance	The Cayman Islands	49.11%
Sagicor Pooled Investment Funds Limited	Pension fund management	Jamaica	49.11%
Employee Benefits Administrator Limited	Pension administration services	Jamaica	49.11%
Sagicor Re Insurance Limited	Property and casualty insurance	The Cayman Islands	49.11%
Sagicor Insurance Brokers Limited	Insurance brokerage	Jamaica	49.11%
Sagicor International Administrators Limited	Group insurance administration	Jamaica	49.11%
Sagicor Insurance Managers Limited	Captive insurance management services	The Cayman Islands	49.11%
Sagicor Property Services Limited	Property management	Jamaica	49.11%
Sagicor Investments Jamaica Limited	Investment banking	Jamaica	49.11%
Sagicor Bank Jamaica Limited	Commercial banking	Jamaica	49.11%

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

45. SUBSIDIARY AND ASSOCIATED COMPANIES (continued)

(b) Sagicor Jamaica (continued)

Sagicor Jamaica Segment Companies (continued)	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagicor Costa Rica SCR, S.A.	Life insurance	Costa Rica	24.56%
LOJ Holdings Limited	Insurance holding company	Jamaica	100%
Sagicor St Lucia Limited	Financial services holding company	St Lucia	49.11%
Sagicor Securities Jamaica Limited	Securities trading	Jamaica	49.11%
Associates			
Sagicor Real Estate X-Fund Ltd.	Investment in real estate activities	St. Lucia	29.31% ⁽¹⁾

(1) In September 2015, Sagicor Group acquired the Sagicor Real Estate X Fund. This acquisition took the Sagicor Group's holding to 29.31%.

Control of Sagicor Group Jamaica Limited is established through the following:

- The power of the Group to appoint a majority of the directors of the company and thereby direct relevant activities.
- The Group is exposed to the variable returns from its effective shareholder's interest.
- The Group has the ability to use the power to affect the amount of investor's returns.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

45. SUBSIDIARY AND ASSOCIATED COMPANIES (continued)

(c) Other Group Companies

Other Group Companies	Principal Activities	Country of Incorporation	Effective Interest
Sagicor General Insurance Inc	Property and casualty insurance	Barbados	53%
Sagicor Finance Inc	Loan and lease financing, and deposit taking	St. Lucia	70%
Sagicor Asset Management (T&T) Limited	Investment management	Trinidad & Tobago	100%
Sagicor Asset Management Inc	Investment management	Barbados	100%
Barbados Farms Limited	Farming and real estate development	Barbados	77%
Sagicor Funds Incorporated	Mutual fund holding company	Barbados	100%
Globe Finance Inc	Loan and lease financing, and deposit taking	Barbados	51%
The Mutual Financial Services Inc	Financial services holding company	Barbados	73%
Sagicor Asset Management (Eastern Caribbean) Limited	Investment management	Barbados	100%

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in BDS \$000

46. EVENTS AFTER DECEMBER 31, 2016

On March 3, 2017, Standards & Poor's downgraded the Government of Barbados' long-term foreign and local currency sovereign rating by one notch from 'B-' to 'CCC+' and assigned a negative outlook. On March 9, 2017, Moody's Investors Service also downgraded the Government of Barbados' credit rating one notch from 'Caa1' to 'Caa3' and maintained a stable outlook.

Subsequent to the year end, the Board of Directors of Sagicor Bank Jamaica Limited (SBJ) approved the issuance of:

- (i) Up to 1,500,000,000 Class A Cumulative Redeemable Preference Shares without par value with a tenor of eighteen (18) months @ 7.75% interest per annum to be issued at a Share price of J\$1.00 per Share; and
- (ii) Up to 1,500,000,000 Class B Cumulative Redeemable Preference Shares without par value with a tenor of three (3) years @ 8.25% interest per annum to be issued at a Share price of J\$1.00 per Share by way of private placement in an Exempt Distribution made under the Guidelines for Exempt Distribution. The Preference Shares will be offered to accredited investors and to investors whose investment is J\$10,000,000 or more and thereafter an application shall be made to the Jamaica Stock Exchange to list the Preference Shares on the exchange using the listing method of introduction.

APPENDIX “E”

Audited Financial Statements of Sagicor Life (Eastern Caribbean) Inc

**For the financial year ended
December 31, 2016**

Sagicor Life (Eastern Caribbean) Inc

Financial Statements **December 31, 2016**

SAGICOR LIFE (EASTERN CARIBBEAN) INC. INDEX TO THE FINANCIAL STATEMENTS

As of December 31, 2016

Reports	Page
Independent Auditors' Report	208
Financial Statements:	
Statement of Financial Position	211
Statement of Comprehensive Income	212
Statement of Changes in Equity	213
Statement of Cash Flows	214
Notes to Financial Statements:	
1 Incorporation and Principal Activities	215
2 Accounting Policies	215
3 Critical Accounting Estimates and Judgements	224
4 Financial Investments	224
5 Miscellaneous Assets and Receivables	225
6 Income Tax Liabilities	225
7 Accounts Payable and Accrued Liabilities	225
8 Common Shares	225
9 Net Investment Income	226
10 Cash Flows	227
11 Commitments	228
12 Contingent Liabilities	228
13 Financial Risk	228
14 Capital Management	242
15 Related Party Transactions	242



Independent auditors' report

To the Shareholder of Sagieor Life (Eastern Caribbean) Inc.

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Sagieor Life (Eastern Caribbean) Inc. ('the Company') as at December 31, 2016 and December 31, 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at December 31, 2016 and December 31, 2015;
- the statement of comprehensive income for the years then ended;
- the statement of changes in equity for the years then ended;
- the statement of cash flows for the years then ended; and
- the notes to the financial statements, which include 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 *Auditors' 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.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Registered office: PricewaterhouseCoopers East Caribbean, 20 Micoud Street, Castries, St. Lucia, West Indies

Head office: PricewaterhouseCoopers East Caribbean, The Financial Services Centre, Bishop's Court Hill, P.O. Box 111, St. Michael, BB14004, Barbados, West Indies
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All listing of the partners of PricewaterhouseCoopers East Caribbean Firm is available upon request from the Head office. Please see www.pwc.com/structure for further details.



In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditors' 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 auditors' 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 management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other matter

This report, including the opinion, has been prepared for and only for the Company's Shareholder in accordance with the terms of our engagement letter and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

A handwritten signature in black ink that reads "Vincent Stenhouse Coopers". The signature is written in a cursive style.

Chartered Accountants
Castries, St. Lucia
April 27, 2017

**SAGICOR LIFE (EASTERN CARIBBEAN) INC.
STATEMENT OF FINANCIAL POSITION**

As of December 31, 2016

Amounts expressed in EC \$000

	Notes	2016	2015
ASSETS			
Financial investments	4	3,634	150
Miscellaneous assets and receivables	5	-	8
Cash resources	10	1,596	5,000
Total assets		5,230	5,158
LIABILITIES			
Income tax liabilities	6	17	-
Accounts payable and accrued liabilities	7	205	158
Total liabilities		222	158
EQUITY			
Share capital	8	5,000	5,000
Retained earnings		8	-
Total shareholder's equity		5,008	5000
Total liabilities and equity		5,230	5,158

These financial statements have been approved for issue by the Board of Directors on April 27, 2017.


Director


Director

**SAGICOR LIFE (EASTERN CARIBBEAN) INC.
STATEMENT OF COMPREHENSIVE INCOME**

Year ended December 31, 2016

Amounts expressed in EC \$000

	Notes	2016	2015
REVENUE			
Net investment income from external parties	9	81	-
EXPENSES			
Administrative expenses		56	-
INCOME BEFORE TAXES		25	-
Income taxes		(17)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		8	-
TOTAL COMPREHENSIVE INCOME IS ATTRIBUTABLE TO:			
Common shareholder		8	-
		8	-

SAGICOR LIFE (EASTERN CARIBBEAN) INC.**STATEMENT OF CHANGES IN EQUITY**

Year ended December 31, 2016

Amounts expressed in EC \$000

	Share capital	Retained earnings	Total
2016	Note 8		
Balance, beginning of year	5,000	-	5,000
Total comprehensive income	-	8	8
Balance, end of year	5,000	8	5,008
	Share capital	Retained earnings	Total
2015	Note 8		
Balance, beginning of year	-	-	-
Transactions with holders of equity instruments:			
Issue of shares (note 8)	5,000	-	5,000
Balance, end of year	5,000	-	5,000

SAGICOR LIFE (EASTERN CARIBBEAN) INC.
STATEMENT OF CASH FLOWS

Year ended December 31, 2016

Amounts expressed in EC \$000

	Notes	2016	2015
		<u> </u>	<u> </u>
OPERATING ACTIVITIES			
Income before taxes		25	-
Adjustments for non-cash items, interest	10.1	(85)	-
Interest received		85	-
Changes in operating assets	10.1	(3,476)	(158)
Changes in operating liabilities	10.1	47	158
Net cash flows - operating activities		<u>(3,404)</u>	<u>-</u>
FINANCING ACTIVITIES			
Proceeds from issue of shares		-	5,000
Net cash flows - financing activities		<u>-</u>	<u>5,000</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents, beginning of year		<u>5,000</u>	-
CASH AND CASH EQUIVALENTS, END OF YEAR	10.2	<u>1,596</u>	<u>5,000</u>

SAGICOR LIFE (EASTERN CARIBBEAN) INC.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in EC \$000

1. INCORPORATION AND PRINCIPAL ACTIVITIES

Sagicor Life (Eastern Caribbean) Inc. (the "Company") was incorporated on October 10, 2014 under the Companies Act of Saint Lucia. The Company is a wholly owned subsidiary of Sagicor Financial Corporation Limited (SFCL).

The registered office of the Company is located in the Sagicor Financial Centre, Choc Estate, Castries, Saint Lucia.

The principal activities of the Company will be the conduct of life, health and annuities insurance business. As at the end of December 31, 2016 the Company had not written any insurance business.

The Company is currently licensed to operate in St. Lucia.

2. SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

These financial statements 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 on life insurance and annuity contracts using approaches consistent with Canadian accepted actuarial standards. As no specific guidance is provided by IFRS for computing actuarial liabilities, management has judged that Canadian accepted actuarial standards 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 financial statements are prepared under the historical cost convention except as modified by the revaluation of investment property, owner-occupied property, available for sale investment securities, financial assets and liabilities held at fair value through income, 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.

All amounts in these financial statements are shown in Eastern Caribbean dollars, unless otherwise stated.

SAGICOR LIFE (EASTERN CARIBBEAN) INC.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in EC \$000

2. ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) Amendments to IFRS

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2016, and have not been applied in preparing these financial statements (see note 2.13). There are no new standards, amendments to standards and interpretations effective for this financial year that have a significant effect on these financial statements.

2.2 Foreign currency translation

(a) Functional and presentational currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Eastern Caribbean dollars, which is the Company's presentational currency.

(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 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.

SAGICOR LIFE (EASTERN CARIBBEAN) INC.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in EC \$000

2. ACCOUNTING POLICIES (continued)

2.3 Financial assets

(a) Classification

The Company classifies its financial assets into four categories:

- held to maturity financial assets;
- available for sale financial assets;
- financial assets at fair value through income;
- loans and receivables.

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

Held to maturity financial assets are non-derivative financial instruments with fixed or determinable payments and fixed maturities that management has both the intent and ability to hold to maturity.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Financial assets in the category at fair value through income comprise designated assets or held for trading assets. These are set out below.

- Assets designated by management on acquisition form part of managed portfolios whose performance is evaluated on a fair value basis in accordance with documented investment strategies. They comprise investment portfolios backing deposit administration and unit linked policy contracts for which the full return on the portfolios accrue to the contract-holders.
- Held for trading securities are acquired principally for the purpose of selling in the short-term or if they form part of a portfolio of financial assets in which there is evidence of short-term profit taking. Derivatives are also classified as held for trading unless designated as hedges.

Available for sale financial assets are non-derivative financial instruments intended to be held for an indefinite period of time and which may be sold in response to liquidity needs or changes in interest rates, exchange rates and equity prices.

SAGICOR LIFE (EASTERN CARIBBEAN) INC.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in EC \$000

2. ACCOUNTING POLICIES (continued)

2.3 Financial assets (continued)

(b) Recognition and measurement

Purchases and sales of financial investments are recognised on the trade date. Interest income arising on investments is accrued using the effective yield method. Dividends are recorded in revenue when due.

Held to maturity assets and loans and receivables are carried at amortised cost less provision for impairment.

Financial assets in the category at fair value through income are measured initially at fair value and are subsequently re-measured at their fair value based on quoted prices or internal valuation techniques. Realised and unrealised gains and losses are recorded as net gains in investment income. Interest and dividend income are recorded under their respective heads in investment income. Interest income on financial assets at fair value through income is calculated using the effective interest rate method

Financial assets in the available for sale category are measured initially at fair value and are subsequently re-measured at their fair value based on quoted prices or internal valuation techniques. Unrealised gains and losses, net of deferred income taxes, are reported in other comprehensive income. Either on the disposal of the asset or if the asset is determined to be impaired, the previously recorded unrealised gain or loss is transferred to investment income. Discounts and premiums on available for sale securities are amortised using the effective yield method.

(c) 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.

(d) Impaired financial assets

A financial asset is considered impaired if its carrying amount exceeds its estimated recoverable amount.

An impairment loss for assets carried at amortised cost is calculated as the difference between the carrying amount and the present value of expected cash flows discounted at the original effective interest rate. The carrying value of impaired financial assets is reduced by impairment losses.

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

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

SAGICOR LIFE (EASTERN CARIBBEAN) INC.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in EC \$000

2. ACCOUNTING POLICIES (continued)

2.3 Financial assets (continued)

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

2.4 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.

2.5 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.

2.6 Presentation of current and non-current assets and liabilities

In note 13.2, the maturity profiles of financial assets and liabilities are identified. For other assets and liabilities, balances presented in notes 5 to 7 are non-current unless otherwise stated in those notes.

2.7 Interest income and expense

Interest income and expenses are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective yield method based on the initial transaction price.

2.8 Fees and other revenues

Fees and non-insurance commission income are recognised on an accrual basis when the service has been provided. Fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-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.

SAGICOR LIFE (EASTERN CARIBBEAN) INC.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in EC \$000

2. ACCOUNTING POLICIES (continued)

2.9 Taxes

(a) Income taxes

The Company is subject to taxes on income in the jurisdictions in which business operations are conducted. Rates of taxation in the Eastern Caribbean for the current year are set out in the next table:

Income tax rates	Life insurance and non-registered annuities	Registered annuities	Other lines of business
Eastern Caribbean	10% - 35% of net investment income	Nil	25%-35% of net income

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.

2.10 Common shares

(a) Common shares

In exchange for consideration received, the Company has 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

On the declaration by the Company's directors of common share dividends payable, the total value of the dividend is recorded as an appropriation of retained earnings.

2.11 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.

SAGICOR LIFE (EASTERN CARIBBEAN) INC.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in EC \$000

2. ACCOUNTING POLICIES (continued)

2.12 Cash flows

The following classifications apply to the statement of cash flow.

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 tangible and intangible assets to be utilised in the business and in respect of changes in subsidiary holdings, insurance businesses, and associated company and joint arrangement investments. 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

Cash and cash equivalents can 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,
- less other borrowings from financial institutions made for the purpose of meeting cash commitments and which have maturities of three months or less from origination.

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

SAGICOR LIFE (EASTERN CARIBBEAN) INC.
NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in EC \$000

2. ACCOUNTING POLICIES (continued)

2.13 Future accounting developments and reporting changes

Certain new standards and amendments to existing standards have been issued but are not effective for the periods covered by these financial statements. The changes in standards and interpretations which may have a significant effect on future presentation, measurement or disclosure of the Company's financial statements are summarised in the following tables.

IFRS (Effective Date)	Subject / Comments
IFRS 9 – Financial Instruments (January 1, 2018)	<p>Classification and measurement of financial instruments</p> <p>IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39.</p> <p>For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.</p> <p>IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.</p> <p>The IASB is currently discussing an optional deferral of IFRS 9 until January 2021 for certain companies issuing insurance contracts. The Company is yet to assess IFRS 9's full impact.</p>
IFRS 11 - Accounting for Acquisitions of Interests in Joint Operations (January 1, 2016)	<p>The amendments to IFRS 11 clarify the accounting for the acquisition of an interest in a joint operation where the activities of the operation constitute a business. They require an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a business.</p> <p>This includes:</p> <ul style="list-style-type: none"> • measuring identifiable assets and liabilities at fair value • expensing acquisition-related costs • recognising deferred tax, and • recognising the residual as goodwill, and testing this for impairment annually. <p>Existing interests in the joint operation are not remeasured on acquisition of an additional interest, provided joint control is maintained.</p> <p>The amendments also apply when a joint operation is formed and an existing business is contributed. The amendment is not expected to have an impact on the Company.</p>

SAGICOR LIFE (EASTERN CARIBBEAN) INC.
NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in EC \$000

IFRS (Effective Date)	Subject / Comments
IFRS 15 – Revenue from contracts with customers (January 1, 2017)	IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The Company is assessing the impact of IFRS 15.
IFRS 16 - Leases (Annual periods beginning on or after 1 January 2019 with earlier application permitted if IFRS 15, 'Revenue from Contracts with Customers', is also applied.)	<p>This standard replaces the current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), Lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees.</p> <p>Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company is yet to assess the impact of IFRS 16.</p>

SAGICOR LIFE (EASTERN CARIBBEAN) INC.
NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in EC \$000

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 expenses.

3.1 Impairment of financial assets

An available for sale debt security, a loan or a receivable is considered impaired when management determines that it is probable that all amounts due according to the original contract terms will not be collected. This determination is made after considering the payment history of the borrower, the discounted value of collateral and guarantees, and the financial condition and financial viability of the borrower.

The determination of impairment may either be considered by individual asset or by a grouping of assets with similar relevant characteristics.

4. FINANCIAL INVESTMENTS

4.1 Analysis of financial investments

	December 31, 2016		December 31, 2015	
	Carrying value	Fair value	Carrying value	Fair value
Loans and receivables:				
Debt securities	3,484	3,541	-	-
Deposits	150	150	150	150
Total financial investments	3,634	3,691	150	150

	2016	2015
Debt securities comprise:		
Government and government guaranteed debt securities	3,484	-

Deposits include \$150 (2015 - \$150) placed with CIBC First Caribbean International Bank. These bear interest at 0.2% per annum with a maturity date of November 24, 2017.

**SAGICOR LIFE (EASTERN CARIBBEAN) INC.
NOTES TO THE FINANCIAL STATEMENTS**

Year ended December 31, 2016

Amounts expressed in EC \$000

5. MISCELLANEOUS ASSETS AND RECEIVABLES

	2016	2015
Prepaid expenses	-	8

Prepaid expenses are expected to be realised within one year of the financial statements date.

6. INCOME TAX LIABILITIES

	2016	2015
Income taxes payable	17	-

Income taxes are expected to be settled within a year of the financial statements' date.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2016	2015
Other accounts payable and accrued liabilities	3	-
Due to related company	202	158
	205	158

Amounts due to parent company are unsecured, carry no fixed dates of repayment and are repayable in cash.

8. COMMON SHARES

The Company is authorised to issue an unlimited number of common shares issuable in series without nominal or par value.

	2016		2015	
	Number in 000's	Share Capital	Number in 000's	Share Capital
Issued and fully paid:				
Balance, beginning of year	5,000	5,000	-	-
Allotments arising from:				
New share issue	-	-	5,000	5,000
Balance, end of year	5,000	5,000	5,000	5,000

**SAGICOR LIFE (EASTERN CARIBBEAN) INC.
NOTES TO THE FINANCIAL STATEMENTS**

Year ended December 31, 2016

Amounts expressed in EC \$000

9. NET INVESTMENT INCOME

	2016	2015
Investment income:		
Interest income	85	-
Investment expenses:		
Other direct investment expenses	4	-
Net investment income	81	-

The Company manages its financial investments by the type of financial instrument (i.e. debt securities, deposits, etc). Therefore, the income from financial instruments is presented consistently with management practice, rather than by accounting classification.

Further details of interest income are set out in the following table.

(a) Interest income

	2016	2015
Debt securities	84	-
Deposits	1	-
	85	-

**SAGICOR LIFE (EASTERN CARIBBEAN) INC.
NOTES TO THE FINANCIAL STATEMENTS**

Year ended December 31, 2016

Amounts expressed in EC \$000

10. CASH FLOWS

10.1 Operating activities

	2016	2015
Adjustments for non-cash items, interest and dividends:		
Interest income	(85)	-

	2016	2015
Net (increase)/decrease in investments and operating assets:		
Debt securities	(3,484)	(150)
Other assets and receivables	8	(8)
	(3,476)	(158)

	2016	2015
Net increase in operating liabilities:		
Other accounts payable and accrued liabilities	3	-
Due to related company	44	158
	47	158

	2016	2015
10.2 Cash and cash equivalents		
Cash resources	1,596	5,000

SAGICOR LIFE (EASTERN CARIBBEAN) INC.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in EC \$000

11. COMMITMENTS

In the normal course of business, the Company enters into commitments at balance sheet date for which no provision has been made in these financial statements. There are no non-cancellable commitments for loan disbursements as at the current and prior year end.

12. 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.

13. FINANCIAL RISK

The Company's activities of investing deposit receipts in a variety of financial and other assets, exposes the Company to various 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 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.

13.1 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.

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.

**SAGICOR LIFE (EASTERN CARIBBEAN) INC.
NOTES TO THE FINANCIAL STATEMENTS**

Year ended December 31, 2016

Amounts expressed in EC \$000

13. FINANCIAL RISK (continued)

13.1 Credit risk (continued)

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	

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 loans and finance leases;
- Reinsurance exposures, comprising reinsurance assets for life, annuity and health insurance.

**SAGICOR LIFE (EASTERN CARIBBEAN) INC.
NOTES TO THE FINANCIAL STATEMENTS**

Year ended December 31, 2016

Amounts expressed in EC \$000

13. FINANCIAL RISK (continued)

13.1 Credit risk (continued)

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.

	2016		2015	
	\$000		\$000	
Investment portfolios	5,230	100%	5,150	100%
Total financial statement exposures	5,230	100%	5,150	100%
Loan commitments	-	-	-	-
Total off financial statement exposures	-	-	-	-
Total	5,230	100%	5,150	100%

The Company's largest exposures to individual counterparty credit risks as of December 31, 2016 and 2015 are set out below. The individual ratings reflect the rating of the counterparty listed below, while the amounts include exposures with subsidiaries of the counterparty.

**SAGICOR LIFE (EASTERN CARIBBEAN) INC.
NOTES TO THE FINANCIAL STATEMENTS**

Year ended December 31, 2016

Amounts expressed in EC \$000

13. FINANCIAL RISK (continued)

13.1 Credit risk (continued)

	Sagicor Risk Rating	2016 \$'000	2015 \$'000
Investment portfolios:			
Government of St. Lucia - denominated in Eastern Caribbean or United States dollars	5	3,484	-
CIBC FirstCaribbean International Bank	3	150	150

(a) Investment portfolios

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

Investment portfolios					
Risk Rating	Classification	2016 Exposure		2015 Exposure	
		\$000	%	\$000	%
1	Minimal risk	-	-	-	-
2	Low risk	-	-	-	-
3	Moderate risk	150	3	150	3
4	Acceptable risk	-	-	-	-
5	Average risk	3,484	67	-	-
6	Higher risk	-	-	-	-
7	Special mention	-	-	-	-
8	Substandard	-	-	-	-
TOTAL RATED EXPOSURES		3,634	70	150	3
UN-RATED EXPOSURES		1,596	30	5,000	97
TOTAL		5,230	100	5,150	100

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

SAGICOR LIFE (EASTERN CARIBBEAN) INC.
NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in EC \$000

13. FINANCIAL RISK (continued)

13.1 Credit risk (continued)

(b) 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.

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.

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

	Debt securities	
	2016	2015
Neither past due nor impaired	3,484	-
Total carrying value	3,484	-

SAGICOR LIFE (EASTERN CARIBBEAN) INC.
NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in EC \$000

13. FINANCIAL RISK (continued)

13.2 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.

(a) Financial liabilities and commitments

Contractual cash flow obligations of the Company 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.

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.

	2016 - Contractual un-discounted cash flows			
	On demand or within 1 year	1 to 5 Years	After 5 years	Total
Financial liabilities:				
Accounts payable and accrued liabilities	3	-	-	3
Amounts payable to related company	202	-	-	202
Total	205	-	-	205

SAGICOR LIFE (EASTERN CARIBBEAN) INC.
NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in EC \$000

13. FINANCIAL RISK (continued)

13.2 Liquidity risk (continued)

(a) Financial liabilities and commitments (continued)

	2015 - Contractual un-discounted cash flows			
	On demand or within 1 year	1 to 5 Years	After 5 years	Total
Financial liabilities:				
Accounts payable and accrued liabilities	-	-	-	-
Amounts payable to related company	158	-	-	158
Total	158	-	-	158

(b) Financial assets

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

	2016 – Contractual or expected discounted cash flows			
	Maturing within 1 year	Maturing 1 to 5 Years	Maturing after 5 years	Total
Debt securities	-	3,484	-	3,484
Deposits	150	-	-	150
Cash resources	1,596	-	-	1,596
Total	1,746	3,484	-	5,230

SAGICOR LIFE (EASTERN CARIBBEAN) INC.
NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in EC \$000

13. FINANCIAL RISK (continued)

13.2 Liquidity risk (continued)

(b) Financial assets (continued)

	2015 – Contractual or expected discounted cash flows			Total
	Maturing within 1 year	Maturing 1 to 5 Years	Maturing after 5 years	
Debt securities	-	-	-	-
Deposits	150	-	-	150
Cash resources	5,000	-	-	5,000
Total	5,150	-	-	5,150

13.3 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.

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.

SAGICOR LIFE (EASTERN CARIBBEAN) INC.
NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in EC \$000

13. FINANCIAL RISK (continued)

13.3 Interest rate risk (continued)

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. 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 financial liabilities. It includes liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

	2016				
	Exposure within 1 year	Exposure 1 to 5 years	Exposure after 5 years	Not exposed to interest	Total
Amounts payable to related company	-	-	-	202	202
Accounts payable and accruals	-	-	-	3	3
Total	-	-	-	205	205

	2015				
	Exposure within 1 year	Exposure 1 to 5 years	Exposure after 5 years	Not exposed to interest	Total
Amounts payable to related company	-	-	-	158	158
Total	-	-	-	158	158

SAGICOR LIFE (EASTERN CARIBBEAN) INC.
NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in EC \$000

13. FINANCIAL RISK (continued)

13.3 Interest rate risk (continued)

The table following summarises the exposures to interest rate and reinvestment risks of the Company's financial assets. Assets are stated at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

	2016				
	Exposure within 1 year	Exposure 1 to 5 years	Exposure after 5 years	Not exposed to interest	Total
Debt securities	-	3,400	-	84	3,484
Deposits	150	-	-	-	150
Cash resources	1,596	-	-	-	1,596
Total	1,746	3,400	-	84	5,230

	2015				
	Exposure within 1 year	Exposure 1 to 5 years	Exposure after 5 years	Not exposed to interest	Total
Debt securities	-	-	-	-	-
Deposits	150	-	-	-	150
Cash resources	5,000	-	-	-	5,000
Total	5,150	-	-	-	5,150

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

	2015	2014
Financial assets:		
Debt securities	4.9%	-
Deposits	0.7%	0.7%
Financial liabilities		
Amounts payable to related company	-	-

SAGICOR LIFE (EASTERN CARIBBEAN) INC.
NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in EC \$000

13. FINANCIAL RISK (continued)

13.4 Foreign exchange risk

The Company is not exposed to significant foreign exchange risk as a result of fluctuations in exchange rates since its financial assets and liabilities are denominated in either United States dollars or Eastern Caribbean dollars. The latter currency is currently pegged at a fixed rate to the United States dollar.

In order to manage the risk associated with movements in currency exchange rates, the Company seeks to maintain investments and cash in each operating currency, which are sufficient to match liabilities denominated in the same currency.

Exceptions are made to invest limited proportions in United States dollar assets which are held to back liabilities in Caribbean currencies. Management considers that these assets diversify the range of investments available in the Caribbean, and in the long-term are likely to either maintain capital value and/or provide satisfactory returns.

Balances of assets and liabilities in Eastern Caribbean dollar equivalents are denominated by currency as summarised in the following tables.

2016	US \$	Eastern Caribbean \$	Total Current Year
ASSETS			
Financial investments ⁽¹⁾	3,484	150	3,634
Cash resources	-	1,596	1,596
Total Monetary Assets	3,484	1,746	5,230
LIABILITIES			
Accounts payable and accruals	-	3	3
Due to related company	-	202	202
Total Monetary Liabilities	-	205	205
Other liabilities ⁽²⁾	-	17	17
Total liabilities	-	222	222
Net position	3,484	1,524	5,008

**SAGICOR LIFE (EASTERN CARIBBEAN) INC.
NOTES TO THE FINANCIAL STATEMENTS**

Year ended December 31, 2016

Amounts expressed in EC \$000

13. FINANCIAL RISK (continued)

13.4 Foreign exchange risk (continued)

2015	US \$	Eastern Caribbean \$	Total Current Year
ASSETS			
Financial investments ⁽¹⁾	-	150	150
Cash resources	-	5,000	5,000
Total Monetary Assets	-	5,150	5,150
Other assets	-	8	8
Total assets	-	5,158	5,158
LIABILITIES			
Due to related company	-	158	158
Total Monetary Liabilities	-	158	158
Total liabilities	-	-	-
Net position	-	5,000	5,000

(1) Monetary balances

(2) Non-monetary balances

**SAGICOR LIFE (EASTERN CARIBBEAN) INC.
NOTES TO THE FINANCIAL STATEMENTS**

Year ended December 31, 2016

Amounts expressed in EC \$000

13. FINANCIAL RISK (continued)

13.5 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 4.

The fair value hierarchy of other financial instruments carried at amortised cost as of December 31, 2016 is set out in the following tables:

2016	Level 1	Level 2	Level 3	Total
Loans and receivables:				
Debt securities	-	-	3,541	3,541
	-	-	3,541	3,541
Total	-	-	3,541	3,541
Total assets by percentage	-	-	100%	100%

**SAGICOR LIFE (EASTERN CARIBBEAN) INC.
NOTES TO THE FINANCIAL STATEMENTS**

Year ended December 31, 2016

Amounts expressed in EC \$000

13. FINANCIAL RISK (continued)

13.6 Offsetting financial assets and liabilities

The Company is eligible to present certain financial assets and financial liabilities on a net basis on the balance sheet pursuant to criteria described in note 2 "Accounting Policies: 2.6 Offsetting financial instruments".

The following tables provide information on the impact of offsetting on the statement of financial position, as well as the financial impact of netting for instruments subject to an enforceable master netting arrangement or similar agreement as well as available cash and financial instrument collateral.

2015						
	Gross amounts of financial assets	Gross amounts set off on the balance sheet	Net amounts of financial assets presented on the balance sheet	Impact of master netting arrangements	Financial instruments collateral	Net amount
ASSETS						
Financial investments	3,634	-	3,634	-	-	3,634
	3,634	-	3,634	-	-	3,634

SAGICOR LIFE (EASTERN CARIBBEAN) INC.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016

Amounts expressed in EC \$000

14. 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, 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 the shareholder;
- To provide adequate returns to the shareholder;
- To maintain a strong capital base to support the future development of Company operations.

14.1 Capital resources

The principal capital resources of the Company are as follows:

	2016	2015
Shareholder's equity	5,008	5,000
Total capital resources	5,008	5,000

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.

15. RELATED PARTY TRANSACTIONS

Other than as disclosed in note 7 there are no material related party transactions.

APPENDIX “F”

Pro Forma Balance Sheet and Income Statement of Sagicor Life (Eastern Caribbean) Inc

SAGICOR LIFE (EASTERN CARIBBEAN) INC.
PROFORMA STATEMENT OF FINANCIAL POSITION
As of December 31, 2017 (with actual comparatives for 2016)
Amounts expressed in thousands of Eastern Caribbean Dollars

	<u>2017</u>	<u>2016</u>
ASSETS		
Investment property	12,350	-
Property, plant and equipment	20,813	-
Intangible assets	11,868	-
Financial investments	440,723	3,634
Reinsurance assets	3,368	-
Income tax assets	9	-
Accounts receivable	35,838	-
Cash resources	27,187	1,596
Loans and deposits with Sagicor Group companies	14,180	-
Amounts receivable from Sagicor Group companies	2,711	-
Total assets	<u>569,047</u>	<u>5,230</u>
LIABILITIES		
Actuarial liabilities	141,479	-
Other insurance liabilities	23,739	-
Investment contract liabilities	119,928	-
Total policy liabilities	<u>285,146</u>	-
Deposit and security liabilities	392	-
Provisions	1,917	-
Income tax liabilities	5,137	17
Accounts payable and accrued liabilities	38,055	3
Amounts receivable to Sagicor Group companies	22,892	202
Total liabilities	<u>353,539</u>	<u>222</u>
EQUITY		
Shareholders' equity	215,260	5,008
Non-controlling interests	248	-
Total equity	<u>215,508</u>	<u>5,008</u>
Total liabilities and equity	<u>569,047</u>	<u>5,230</u>

SAGICOR LIFE (EASTERN CARIBBEAN) INC.

PROFORMA STATEMENT OF INCOME

For the Year ended December 31, 2017 (with actual comparatives for 2016)

Amounts expressed in thousands of Eastern Caribbean dollars

	<u>2017</u>	<u>2016</u>
REVENUE		
Premium revenue	149,381	-
Reinsurance premium expense	(6,694)	-
Net premium revenue	142,687	-
Net investment income	42,453	81
Fees and other revenue	3,181	-
Total revenue	<u>188,321</u>	<u>81</u>
BENEFITS		
Net policy benefits	55,912	-
Net change in actuarial liabilities	(3,121)	-
Interest expense	5,060	-
Total benefits	<u>57,851</u>	<u>-</u>
EXPENSES		
Administrative expenses	49,989	56
Commissions and related compensation	23,992	-
Premium taxes	3,659	-
Depreciation and amortisation	775	-
Total expenses	<u>78,415</u>	<u>56</u>
INCOME BEFORE TAXES	52,055	25
Income taxes	(8,128)	(17)
NET INCOME FOR THE YEAR	<u>43,927</u>	<u>8</u>
NET INCOME IS ATTRIBUTABLE TO:		
Common shareholders	41,745	8
Participating policyholders	2,182	-
NET INCOME FOR THE YEAR	<u>43,927</u>	<u>8</u>

SAGICOR LIFE (EASTERN CARIBBEAN) INC.**PROFORMA STATEMENT OF COMPREHENSIVE INCOME**

For the Year ended December 31, 2017 (with actual comparatives for 2016)

Amounts expressed in thousands of Eastern Caribbean dollars

	<u>2017</u>	<u>2016</u>
NET INCOME FOR THE YEAR	43,927	8
OTHER COMPREHENSIVE INCOME		
Items net of tax that may be reclassified subsequently to income:		
Available for sale financial assets		
Unrealised (losses)/ gains arising on revaluation	(2,942)	-
Losses transferred to income	(14,554)	-
	<u>(17,496)</u>	<u>-</u>
Items that will not be reclassified subsequently to income:		
Unrealised loss arising on revaluation of owner occupied property	(4,180)	-
	<u>(4,180)</u>	<u>-</u>
Other comprehensive loss for the year	<u>(21,676)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME	<u>22,251</u>	<u>8</u>
TOTAL COMPREHENSIVE INCOME IS ATTRIBUTABLE TO:		
Common Shareholders	20,069	8
Participating policyholders	2,182	-
	<u>22,251</u>	<u>8</u>

SAGICOR LIFE (EASTERN CARIBBEAN) INC.
PROFORMA STATEMENT OF CHANGES IN EQUITY
As of December 31, 2017 (with actual comparatives for 2016)
Amounts expressed in thousands of Eastern Caribbean dollars

	<u>2017</u>	<u>2016</u>
Year ended December 31, 2018		
Balance, beginning of year	259,916	5,000
Total comprehensive income	22,251	8
Transactions with holders of equity instruments:		
Dividends declared	(66,659)	-
Balance, end of year	<u>215,508</u>	<u>5,008</u>

APPENDIX “G”

Certificate of Assumption

CERTIFICATE OF ASSUMPTION

SAGICOR LIFE (EASTERN CARIBBEAN) INC.

SAGICOR LIFE INC., a company incorporated under the Companies Act Cap. 308 of the Laws of Barbados with its registered office located at Cecil F de Caires Building, Wildey, St. Michael, Barbados and registered as an external company under the Companies Act, [Cap. No. of Act] of the Laws of [Country], AND SAGICOR LIFE (EASTERN CARIBBEAN) INC., a company incorporated under the Companies Act Cap. 13.01 of the Laws of Saint Lucia, with its registered office located at Sagikor Financial Centre, Choc Estate, Castries, Saint Lucia and registered as an external company under the Companies Act, [Cap. No. of Act] of the Laws of [Country], were parties to a Scheme providing for the transfer of the insurance business of SAGICOR LIFE INC. in [Country] to SAGICOR LIFE (EASTERN CARIBBEAN) INC.

The Financial Services Commission of Barbados confirmed that it had no objection to the Scheme on [Month] [Day], 2017 and the Scheme was approved by the [Name of Insurance Regulator] who issued a Certificate of Sanction on [Month] [Day], 2017.

Pursuant to the terms and provisions of the Scheme, effective [Month] [Day], 2018 SAGICOR LIFE (EASTERN CARIBBEAN) INC. hereby assumes all obligations and liabilities of SAGICOR LIFE INC. under the policy or certificate of insurance numbered [policy number] (the "Policy") issued or previously assumed by SAGICOR LIFE INC. All benefits under the Policy remain the same.

All premiums or any other payments due on the Policy are payable to SAGICOR LIFE (EASTERN CARIBBEAN) INC. at its head office or branch offices or to its duly authorised agents.

This Certificate of Assumption forms part of and should be attached to your Policy.

Dated this [Date] day of [Month], 2018

Stephen D. R. McNamara
Chairman

Althea C. Hazzard
Secretary