Sagicor Life Inc

Consolidated Financial Statements
December 31, 2017
(expressed in BDS dollars)

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Notes to the Financial Statements (continued):

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 of December 31, 2017, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited
The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as of December 31, 2017;
- the consolidated income statement 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 consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the 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.

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 International Financial Reporting Standards, 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.

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 to them 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
April 4, 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2017 **Amounts expressed in BDS $000**

	Notes	2017	2016
ASSETS			
Investment property	4	161,629	161,323
Property, plant and equipment	5	320,190	324,197
Associates and Joint Ventures	6	194,450	174,586
Intangible assets	7	153,520	158,647
Financial investments	8	7,981,552	7,803,245
Reinsurance assets	9	75,101	85,355
Income tax assets	10	79,958	119,154
Miscellaneous assets and receivables	11	483,669	373,424
Cash resources		676,217	533,046
Total assets		**10,126,286**	**9,732,977**
LIABILITIES			
Actuarial liabilities	12	3,182,250	2,965,204
Other insurance liabilities	13	381,334	349,436
Investment contract liabilities	14	695,785	690,509
Total policy liabilities		4,259,369	4,005,149
Notes and loans payable	15	32,980	-
Deposit and security liabilities	16	2,821,294	2,978,005
Provisions	17	141,806	187,262
Income tax liabilities	18	13,049	35,920
Accounts payable and accrued liabilities	19	432,466	326,452
Total liabilities		7,700,964	7,532,788
EQUITY			
Share capital	20	532,300	529,507
Reserves	21	(107,842)	(133,113)
Retained earnings		1,382,944	1,285,258
Total shareholder’s equity		1,807,402	1,681,652
Participating accounts	22	1,732	2,581
Minority interest in subsidiaries		616,188	515,956
Total equity		2,425,322	2,200,189
Total equity and liabilities		**10,126,286**	**9,732,977**

These financial statements have been approved for issue by the Board of Directors on April 4, 2018.

Director **Director**

CONSOLIDATED INCOME STATEMENT

Year ended December 31, 2017 **Amounts expressed in BDS $000**

	Notes	2017	2016
REVENUE			
Premium revenue	23	1,440,229	1,322,898
Reinsurance premium expense	23	(122,404)	(143,753)
Net premium revenue	23	1,317,825	1,179,145
Net investment income	24	634,621	608,741
Fees and other revenue	25	194,900	200,908
Gain arising on disposal	36	4,521	-
Total revenue		2,151,867	1,988,794
BENEFITS			
Policy benefits and change in actuarial liabilities	26	1,034,940	877,906
Policy benefits and change in actuarial liabilities reinsured	26	(43,291)	(37,196)
Net policy benefits and change in actuarial liabilities		991,649	840,710
Interest expense	27	105,608	117,187
Total benefits		1,097,257	957,897
EXPENSES			
Administrative expenses		446,645	414,790
Commissions and related compensation		169,279	167,829
Premium and asset taxes		25,214	19,500
Finance cost		2,177	-
Depreciation and amortisation		38,437	39,207
Total expenses		681,752	641,326
INCOME BEFORE TAXES		372,858	389,571
Income taxes	31	(65,362)	(70,783)
NET INCOME FOR THE YEAR		**307,496**	**318,788**
NET INCOME ATTRIBUTABLE TO:			
Shareholder		221,403	223,512
Participating policyholders		(2,087)	220
Non-controlling interests		88,180	95,056
		307,496	318,788

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31, 2017 **Amounts expressed in BDS $000**

	Notes	2017	2016
NET INCOME FOR THE YEAR		307,496	318,788
OTHER COMPREHENSIVE INCOME	34		
Items net of tax that may be reclassified subsequently to income:			
Available for sale financial assets:			
Unrealised (losses)/gains arising on revaluation		65,873	59,229
(Gains)/losses transferred to income		(25,316)	(152)
Net change in actuarial liabilities		2,025	(9,372)
Retranslation of foreign currency operations		19,442	(56,962)
		62,024	(7,257)
Items net of tax that will not be reclassified subsequently to income:	34		
Unrealised (losses)/gains arising on revaluation of owner occupied property		(3,518)	10,289
Gains/(losses) arising on defined benefit plans		45,153	(24,993)
Other items		-	(255)
		41,635	(14,959)
Other comprehensive income / (loss) for the year		103,659	(22,216)
TOTAL COMPREHENSIVE INCOME		**411,155**	**296,572**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Common Shareholder		265,014	197,544
Participating policyholders		(418)	263
Minority interest		146,559	98,765
		411,155	296,572

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended December 31, 2017 **Amounts expressed in BDS $000**

	Share capital	Reserves	Retained earnings	Share-holder's Equity	Par [1] accounts	Non-controlling interest	Total
	Note 20	Note 21			Note 22		
2017							
Balance, beginning of year	529,507	(133,113)	1,285,258	1,681,652	2,581	515,956	2,200,189
Total comprehensive income	-	21,114	243,900	265,014	(418)	146,559	411,155
Transactions with holders of equity instruments:							
Capital contribution	2,793	-	-	2,793	-	-	2,793
Change in reserve for equity compensation benefits	-	(145)	-	(145)	-	(149)	(294)
Dividends declared (note 33)	-	-	(137,793)	(137,793)	-	(39,721)	(177,514)
Transfers and other movements	-	4,302	(8,421)	(4,119)	(431)	(6,457)	(11,007)
Balance, end of year	532,300	(107,842)	1,382,944	1,807,402	1,732	616,188	2,425,322
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 33)	-	-	(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

[1] Participating

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 2017 **Amounts expressed in BDS $000**

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before taxes		372,858	389,571
Adjustments for non-cash items, interest and dividends	35.1	(252,285)	(363,017)
Interest and dividends received		502,595	492,707
Interest paid		(98,790)	(115,486)
Income taxes paid		(86,668)	(49,778)
Changes in operating assets	35.1	(280,508)	(235,612)
Changes in operating liabilities	35.1	40,818	210,973
Net cash flows - operating activities		198,020	329,358
CASH FLOWS FROM INVESTING ACTIVITIES			
Property, plant and equipment, net	35.2	(24,523)	(29,177)
Investment in associates and joint ventures		(13,815)	(375)
Intangible assets, net		(8,042)	(3,517)
Changes in ownership of associate, net of cash equivalents		15,532	-
Net cash flows - investing activities		(30,848)	(33,069)
CASH FLOWS FROM FINANCING ACTIVITIES			
Shares issued to minority interest		(11,007)	(13,267)
Other notes and loans payable, net	35.3	31,659	-
Dividends received from associates and joint ventures		5,120	3,574
Dividends paid to common shareholders		(148,024)	(107,447)
Dividends paid to minority interests		(39,721)	(35,647)
Net cash flows - financing activities		(161,973)	(152,787)
Effects of exchange rate changes		3,112	(8,760)
Net increase/(decrease) in cash and cash equivalents		**8,311**	**134,742**
Cash and cash equivalents, beginning of year		595,128	460,386
CASH AND CASH EQUIVALENTS, END OF YEAR	35.4	**603,439**	**595,128**

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 polices.

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 46.

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.

These consolidated financial statements for the year ended December 31, 2017 have been approved by the Board of Directors on April 4, 2018. Neither the entity's owners nor others have the power to amend the financial statements after issue.

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, 2017, 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.

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.

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.

Year ended December 31, 2017 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:

	2017 closing rate	**2017 average rate**	**2016 closing rate**	**2016 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	62.2877	64.0469	63.9912	62.3777
Trinidad & Tobago dollar	3.3814	3.3714	3.3729	3.3095

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.

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 the 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.

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.

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.

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 the valuation date.

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.

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.

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.

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.

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 provision 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.

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 directly 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.

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.

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 Group 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.

2 ACCOUNTING POLICIES (continued)

2.10 Actuarial liabilities (continued)

(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.

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 40.2, 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, 17, 18 and 32 are non-current unless otherwise stated in those notes.

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 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.

Where a minimum funding requirement exists, the Group assesses the obligation, to determine whether the additional contributions would affect the measurement of the defined benefit asset or liability.

(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 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.

2 ACCOUNTING POLICIES (continued)

2.16 Employee benefits (continued)

(d) Equity compensation benefits (continued)

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

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

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

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.

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 0.35% 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 following 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.

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.

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.

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 and excluded restricted cash.

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)	IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. The standard is effective for accounting periods beginning on or after January 1, 2018. IFRS 9 replaces the guidance in IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit and loss ("FVPL"). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest ("SPPI"). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL. Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss. Management is in the process of assessing how the Group's business model will impact the classification and measurement of financial assets in scope of IFRS 9. An Implementation Committee was created to oversee the implementation project. The project involves three phases: • Phase 1: Key decisions; this includes identification of key decisions, deciding on the measurement and classification for all products, determining stage migration and cure rate thresholds;

2. ACCOUNTING POLICIES (continued)

2.24 Future accounting developments and reporting changes (continued)

IFRS (Effective Date)	Subject/Comments
IFRS 9 – Financial Instruments (January 1, 2018) (continued)	• Phase 2: Assessing availability of data, defining and determining detailed credit modelling methodology based on available data, resources and infrastructure, defining and developing methodology to estimate unadjusted credit losses and defining methodology to incorporate forward looking information; • Phase 3: Implementation; this includes finalizing forward-looking information, applying multiple scenarios and determining the weight for each scenario to calculate the expected credit losses (“ECL”). Currently management has completed Phase 1 and Phase 2 and management is in the process of completing Phase 3. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income. The new standard is not expected to impact the Group’s consolidated financial liabilities as there are no financial liabilities which are currently designated at fair value through profit or loss without off-setting assets carried at fair value. 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. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The new standard relating to hedge accounting is not expected to impact the Group’s consolidated financial statements, as the Group does not use hedge accounting. The impairment requirements apply to financial assets measured at amortised cost and FVOCI, lease receivables and certain loan commitments and financial guarantee contracts. At initial recognition, an allowance is required for expected credit losses (‘ECL’) resulting from default events that are possible within the next 12 months (’12-month ECL’). In the event of a significant increase in credit risk, allowance is required for ECL resulting from all possible default events over the expected life of the financial instrument (‘lifetime ECL’). Financial assets where 12-month ECL is recognised are considered to be ‘stage 1’; financial assets which are considered to have experienced a significant increase in credit risk are in ‘stage 2’; and financial assets for which there is objective evidence of impairment are considered to be in default or otherwise credit impaired are in ‘stage 3’.

2. ACCOUNTING POLICIES (continued)

2.24 Future accounting developments and reporting changes (continued)

IFRS 9 – Financial Instruments (January 1, 2018) (continued)	The assessment of whether credit risk has increased significantly since initial recognition is performed on an ongoing basis by considering the change in the risk of default occurring over the remaining life of the financial instrument, rather than by considering an increase in ECL. The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Group compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Group's existing risk management processes. At each reporting date, the assessment of a change in credit risk will be individually assessed for those considered individually significant. This assessment is symmetrical in nature, allowing credit risk of financial assets to move back to Stage 1 if the increase in credit risk since origination has reduced and is no longer deemed to be significant. When measuring ECL, the Group must consider the maximum contractual period over which the Group is exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Group is exposed to credit risk and where the credit losses would not be mitigated by management actions. The objective of the impairment requirements is to recognize lifetime expected credit losses for all financial instruments for which there have been a significant increases in credit risk since initial recognition – whether assessed on an individual or collective basis – considering all reasonable and supportable information, including that which is forward looking. The ECL is required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forward looking information specific to the counterparty as well as forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39. It will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39. Any adjustment on initial adoption of this standard will impact retained earnings. The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

2. ACCOUNTING POLICIES (continued)

2.24 Future accounting developments and reporting changes (continued)

<table>
<tr><th>IFRS (Effective Date)</th><th>Subject/Comments</th></tr>
<tr><td>IFRS 15 - Revenue from contracts with customers

(January 1, 2018)</td><td>The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

A new five-step process must be applied before revenue can be recognised:
• identify contracts with customers
• identify the separate performance obligation
• determine the transaction price of the contract
• allocate the transaction price to each of the separate performance obligations, and
• recognise the revenue as each performance obligation is satisfied.

Key changes to current practice are:
• Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
• Revenue may be recognised earlier than under current standards if the consideration varies for any reasons (such as for incentives, rebates, performance fees, royalties, success of an outcome etc) – minimum amounts must be recognised if they are not at significant risk of reversal.
• The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
• There are new specific rules on licenses, warranties, nonrefundable upfront fees and, consignment arrangements, to name a few.
• As with any new standard, there are also increased disclosures.

These accounting changes may have flow-on effects on the entity's business practices regarding systems, processes and controls, compensation and bonus plans, contracts, tax planning and investor communications.

Entities will have a choice of full retrospective application, or prospective application with additional disclosures.

The Group's primary activities are insurance and banking. Insurance product revenue recognition is defined in IFRS 4. Banking revenue primarily arises from the recognition of income on financial assets and liabilities in accordance with the provisions of IFRS 9.</td></tr>
</table>

2. ACCOUNTING POLICIES (continued)

2.24 Future accounting developments and reporting changes (continued)

IFRS (Effective Date)	Subject/Comments
IFRS 16 - Leases (January 1, 2019)	IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases. The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change. Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows. The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. 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 fully assess the impact of this standard.
Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2 (January 1, 2018)	The amendments made to IFRS 2 in July 2016 clarify the measurement basis for cash-settled share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. They also introduce an exception to the classification principles in IFRS 2. Where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority, the whole award will be treated as if it was equity-settled provided it would have been equity-settled without the net settlement feature. Entities with the following arrangements are likely to be affected by these changes: • equity-settled awards that include net settlement features relating to tax obligations • cash-settled share-based payments that include performance conditions, and • cash-settled arrangements that are modified to equity-settled share-based payments. The Group does not expect the adoption of this amendment to have any material impact.

Year ended December 31, 2017 Amounts expressed in BDS $000

2. ACCOUNTING POLICIES (continued)

2.24 Future accounting developments and reporting changes (continued)

IFRS (Effective Date)	Subject/Comments
Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4 (January 1, 2018)	In September 2016, the IASB published an amendment to IFRS 4 which addresses the concerns of insurance companies about the different effective dates of IFRS 9 Financial instruments and the forthcoming new insurance contracts standard. The amendment provides two different solutions for insurance companies: a temporary exemption from IFRS 9 for entities that meet specific requirements (applied at the reporting entity level), and the 'overlay approach'. Both approaches are optional. The Group has assessed its eligibility for deferral and has concluded that it will adopt IFRS 9 on January 1, 2018. IFRS 4 (including the amendments) will be superseded by the forthcoming new insurance contracts standard. Accordingly, both the temporary exemption and the 'overlay approach' are expected to cease to be applicable when the new insurance standards becomes effective. The overlay approach will give 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 the new insurance contracts standard is issued. The Group is currently assessing the impact of this approach on its financial statements.
Annual improvements 2014-2016 cycle (January 1, 2018)	The following improvements were finalised in December 2016: • IFRS 1 - deleted short-term exemptions covering transition provisions of IFRS 7, IAS 19 and IFRS 10 which are no longer relevant. • IAS 28 - clarifies that the election by venture capital organisations, mutual funds, unit trusts and similar entities to measure investments in associates or joint ventures at fair value through profit or loss should be made separately for each associate or joint venture at initial recognition. The Group does not expect the adoption of these improvements to have any material impact.
Transfers of Investment Property – Amendments to IAS 40 (January 1, 2018)	The amendments clarify that transfers to, or from, investment property can only be made if there has been a change in use that is supported by evidence. A change in use occurs when the property meets, or ceases to meet, the definition of investment property. A change in intention alone is not sufficient to support a transfer. The list of evidence for a change of use in the standard was recharacterized as a non-exhaustive list of examples to help illustrate the principle.

2. ACCOUNTING POLICIES (continued)

2.24 Future accounting developments and reporting changes (continued)

IFRS (Effective Date)	**Subject/Comments**
Transfers of Investment Property – Amendments to IAS 40 (January 1, 2018)	• The Board provided two options for transition: prospectively, with any impact from the reclassification recognized as adjustment to opening retained earnings as at the date of initial recognition, or • retrospectively - only permitted without the use of hindsight. Additional disclosures are required if an entity adopts the requirements prospectively.
Interpretation 22 Foreign Currency Transactions and Advance Consideration (January 1, 2019)	The interpretation clarifies how to determine the date of transaction for the exchange rate to be used on initial recognition of a related asset, expense or income where an entity pays or receives consideration in advance for foreign currency-denominated contracts. For a single payment or receipt, the date of the transaction should be the date on which the entity initially recognises the non-monetary asset or liability arising from the advance consideration (the prepayment or deferred income/contract liability). If there are multiple payments or receipts for one item, a date of transaction should be determined as above for each payment or receipt. Entities can choose to apply the interpretation: • retrospectively for each period presented • prospectively to items in scope that are initially recognised on or after the beginning of the reporting period in which the interpretation is first applied, or • prospectively from the beginning of a prior reporting period presented as comparative information. The Group is yet to assess the impact of this interpretation.
IFRS 17 Insurance Contracts (January 1, 2021)	IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of: • discounted probability-weighted cash flows • an explicit risk adjustment, and • a contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the coverage period. The standard allows a choice between recognising changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9 An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

2. ACCOUNTING POLICIES (continued)

2.24 Future accounting developments and reporting changes (continued)

IFRS (Effective Date)	**Subject/Comments**
IFRS 17 Insurance Contracts (January 1, 2021)	There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity's share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features. The Group is yet to assess the impact of IFRS 17.
Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28	The IASB has made limited scope amendments to IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures. 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). 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 investors in the associate or joint venture. The amendments apply prospectively. ** In December 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.

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.

The Group invests in a number of sovereign financial instruments that are not quoted in an active market, these assets are classified as loans and receivables and are carried at amortised cost less provision for impairment in the financial statements. At December 31, 2017 there were significant holdings in instruments of Government of Jamaica, Government of Trinidad and Tobago and Government of Barbados carried at amortised cost. The Group has assessed these instruments for impairment and concluded that based on all information currently available, that no impairment exists at December 31, 2017 in accordance with the accounting policies of the Group.

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.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.3 Impairment of intangible assets (continued)

(a) Goodwill (continued)

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).

(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.

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 42.

(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.

Year ended December 31, 2017 Amounts expressed in BDS $000

4. INVESTMENT PROPERTY

The investment property for the year is as follows:

	2017	2016
Balance, beginning of year	161,323	158,344
Additions at cost	-	14
Transfer from real estate development for resale (note 11)	-	1,109
Transfers from / (to) property, plant and equipment (note 5)	-	1,692
Disposals and divestitures	-	(1,650)
Change in fair values	147	3,693
Effects of exchange rate changes	159	(1,879)
Balance, end of year	161,629	161,323

Investment property includes $19,942 (2016 - $21,206) 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.

Year ended December 31, 2017 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			
2017					
Net book value, beginning of year	74,369	155,709	71,112	23,007	324,197
Additions at cost	-	6,350	27,955	1,153	35,458
Transfers to investment property (note 4)	-	-	-	-	-
Transfers to intangible assets (note 7)	-	-	(1,458)	-	(1,458)
Transfers to real estate developed or held for sale (note 11)	-	(3,150)	-	-	(3,150)
Other transfers	-	(241)	(100)	(2,735)	(3,076)
Disposals and divestitures	-	-	(698)	(6,564)	(7,262)
Change in fair values	(3,906)	(547)	-	-	(4,453)
Depreciation charge	-	(2,196)	(15,859)	(3,730)	(21,785)
Effects of exchange rate changes	-	1,006	713	-	1,719
Net book value, end of year	70,463	156,931	81,665	11,131	320,190
Represented by:					
Cost or valuation	70,463	163,393	244,337	23,794	501,987
Accumulated depreciation	-	(6,462)	(162,672)	(12,663)	(181,797)
	70,463	156,931	81,665	11,131	320,190

Year ended December 31, 2017 Amounts expressed in BDS $000

5. PROPERTY, PLANT AND EQUIPMENT (continued)

	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

Owner-occupied lands are largely utilised for farming operations.

Owner-occupied land and buildings consist largely of commercial office buildings.

Year ended December 31, 2017 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 2017	% of ownership interest 2016	Nature of relationship	Measurement Method	Carrying Amount 2017	Carrying Amount 2016
RGM Limited	Trinidad & Tobago	33%	33%	Associate	Equity Method	44,695	44,689
FamGuard Corporation Limited(1)	Bahamas	20%	20%	Associate	Equity Method	30,174	27,397
Primo Holding Limited	Barbados	38%	38%	Associate	Equity Method	661	710
Sagicor Costa Rica SCR, S.A.	Costa Rica	50%	50%	Joint Venture	Equity Method	5,722	6,216
Sagicor Real Estate X-Fund Limited (2)(3)	St. Lucia	29%	29%	Associate	Equity Method	113,198	95,574
						194,450	174,586

(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 $12.00 per share was $24,000 (2016 - $22,000).

(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 $0.24 (J$15.00) per share was $157,789 (2016 - $133,015).

(3) The Group both acquired and sold shares in Sagicor Real Estate X-Fund Limited during the year. These movements and the resulting gain on disposal are disclosed in note 36.

6.2 Commitments

Commitments at the year-end, if called are $747 (2016 – Nil).

Year ended December 31, 2017 Amounts expressed in BDS $000

6. ASSOCIATES AND JOINT VENTURES (continued)

6.3 Summarised Financial Information

	RGM Limited		FamGuard Corporation Limited		Primo Holding Limited		Sagicor Costa Rica SCR, S.A.		Sagicor Real Estate X-Fund Limited	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
ASSETS										
Financial Investments	-	-	567,933	538,307	-	-	17,162	19,530	258,229	244,258
Cash Resources	8,153	13,376	30,803	31,370	-	-	7,223	7,122	15,512	18,956
Other investments and assets	252,845	252,234	125,356	122,576	2,000	2,100	22,714	9,900	482,149	429,105
Total assets	260,998	265,610	724,092	692,253	2,000	2,100	47,099	36,552	755,890	692,319
LIABILITIES										
Policy liabilities	-	-	450,668	441,658	-	-	2,133	7,521	-	-
Other liabilities	126,913	131,541	26,432	26,145	438	407	33,522	16,598	391,478	381,338
Total liabilities	126,913	131,541	477,100	467,803	438	407	35,655	24,119	391,478	381,338
Net Assets	134,085	134,069	246,992	224,450	1,562	1,693	11,444	12,433	364,412	310,981

Year ended December 31, 2017 Amounts expressed in BDS $000

6. ASSOCIATES AND JOINT VENTURES (continued)

6.3 Summarised Financial Information (continued)

	RGM Limited		FamGuard Corporation Limited		Primo Holding Limited		Sagicor Costa Rica SCR, S.A.		Sagicor Real Estate X-Fund Limited	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Reconciliation to carrying amounts:										
Investment, beginning of year	44,689	46,394	27,397	28,116	710	724	6,216	12,654	95,574	81,171
Additions	-	-	-	-	-	-	304	375	13,511	-
Disposals/ Transfers	-	-	-	-	-	-	-	(5,772)	(12,441)	-
Dividends received	(2,561)	(939)	(960)	(1,160)	-	-	-	-	(1,599)	(1,475)
Share of income/(loss) before taxes	3,062	2,315	3,366	480	(49)	(14)	(152)	132	13,472	7,936
Share of amortisation or impairment of intangible assets which were identified on acquisition	-	-	(143)	(144)	-	-	-	-	-	-
Share of income taxes	(381)	(804)	-	-	-	-	-	-	-	-
Share of other comprehensive income/(loss)	-	-	514	105	-	-	(799)	(527)	1,656	13,524
Effects of exchange rate changes	(114)	(2,277)	-	-	-	-	153	(646)	3,025	(5,582)
Investment, end of year	44,695	44,689	30,174	27,397	661	710	5,722	6,216	113,198	95,574

Year ended December 31, 2017 Amounts expressed in BDS $000

6. ASSOCIATES AND JOINT VENTURES (continued)

6.3 Summarised Financial Information (continued)

	RGM Limited		FamGuard Corporation Limited		Primo Holding Limited		Sagicor Costa Rica SCR, S.A.		Sagicor Real Estate X-Fund Limited	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Summarised statement of comprehensive income										
REVENUE										
Net premium revenue	-	-	185,409	181,506	-	-	25,470	11,569	-	-
Net investment and other income	49,535	47,043	46,662	57,186	-	-	2,058	1,335	203,093	165,730
Total revenue	49,535	47,043	232,071	238,692	-	-	27,528	12,904	203,093	165,730
BENEFITS AND EXPENSES										
Benefits	-	-	143,401	156,211	-	-	18,236	6,785	-	-
Expenses	39,326	39,832	72,183	73,523	132	36	8,537	5,252	155,971	134,822
Total benefits and expenses	39,326	39,832	215,854	229,734	132	36	26,773	12,037	155,971	134,822
INCOME BEFORE TAXES	10,209	7,211	16,487	8,958	(132)	(36)	755	867	47,122	30,908
Income taxes	(1,143)	(2,389)	-	-	-	-	(1,058)	(602)	(4,174)	(3,831)
NET INCOME FOR THE PERIOD	9,066	4,822	16,487	8,958	(132)	(36)	(303)	265	42,948	27,077
Other comprehensive income	-	-	2,826	1,267	-	-	(1,264)	(1,340)	5,647	46,140
Total comprehensive income	9,066	4,822	19,313	10,225	(132)	(36)	(1,567)	(1,075)	48,595	73,217
Dividends received from associates and joint ventures	2,561	939	960	1,160	-	-	-	-	1,599	1,475

Year ended December 31, 2017 Amounts expressed in BDS $000

7. INTANGIBLE ASSETS

(a) Analysis and changes for the year

	Goodwill	Customer & broker relationships	Software	Total
2017				
Net book value, beginning of year	87,821	27,474	43,352	158,647
Additions at cost	-	-	8,042	8,042
Transfer from property, plant and equipment (note 5)	-	-	1,458	1,458
Amortisation/impairment charges	-	(3,348)	(13,161)	(16,509)
Effects of exchange rate changes	646	656	580	1,882
Net book value, end of year	88,467	24,782	40,271	153,520
Represented by:				
Cost or valuation	88,467	73,104	118,353	279,924
Accumulated depreciation and impairments	-	(48,322)	(78,082)	(126,404)
	88,467	24,782	40,271	153,520
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

Year ended December 31, 2017 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 46) is as follows:

Goodwill	**2017**	**2016**
Sagicor Life Inc	53,102	53,150
Sagicor Life Jamaica	26,796	26,102
Other operating companies	8,569	8,569
	88,467	87,821

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 2016, 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

	2017	**2016**
Carrying value of goodwill	53,102	53,150

Year ended December 31, 2017 Amounts expressed in BDS $000

7. INTANGIBLE ASSETS (continued)

(i) Years ended December 31, 2017 & 2016

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

- Discount rates of 10% (2016, 7 - 11%) for individual life and annuity inforce business,
- New individual life and annuity business was included for the seven year period 2018 to 2024, (five year period 2017 to 2021)
- Annual growth rate for new individual life and annuity business was 12.4% - 21.0% for 2018 and 5% – 16.8% from 2019 to 2024 (2017 – 0% - 21.8% and 5% to 19.7% from 2018 to 2021),
- Discount rates of 14% (2016, 11 - 15%) for new individual life and annuity business,
- Required Minimum Continuing Capital and Surplus Ratio (MCCSR) of 175% (2016 – 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	8%	12%	506,667	491,614	475,799
Mid	10%	14%	204,743	181,371	156,962
High	12%	16%	(20,208)	(48,696)	(78,307)

(d) Sagicor Jamaica operating segment

	2017	**2016**
Carrying value of goodwill	26,796	26,102

The fair value less cost to sell methodology was adopted to test goodwill impairment in both years. The after tax multiple used for the segment was 8.6 (2016– 8.2) which was derived from a pre-tax factor of 6.9 (2016 – 6.6) using an iterative method.

Year ended December 31, 2017 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.

	2017 test		
	Scenario 1	**Scenario 2**	**Scenario 3**
After tax earnings multiples	8.6	7.3	4.9
Reduction in forecast earnings	n/a	10%	10%
Excess of recoverable amount (of 49.11% interest)	300,092	147,786	n/a
Impairment (of 49.11% interest)	Nil	Nil	(77,358)

(e) Sagicor General Insurance Inc

	2017	**2016**
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 pre-tax discount factor was 20.8% (2016 –12.8%) which was derived from an after tax factor of 15.0% (2016 – 12.5%) using an iterative method. The residual growth rate was 2.5% (2016 – 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.

	2017 test		
	Scenario 1	**Scenario 2**	**Scenario 3**
After tax discount factor	15.0	15.0	18.0
Residual growth rate	2.5	2.10	2.10
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)	42,787	38,230	34,749
Impairment (of 53.0% interest)	Nil	Nil	Nil

Year ended December 31, 2017 Amounts expressed in BDS $000

8. FINANCIAL INVESTMENTS

8.1 Analysis of financial investments

	2017		2016	
	Carrying value	**Fair value**	**Carrying value**	**Fair Value**
Held to maturity securities:				
Debt securities	-	-	41,329	43,375
Available for sale securities:				
Debt securities	2,527,519	2,527,519	2,637,254	2,637,254
Equity securities	106,368	106,368	141,812	141,812
	2,633,887	2,633,887	2,779,066	2,779,066
Financial assets at fair value through income:				
Derivative financial instruments (note 40.6)	4,463	4,463	2,728	2,728
Debt securities	360,967	360,967	328,010	328,010
Equity securities	317,242	317,242	247,048	247,048
Mortgage loans	90,894	90,894	80,694	80,694
	773,566	773,566	658,480	658,480
Loans and receivables:				
Debt securities	2,099,672	2,306,325	1,971,709	2,083,369
Mortgage loans	525,657	526,416	526,606	526,719
Policy loans	222,963	222,963	211,950	215,891
Finance loans and finance leases	1,128,798	1,103,843	1,017,950	982,262
Securities purchased under agreements to resell	33,035	33,035	10,454	10,454
Deposits	563,974	563,973	585,701	585,701
	4,574,099	4,756,555	4,324,370	4,404,396
Total financial investments	7,981,552	8,164,008	7,803,245	7,885,317

Year ended December 31, 2017 Amounts expressed in BDS $000

8. FINANCIAL INVESTMENTS (continued)

8.1 Analysis of financial investments (continued)

	2017	2016
Non-derivative financial assets at fair value through income comprise:		
Assets designated at fair value upon initial recognition	751,834	633,400
Asset held for trading	17,269	22,352
	769,103	655,752
Debt securities comprise:		
Government and government-guaranteed debt securities	3,393,706	3,526,748
Collateralised mortgage obligations	2,210	-
Corporate debt securities	1,550,180	1,406,750
Other securities	42,062	44,804
	4,988,158	4,978,302

Deposits include $345,529 (2016 - $311,209) placed with the Parent Company and other affiliated companies. These bear interest at 5.0% to 7.5% per annum and have no fixed dates of repayment.

Corporate debt securities include $56,991 (2016 - $59,386) in bonds issued by an associated company.

Equity securities include $333,797 (2016 – $293,415) in mutual funds managed by the Group.

8.2 Pledged assets

Debt and equity securities include $280,835 (2016 - $550,501) 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, 2017, these pledged assets totalled $1,029,347 (2016 - $656,125). Of these assets pledged as security, $1,026,935 (2016 - $653,769) 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.

	2017	2016
Debt securities	286,334	267,723
Equity securities	309,549	247,048
Mortgage loans	90,762	80,542
	686,645	595,313

Year ended December 31, 2017 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.

	2017		**2016**	
	Carrying value	**Fair Value**	**Carrying value**	**Fair value**
Government debt securities maturing after September 2018 and other securities	52,687	70,734	55,181	71,757

Cumulative net fair value gain / (loss)	**2017**	**2016**
Cumulative net fair value gain/(loss), beginning of year	9,804	8,123
Net fair value gains	6,543	3,800
Disposals	(1,555)	(1,942)
Effect of exchange rate changes	168	(177)
Cumulative net fair value gain, end of year	14,960	9,804

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.

Year ended December 31, 2017 Amounts expressed in BDS $000

9. REINSURANCE ASSETS

	2017	2016
Reinsurers' share of:		
Actuarial liabilities (note 12.1)	484	554
Policy benefits payable (note 13.2)	51,496	41,251
Provision for unearned premiums (note 13.3)	23,121	43,550
	75,101	85,355

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

10. INCOME TAX ASSETS

	2017	2016
Deferred income tax assets (note 32)	40,953	72,562
Income and withholding taxes recoverable	39,005	46,592
	79,958	119,154

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

Year ended December 31, 2017 Amounts expressed in BDS $000

11. MISCELLANEOUS ASSETS AND RECEIVABLES

	2017	2016
Net defined benefit assets (note 30)	12,117	2,666
Real estate developed or held for resale (iv)	25,800	20,094
Prepaid and deferred expenses (including policy deferred acquisition costs) (iv)	49,215	45,368
Premiums receivable	106,348	92,257
Legal claim (iii)	141,891	105,440
Amounts due from parent company (i)	35,996	14,510
Amounts due from affiliated companies (i)	2,469	2,098
Other accounts receivable (ii)	109,833	90,991
	483,669	373,424

(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 $15,783 (2016 – $19,759) due from managed funds.

(iii) On March 17, 2014 the Supreme Court of Jamaica granted judgement in favour of a claimant in a case brought against Sagicor Bank Jamaica Limited (formerly RBC Royal Bank Jamaica Limited).

This claim pre-dated the acquisition of the Bank by Sagicor Group Jamaica Limited, and also pre dated the acquisition of control of the Bank by RBTT 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 against any loss the bank may suffer in this matter. As the current owner of Sagicor Bank Jamaica Limited, Sagicor Group, is the current beneficiary of the Indemnity. The Indemnity from Finsac is further supported by a Government of Jamaica Guarantee on a full indemnity basis.

The decision of the Supreme Court was appealed and is pending as at December 31, 2017. The amount previously awarded to the Claimant has been recorded as receivable from Finsac/Government of Jamaica and correspondingly payable to the claimant with accrued interest. (note 19)

During 2017, interest was accrued on this liability and resulted in an increase in the amount outstanding to $141.9 million.

(iv) Real estate developed for resale includes $14,411 (2016 - $15,527) which is expected to be realised within one year of the financial statements date. Prepaid and deferred expenses are also expected to be realised within one year of the financial statements date.

Year ended December 31, 2017 Amounts expressed in BDS $000

12. ACTUARIAL LIABILITIES

12.1 Analysis of actuarial liabilities

	Gross liability		Reinsurers' share	
	2017	**2016**	**2017**	**2016**
Contracts issued to individuals:				
Life insurance - participating policies	475,116	474,523	-	-
Life insurance and annuity - non-participating policies	1,306,689	1,277,029	-	-
Health insurance	25,454	26,834	183	113
Unit linked funds	439,066	354,907	-	-
Reinsurance contracts held	60,242	57,787	-	-
	2,306,567	2,191,080	183	113
Contracts issued to groups:				
Life insurance	32,905	30,639	158	235
Annuities	774,634	674,592	-	-
Health insurance	68,144	68,893	143	206
	875,683	774,124	301	441
Total actuarial liabilities	3,182,250	2,965,204	484	554

The following notes are in respect of the foregoing table:

- Life insurance includes coverage for disability and critical illness.
- Actuarial liabilities include $146,182 (2016 - $153,513) 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.

Year ended December 31, 2017 Amounts expressed in BDS $000

12. ACTUARIAL LIABILITIES (continued)

12.2 Movement in actuarial liabilities

	Gross amount		**Reinsurers' share**	
	2017	**2016**	**2017**	**2016**
Balance, beginning of year	2,965,204	2,936,907	554	869
Change in actuarial liabilities:				
Recorded in income (note 26)	199,890	92,479	(2)	(162)
Recorded in other comprehensive income	(2,025)	9,372	-	-
Other movements	(453)	1	4	(124)
Effect of exchange rate changes	19,634	(73,555)	(72)	(29)
Balance, end of year	3,182,250	2,965,204	484	554
Analysis of changes in actuarial liabilities:				
Arising from increments and decrements of inforce policies and from the issuance of new policies	236,029	158,084	(66)	(286)
Arising from changes in assumptions for mortality, lapse, expenses, investment yields and asset default	(102,036)	(50,974)	-	-
Other changes:				
Actuarial modelling, refinements, improvements and corrections	(3)	-	-	-
Other items	63,875	(5,259)	64	124
	197,865	101,851	(2)	(162)

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 moving averages.

Year ended December 31, 2017 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:	**2017**	**2016**
Barbados	7.00%	6.75%
Jamaica	6.00%	5.00%
Trinidad & Tobago	5.00%	5.00%
Other Caribbean	4.50% - 7.00%	4.5% - 6.75%

(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.

Year ended December 31, 2017 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:	**2017**	**2016**
Mortality and morbidity	175,608	165,407
Lapse	124,549	115,238
Investment yields and asset default	133,386	133,634
Operating expenses and taxes	20,473	21,193
Other	16,544	16,116
	470,560	451,588

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.

Year ended December 31, 2017 Amounts expressed in BDS $000

13. OTHER INSURANCE LIABILITIES

13.1 Analysis of other insurance liabilities

	2017	2016
Dividends on deposit and other policy balances	112,715	116,466
Policy benefits payable	203,392	164,604
Provision for unearned premiums	65,227	68,366
	381,334	349,436

13.2 Policy benefits payable

(a) Analysis of policy benefits payable

	Gross liability		Reinsurers' share	
	2017	2016	2017	2016
Life insurance and annuity benefits	120,918	109,061	13,974	13,431
Health claims	8,556	8,564	4,243	3,372
Property and casualty claims	73,918	46,979	33,279	24,448
	203,392	164,604	51,496	41,251

(b) Movement in policy benefits payable

	Gross amount		Reinsurers' share	
	2017	2016	2017	2016
Balance, beginning of year	164,604	167,205	41,251	55,728
Policy benefits incurred	827,721	774,360	43,800	37,234
Policy benefits paid	(787,585)	(773,492)	(30,711)	(51,233)
Effect of exchange rate changes	(1,348)	(3,469)	(2,844)	(478)
Balance, end of year	203,392	164,604	51,496	41,251

Year ended December 31, 2017 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	
	2017	**2016**	**2017**	**2016**
Property and casualty insurance	64,354	67,553	23,121	43,550
Health insurance	873	813	-	-
	65,227	68,366	23,121	43,550

(b) Movement in provision for unearned premiums

	Gross amount		Reinsurers' share	
	2017	**2016**	**2017**	**2016**
Balance, beginning of year	68,366	67,420	43,550	42,712
Premiums written	148,609	150,008	59,351	97,877
Premium revenue	(149,238)	(148,868)	(76,776)	(96,925)
Effect of exchange rate changes	(2,510)	(194)	(3,004)	(114)
Balance, end of year	65,227	68,366	23,121	43,550

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

14. INVESTMENT CONTRACT LIABILITIES

	2017		2016	
	Carrying value	**Fair value**	**Carrying Value**	**Fair Value**
At amortised cost:				
Deposit administration liabilities	242,966	242,966	256,690	256,690
Other investment contracts	173,313	173,313	172,484	172,484
	416,279	416,279	429,174	429,174
At fair value through income:				
Unit linked deposit administration liabilities	279,506	279,506	261,335	261,335
	695,785	695,785	690,509	690,509

Year ended December 31, 2017 Amounts expressed in BDS $000

15. NOTES AND LOANS PAYABLE

	2017		2016	
	Carrying value	Fair value	Carrying Value	Fair Value
8.25% convertible redeemable preference shares due 2020	22,619	23,774	-	-
7.75% convertible redeemable preference shares due 2018	10,361	10,866	-	-
	32,980	34,640	-	-

On March 2, 2017, Sagicor Bank Jamaica Limited issued:

i. Cumulative redeemable preference shares with a tenor of three (3) years at 8.25% interest per annum.
ii. Cumulative redeemable preference shares with a tenor of eighteen (18) months at 7.75% interest per annum.

16 DEPOSIT AND SECURITY LIABILITIES

	2017		2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
At amortised cost:				
Other funding instruments	262,581	272,794	430,386	423,636
Customer deposits	1,501,896	1,499,667	1,830,309	1,830,837
Securities sold under agreements to repurchase	952,068	947,541	641,148	641,148
Bank overdrafts	5,135	5,135	3,877	3,877
	2,721,680	2,725,137	2,905,720	2,899,498
At fair value through income:				
Structured products	95,151	95,151	69,557	69,557
Derivative financial instruments (note 40.6)	4,463	4,463	2,728	2,728
	99,614	99,614	72,285	72,285
	2,821,294	2,824,751	2,978,005	2,971,783

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.

Year ended December 31, 2017 Amounts expressed in BDS $000

17 PROVISIONS

	2017	2016
Net defined benefit liabilities (note 30)	141,618	187,148
Other	188	114
	141,806	187,262

18 INCOME TAX LIABILITIES

	2017	2016
Deferred income tax liabilities (note 32)	6,078	6,083
Income taxes payable	6,971	29,837
	13,049	35,920

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

19 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2017	2016
Due to parent company (ii)	1,519	1,682
Due to affiliated companies (ii)	2,644	4,612
Amounts due to policyholders	44,458	40,720
Amounts due to reinsurers	29,938	15,889
Legal claim (i)	141,891	105,440
Other accounts payable and accrued liabilities	212,016	158,109
	432,466	326,452

(i) On March 17, 2014 the Supreme Court of Jamaica granted judgement in favour of a claimant in a case brought against Sagicor Bank Jamaica Limited (formerly RBC Royal Bank Jamaica Limited). This claim pre-dated the acquisition of the Bank by Sagicor Group Jamaica Limited, and also pre dated the acquisition of control of the Bank by RBTT 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 against any loss the bank may suffer in this matter. As the current owner of Sagicor Bank Jamaica Limited, Sagicor Group, is the current beneficiary of the Indemnity. The Indemnity from Finsac is further supported by a Government of Jamaica Guarantee on a full indemnity basis. The decision of the Supreme Court was appealed and is pending as at December 31, 2017. The amount previously awarded to the Claimant has been recorded as payable to the claimant with accrued interest and correspondingly receivable from Finsac/Government of Jamaica (note 11).

During 2017, interest was accrued on this liability and resulted in an increase in the amount outstanding to $141.9 million.

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

20 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.

	2017		2016	
	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	-	31,936	-	26,043
Contributed by Parent Company re ESOP and LTI	-	2,793	-	5,893
Balance, end of year	-	34,729	-	31,936
Total share capital	277,320	532,300	277,320	529,507

Year ended December 31, 2017 Amounts expressed in BDS $000

21 RESERVES

	<<<<< Fair value Reserves >>>>>			Currency translation reserves	Other reserves	Total reserves
	Owner occupied property	**Available for sale assets**	**Actuarial reserves**			
2017						
Balance, beginning of year	54,366	(26,845)	16,121	(212,582)	35,827	(133,113)
Other comprehensive income	(4,264)	20,191	(4,112)	9,299	-	21,114
Transactions with holders of equity instruments:						
Allocated to reserve for equity compensation benefits	-	-	-	-	284	284
Eliminated from reserve for equity compensation benefits	-	-	-	-	(429)	(429)
Transfers to retained earnings and other movements	202	780	-	-	3,320	4,302
Balance, end of year	50,304	(5,874)	12,009	(203,283)	39,002	(107,842)
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)

Other reserves comprise reserves for equity compensation benefits of $818 (2016 - $963) and statutory reserves of $38,184 (2016 - $34,864).

Year ended December 31, 2017 Amounts expressed in BDS $000

22 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**	
Movement for the year:	**2017**	**2016**	**2017**	**2016**
Balance, beginning of the year	(2,564)	(1,215)	5,145	3,981
Total comprehensive income / (loss)	(530)	(1,354)	112	1,617
Return of transfer to support profit distribution to shareholders	-	5	(431)	(453)
Balance, end of year	(3,094)	(2,564)	4,826	5,145

	Closed participating account		**Open participating account**	
Financial statement amounts:	**2017**	**2016**	**2017**	**2016**
Assets	161,118	164,611	393,992	393,998
Liabilities	164,212	167,175	389,166	388,853
Revenues	14,255	15,111	47,104	44,522
Benefits	13,571	15,338	44,605	37,833
Expenses	828	856	2,947	3,259
Income taxes	262	373	1,233	1,754

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

23 PREMIUM REVENUE

	Gross revenue		**Reinsurance expense**	
	2017	**2016**	**2017**	**2016**
Life insurance	731,516	680,287	35,852	38,682
Annuities	266,162	201,872	-	-
Health insurance	307,923	307,217	9,776	8,033
Property and casualty insurance	134,628	133,522	76,776	97,038
	1,440,229	1,322,898	122,404	143,753

Year ended December 31, 2017 Amounts expressed in BDS $000

24 NET INVESTMENT INCOME

	2017	2016
Investment income:		
Interest income	515,294	511,269
Dividend income	4,487	3,542
Rental income from investment property	7,729	7,632
Net investment gains	109,648	93,098
Share of operating income of associates and joint ventures	19,699	10,849
Other investment income	131	158
	656,988	626,548
Investment expenses:		
Allowances for impairment losses	16,722	10,265
Direct operating expenses of investment property	3,927	4,213
Other direct investment expenses	1,718	3,329
	22,367	17,807
Net investment income	634,621	608,741

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

	2017	2016
Debt securities	316,544	320,120
Mortgage loans	34,192	36,968
Policy loans	16,312	15,282
Finance loans and finance leases	117,371	112,332
Securities purchased under agreements to resell	1,083	1,167
Deposits	29,276	25,027
Other balances	516	373
	515,294	511,269

Interest from deposits include $23,631 (2016 - $21,713) from the parent company.

Year ended December 31, 2017 Amounts expressed in BDS $000

24 NET INVESTMENT INCOME (continued)

(b) Net investment gains

	2017	2016
Debt securities	52,086	60,801
Equity securities	55,792	29,230
Investment property	147	3,693
Other financial investments	1,623	(626)
	109,648	93,098

25 FEES AND OTHER REVENUE

	2017	2016
Fee income – assets under administration	58,358	50,940
Fee income – deposit administration and policy funds	4,000	3,478
Commission income on insurance and reinsurance contracts	24,730	28,930
Other fees and commission income	67,116	56,575
Foreign exchange (losses) / gains	(8,666)	24,670
Other operating and miscellaneous income	49,362	36,315
	194,900	200,908

26 POLICY BENEFITS AND CHANGE IN ACTUARIAL LIABILITIES

	Gross amount		Ceded to reinsurers	
	2017	2016	2017	2016
Policy benefits:				
Life insurance benefits	330,549	304,723	10,992	9,456
Annuity benefits	191,760	206,434	-	-
Health insurance claims	237,535	238,854	10,395	7,895
Property & casualty insurance claims	75,206	35,416	21,906	20,007
Total policy benefits	835,050	785,427	43,293	37,358
Change in actuarial liabilities (note 12.2)	199,890	92,479	(2)	(162)
Total policy benefits and change in actuarial liabilities	1,034,940	877,906	43,291	37,196

Year ended December 31, 2017 Amounts expressed in BDS $000

27 INTEREST EXPENSE

	2017	2016
Insurance contracts	3,136	5,200
Investment contracts	31,470	31,859
Other funding instruments	9,379	10,593
Deposits	33,070	32,407
Securities	28,489	37,038
Other Items	64	90
	105,608	117,187

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.

28 EMPLOYEE COSTS

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

	2017	2016
Included in administration expenses, and related compensation are the following:		
Administrative staff salaries, directors' fees and other short-term benefits	173,594	167,515
Social security and defined contribution retirement costs	15,849	14,782
Equity–settled compensation benefits (note 29.1 to 29.2)	13,532	6,316
Defined benefit expense (note 30(b))	25,188	21,322
	228,163	209,935

Year ended December 31, 2017 Amounts expressed in BDS $000

29 EQUITY COMPENSATION BENEFITS

29.1 The Parent Company

Effective December 31, 2005, the 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 Company (or 10% of shares then in issue) have been set aside for the purposes of the LTI plan and the ESOP.

In 2017, the shareholders of the Company approved the increase in the number of the Company's shares reserved for the LTI and ESOP from 26,555,274 common shares to 40,400,000 common shares.

(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.

	2017		2016	
	Number of grants '000	Weighted average price	Number of grants '000	Weighted average price
Balance, beginning of year	1,043	BDS$1.84	1,173	BDS$1.82
Grants issued	891	BDS$2.26	1,367	BDS$1.88
Grants vested	(710)	BDS$2.07	(1,391)	BDS$1.84
Grants lapsed/forfeited	(439)	BDS$1.00	(106)	BDS$2.06
Balance, end of year	785	BDS$2.11	1,043	BDS$1.84

Year ended December 31, 2017 Amounts expressed in BDS $000

29 EQUITY COMPENSATION BENEFITS (continued)

29.1 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.

	2017		2016	
	Number of options '000	**Weighted average exercise price**	**Number of options '000**	**Weighted average exercise price**
Balance, beginning of year	7,718	BDS$2.60	6,404	BDS$2.92
Options granted	1,328	BDS$2.00	2,095	BDS$1.72
Options exercised	(1,486)	BDS$2.01	-	-
Options lapsed/forfeited	(2,336)	BDS$2.40	(781)	BDS$3.28
Balance, end of year	5,224	BDS$2.64	7,718	BDS$2.60
Exercisable at the end of the year	3,119	BDS$3.12	3,934	BDS$3.17

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

	2017	2016
Share price at grant date	BDS$1.72 - 5.00	BDS$1.72 - 5.00
Fair value of options at grant date	BDS$0.31 – 1.38	BDS$0.31 - 1.38
Expected volatility	18.3% - 35.8%	19.3% - 35.8%
Expected life	7.0 years	7.0 years
Expected dividend yield	2.6% - 4.7%	2.6% - 4.7%
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 (2016 – 7 years) prior to grant date.

29 EQUITY COMPENSATION BENEFITS (continued)

29.1 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.

29.2 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.

Year ended December 31, 2017 Amounts expressed in BDS $000

29 EQUITY COMPENSATION BENEFITS (continued)

29.2 Sagicor Group Jamaica Limited (SGJ) (continued)

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

	2017		2016	
	Number of options '000	Weighted average exercise price	Number of options '000	Weighted average exercise price
Balance, beginning of year	44,945	J$8.83	53,644	J$8.63
Options granted	4,580	J$23.65	12,463	J$10.52
Options exercised	(24,872)	J$9.66	(18,924)	J$8.56
Options lapsed/forfeited	(2,772)	J$11.41	(2,238)	J$9.09
Balance, end of year	21,881	J$10.61	44,945	J$8.83
Exercisable at the end of the year	13,820	J$9.72	26,509	J$9.47

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

	2017	2016
Fair value of options outstanding	J$30,963,000	J$31,770,000
Share price at grant date	J$6.51 – 23.65	J$4.20 – 14.10
Exercise price	J$6.51 – 23.65	J$4.20 – 14.10
Standard deviation of expected share price returns	25.0%	26.0%
Weighted average remaining contractual term	0.25 – 7 years	0.25 – 7 years
Risk-free interest rate	8.70%	9.19%

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

(b) Employee share purchase plan

Sagicor Group Jamaica Limited 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 $3,848 (2016 – $2,596).

30 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. All disclosures in this note relate only to defined benefit plans.

All disclosures in sections 30 (a) to (d) relate only to defined benefit plans.

Year ended December 31, 2017 Amounts expressed in BDS $000

30 EMPLOYEE RETIREMENT BENEFITS (continued)

(a) Amounts recognised in the financial statements

	2017	2016
Present value of funded retirement obligations	456,074	437,373
Fair value of retirement plan assets	(484,862)	(401,673)
	(28,788)	35,700
Present value of unfunded retirement obligations	102,428	90,584
Present value of unfunded medical and life benefits	55,861	58,198
Amounts recognised in the financial statements	129,501	184,482
Represented by:		
Amounts held on deposit by the Group as deposit administration contracts	97,842	88,764
Other recognised liabilities	43,776	98,384
Total recognised liabilities (note 17)	141,618	187,148
Recognised assets (note 11)	(12,117)	(2,666)
	129,501	184,482

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.

Year ended December 31, 2017 Amounts expressed in BDS $000

30 EMPLOYEE RETIREMENT BENEFITS (continued)

(b) Movements in balances

	2017			
	Medical and life benefits	**Retirement obligations**	**Retirement plan assets**	**Total**
Net liability / (asset), beginning of year	58,198	527,957	(401,673)	184,482
Current service cost	3,162	12,683	-	15,845
Interest expense / (income)	5,195	37,906	(33,758)	9,343
Past service cost and gains / losses on settlements	-	-	-	-
Net expense recognised in income	8,357	50,589	(33,758)	25,188
(Gains) / losses from changes in assumptions	14,003	17,769	(1,403)	30,369
Gains from changes in experience	(24,958)	(39,230)	(29,856)	(94,044)
Return on plan assets excluding interest income	-	-	1,499	1,499
Net gains recognised in other comprehensive income	(10,955)	(21,461)	(29,760)	(62,176)
Contributions made by the Group	-	-	(17,965)	(17,965)
Contributions made by employees and retirees	-	12,208	(11,235)	973
Benefits paid	(1,223)	(32,219)	29,269	(4,173)
Other items	-	12,481	(10,558)	1,923
Effect of exchange rate movements	1,484	8,947	(9,182)	1,249
Other movements	261	1,417	(19,671)	(17,993)
Net liability / (asset), end of year	55,861	558,502	(484,862)	129,501

Year ended December 31, 2017 Amounts expressed in BDS $000

30 EMPLOYEE RETIREMENT BENEFITS (continued)

(b) Movements in balances (continued)

	2016			
	Medical and life benefits	**Retirement obligations**	**Retirement plan assets**	**Total**
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

Year ended December 31, 2017 Amounts expressed in BDS $000

30 EMPLOYEE RETIREMENT BENEFITS (continued)

(c) Retirement plan assets

	2017	2016
Equity unit linked pension funds under Group management:		
Sagicor Equity Fund (Barbados)	(61,229)	(52,802)
Sagicor Bonds Fund (Barbados)	(42,418)	(35,777)
Sagicor Pooled Investment Funds (Jamaica):		
Equity Funds	(112,479)	(71,640)
Mortgage & Real Estate Fund	(59,938)	(52,971)
Fixed Income Fund	(31,728)	(31,051)
Foreign Currency Funds	(47,152)	(36,370)
Money Market Fund	(4,693)	(4,516)
Other Funds	(31,394)	(34,614)
	(391,031)	(319,741)
Other assets	(93,831)	(81,932)
Total plan assets	(484,862)	(401,673)

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

Year ended December 31, 2017 Amounts expressed in BDS $000

30 EMPLOYEE RETIREMENT BENEFITS (continued)

(d) Significant actuarial assumptions

The significant actuarial assumptions for the principal geographic areas as of December 31, 2017 were as follows:

Pension plans	**Barbados & Eastern Caribbean**	**Jamaica**	**Trinidad**
Discount rate - local currency benefits	7.75%	8.00%	5.00%
Discount rate - US$ indexed benefits	n/a	5.00%	n/a
Expected return on plan assets	7.75%	8.00%	5.00%
Future promotional salary increases	0.00% - 2.50%	7.50%	0.00%
Future inflationary salary increases	2.00%	5.00%	2.00%
Future pension increases	2.00%	1.00%	0.00%
Future increases in National Insurance Scheme Ceilings	3.50%	n/a	0.00%
Mortality table	UP94 with projection scale AA	GAM1994 with 5 year improvement	UP94 with projection scale AA
Termination of active members	3% - 8.40% up to age 30, reducing to 1 - 2.1% at age 50, 0% at age 51	2% - 5.8% up to age 30, reducing to 3.8% - 5.8% at age 50, 2.7% - 3.8% at age 51	3% 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	7.00%

Year ended December 31, 2017 Amounts expressed in BDS $000

30 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	118,589	335,619	28,531
Change in absolute assumption	**Increase / (decrease) in pension obligations**		
Decrease discount rate by 1.0%	10,427	20,121	2,842
Increase discount rate by 1.0%	(7,039)	(15,343)	(2,091)
Decrease salary growth rate by 0.5%	(724)	(5,914)	(529)
Increase salary growth rate by 0.5%	1,438	6,806	594
Increase average life expectancy by 1 year	2,307	1,590	797
Decrease average life expectancy by 1 year	(1,881)	(1,621)	(323)

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

	Jamaica
Base medical and life obligation	55,861
Change in absolute assumption	**Increase / (decrease) in medical and life obligations**
Decrease discount rate by 1.0%	13,106
Increase discount rate by 1.0%	(9,853)
Decrease salary growth rate by 0.5%	(477)
Increase salary growth rate by 0.5%	565
Increase average life expectancy by 1 year	1,825
Decrease average life expectancy by 1 year	(1,819)

(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 $25,802.

Year ended December 31, 2017 Amounts expressed in BDS $000

31 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.

	2017	2016
Income tax expense:		
Current tax		
Current tax on profits for the year	64,179	68,723
Adjustments to current tax of prior periods	(118)	517
Total current tax expense	64,061	69,240
Deferred tax		
Decrease/(increase) in deferred tax assets	(1,058)	996
Decrease in deferred tax liabilities	138	(257)
Total deferred tax expense	920	739
Share of tax of associated companies	381	804
	65,362	70,783

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

	2017	2016
Income before income tax expense	372,858	389,571
Taxation at the applicable rates on income subject to tax	72,538	77,719
Adjustments to current tax for items not subject to / allowed for tax	(20,136)	(21,001)
Other current tax adjustments	63	(441)
Adjustments for current tax of prior periods	(118)	517
Movement in unrecognised deferred tax asset	4,410	3,894
Deferred tax relating to the origination of temporary differences	(180)	(20)
Deferred tax relating to changes in tax rates or new taxes	(695)	(70)
Deferred tax that arises from the write down / (reversal of a write down) of a tax asset	(199)	395
Tax on distribution of profits from policyholder funds	3,331	1,339
Other taxes	6,348	8,451
	65,362	70,783

In addition to the above, the income tax on items in other comprehensive income is set out in note 34.

Year ended December 31, 2017 Amounts expressed in BDS $000

32 DEFERRED INCOME TAXES

	2017	2016
Analysis of deferred income tax assets:		
Defined benefit liabilities	14,200	27,163
Unrealised (gains) / losses on financial investments	(1,147)	13,838
Unused tax losses	27,081	29,987
Other items	819	1,574
Total deferred income tax assets (note 10)	40,953	72,562
Deferred income tax assets to be recovered within one year	5,032	6,465
Unrecognised tax losses	6,831	7,897
Potential deferred income tax assets	1,715	1,981
Expiry period for unrecognised tax losses:		
2017	-	278
2018	278	2,953
2019	-	1,163
2020	1,163	2,517
2021	2,517	986
After 2021	2,873	-
	6,831	7,897

Year ended December 31, 2017 Amounts expressed in BDS $000

32 DEFERRED INCOME TAXES (continued)

Deferred income tax assets movements:	**Defined benefit liabilities**	**Unrealised losses on financial investments**	**Unused tax losses**	**Other items**	**Total**
2017					
Balance, beginning of year as previously reported	27,163	13,838	29,987	1,574	72,562
(Charged)/credited to:					
Profit or Loss	3,537	(535)	(3,504)	(556)	(1,058)
Other comprehensive income	(16,851)	(14,406)	(62)	(220)	(31,539)
Effects of exchange rate changes	351	(44)	660	21	988
Balance, end of year	14,200	(1,147)	27,081	819	40,953
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

	2017	**2016**
Analysis of deferred income tax liabilities:		
Accelerated tax depreciation	3,331	3,280
Pensions and other retirement benefits	642	660
Accrued interest	2,224	2,002
Unrealised gains on financial investments	9	8
Offset-able deferred income tax assets in respect of unused tax losses and other items	(683)	(422)
Other items	555	555
Total deferred income tax liabilities (note 18)	6,078	6,083
Deferred income tax liabilities to be settled within one year	6,078	5,984

Year ended December 31, 2017 Amounts expressed in BDS $000

32 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
2017							
Balance, beginning of year as previously reported	3,280	660	2,002	8	(422)	555	6,083
Charged/(credited) to:							
Profit or Loss	51	(129)	218	(17)	(261)	-	(138)
Other comprehensive income	-	111	4	18	-	-	133
Balance, end of year	3,331	642	2,224	9	(683)	555	6,078
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

33 DIVIDENDS PER COMMON SHARE

	2017		2016	
	cents per share	$000	cents per share	$000
Dividends declared:				
Final dividend in respect of the prior year	17.33	48,047	16.51	45,793
Interim dividend in respect of the current year	16.13	44,733	16.94	38,497
Special dividend	16.23	45,013	11.63	32,248
	49.69	137,793	45.08	116,538

Year ended December 31, 2017 Amounts expressed in BDS $000

34 OTHER COMPREHENSIVE INCOME

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

	2017				
		After tax OCI is attributable to			
	OCI tax impact	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	(14,464)	38,552	760	26,561	65,873
(Gains) / losses transferred to income	37	(18,361)	-	(6,955)	(25,316)
Net change in actuarial liabilities	-	(4,112)	912	5,225	2,025
Retranslation of foreign currency operations	-	9,299	(3)	10,146	19,442
	(14,427)	25,378	1,669	34,977	62,024
Items that will not be reclassified subsequently to income:					
Unrealised losses arising on revaluation of owner occupied property	(495)	(4,264)	-	746	(3,518)
(Losses)/gains on defined benefit plans	(17,023)	22,497	-	22,656	45,153
	(17,518)	18,233	-	23,402	41,635
Total	(31,945)	43,611	1,669	58,379	103,659
Allocated to equity reserves		21,114			
Allocated to retained earnings		22,497			
		43,611			

[1] Participating

Year ended December 31, 2017 Amounts expressed in BDS $000

34 OTHER COMPREHENSIVE INCOME (continued)

	2016				
		After tax OCI is attributable to			
	OCI tax impact	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
(Gains) / 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

Year ended December 31, 2017 Amounts expressed in BDS $000

35 CASH FLOWS

35.1 Operating activities

	2017	2016
Adjustments for non-cash items, interest and dividends:		
Interest and dividend income	(519,781)	(514,811)
Net investment gains	(109,648)	(93,098)
Gain arising on disposal	(4,521)	-
Net increase in actuarial liabilities	199,892	92,641
Interest expense and finance costs	107,785	117,187
Depreciation and amortisation	38,437	39,207
Increase in provision for unearned premiums	17,285	117
Other items	18,266	(4,260)
	(252,285)	(363,017)
Changes in operating assets:		
Investment property	-	1,636
Debt securities	57,642	(920)
Equity securities	21,511	1,109
Mortgage loans	(11,126)	804
Policy loans	(11,441)	(10,936)
Finance loans and finance leases	(69,644)	(198,259)
Securities purchased under agreement to resell	26	3,826
Deposits	(187,685)	23,052
Other assets and receivables	(79,791)	(55,924)
	(280,508)	(235,612)

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

	Investment property		Debt securities		Equity securities	
	2017	2016	2017	2016	2017	2016
Disbursements	-	(14)	(2,969,771)	(3,266,277)	(47,192)	(188,360)
Disposal proceeds	-	1,650	3,027,413	3,265,357	68,703	189,469
	-	1,636	57,642	(920)	21,511	1,109

Year ended December 31, 2017 Amounts expressed in BDS $000

35 CASH FLOWS (continued)

35.1 Operating activities (continued)

	2017	2016
Changes in operating liabilities:		
Insurance liabilities	24,909	8,078
Investment contract liabilities	2,377	43,051
Other funding instruments	(146,658)	7,434
Deposits	(338,458)	573,315
Securities	406,320	(401,219)
Other liabilities and payables	92,328	(19,686)
	40,818	210,973

35.2 Investing activities

	2017	2016
Property, plant and equipment:		
Purchases	(35,458)	(33,857)
Disposal proceeds	10,935	4,680
	(24,523)	(29,177)

35.3 Financial activities

	2017	2016
Notes and loans payable		
Proceeds	31,659	-
Repayments	-	-
	31,659	-

35.4 Cash and cash equivalents

	2017	2016
Cash resources	492,893	533,046
Call deposits and other liquid balances	140,926	217,312
Bank overdrafts	(5,135)	(3,877)
Other short-term borrowings	(25,245)	(151,353)
	603,439	595,128

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36 SUBSIDIARY ACQUISITION AND OWNERSHIP CHANGES

In May 2017, the Group acquired an additional 74,100,770 shares in Sagicor Real Estate X Fund Limited, a 3.3% interest. In August 2017, a further 2,500,000 shares, 0.11% holding, were obtained on settlement of an annuity contact. These acquisitions increased the Sagicor Group Jamaica Limited's holdings to 32.72%.

In October 2017, the Sagicor Group Jamaica Limited reduced its holdings in Sagicor Real Estate X Fund Limited by 3.41% to 29.31% when it sold 76,470,770 shares. This resulted in a $4,521 gain on disposal.

37 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:

	2017	**2016**
Customer guarantees and letters of credit	62,469	45,026

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 is 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 are outlined below:

(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 outcome of this matter cannot be properly assessed until it has been heard.

Year ended December 31, 2017 Amounts expressed in BDS $000

37 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 assessment by the Group of a probable favorable outcome.

(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.

38 RELATED PARTY TRANSACTIONS

Certain related party transactions and balances are included in notes 4, 8, 11, 12, 19, 24, 29, 30 and 43 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	**2017**	**2016**
Salaries, directors' fees and other short-term benefits	22,752	20,849
Equity-settled and cash settled compensation benefits	9,278	3,713
Pension and other retirement benefits	2,180	1,482
	34,210	26,044

Year ended December 31, 2017 Amounts expressed in BDS $000

38 RELATED PARTY TRANSACTIONS (continued)

	Mortgage loans	Other loans	Total loans
Balance, beginning of year	9,875	1,984	11,859
Advances	1,164	1,902	3,066
Repayments	(1,471)	(1,783)	(3,254)
Effects of exchange rate changes	-	45	45
Balance, end of year	9,568	2,148	11,716
Interest rates prevailing during the year	3.75 % - 7.00%	0.00% - 9.75%	

39 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, 2017 are as follows:

	Level 1	Level 2	Level 3	Total
Investment property	-	-	161,629	161,629
Owner-occupied lands	-	-	70,463	70,463
Owner-occupied land and buildings	-	-	156,931	156,931
	-	-	389,023	389,023

Year ended December 31, 2017 Amounts expressed in BDS $000

39 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	161,323	74,369	155,709	391,401
Additions	-	-	6,350	6,350
Transfers in / (out)	-	-	(3,391)	(3,391)
Fair value changes recorded in net investment income	147	-	-	147
Fair value changes recorded in other comprehensive income	-	(3,906)	(547)	(4,453)
Depreciation	-	-	(2,196)	(2196)
Disposals and divestitures	-	-	-	-
Effect of exchange rate changes	159	-	1,006	1,165
Balance, end of year	161,629	70,463	156,931	389,023

40 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 41 and 42.

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.

40.1 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.

40 FINANCIAL RISK

40.1 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	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	D	C	DDD	d
		9	Doubtful			DD	
		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 42.3) or realistic disaster scenarios for property and casualty insurance (see note 41.2).

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

40 FINANCIAL RISK (continued)

40.1 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.

	2017		2016	
	$000	%	$000	%
Investment portfolios	6,261,384	69.9%	6,107,503	71.6%
Lending portfolios	1,968,312	22.0%	1,837,200	21.5%
Reinsurance assets	51,980	0.6%	41,805	0.5%
Other financial assets	401,000	4.5%	308,024	3.6%
Total financial statements exposures	8,682,676	97.0%	8,294,532	97.2%
Loan commitments	157,969	1.8%	164,175	1.9%
Customer guarantees and letters of credit	62,469	0.7%	45,026	0.5%
Other	49,803	0.5%	30,523	0.4%
Total off financial statements exposures	270,241	3.0%	239,724	2.8%
Total	8,952,917	100.0%	8,534,256	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.

Year ended December 31, 2017 Amounts expressed in BDS $000

40 FINANCIAL RISK (continued)

40.1 Credit risk (continued)

	Sagicor Risk Rating - 2017	2017	Sagicor Risk Rating - 2016	2016
Investment portfolios:				
Government of Jamaica	5	1,722,504	5	1,608,102
Government of Barbados	6	560,814	5	607,945
Government of Trinidad and Tobago	3	530,348	2	452,188
Government of Aruba	3	95,337	3	135,103
The Bank of Nova Scotia Group	2	110,682	2	57,405
CIBC Group	2	48,932	2	42,913
Government of St. Lucia	5	135,615	3	159,348
Lending portfolios:				
Value Assets International S.A / Egret Ltd	4	58,170	4	57,407

40 FINANCIAL RISK (continued)

40.1 Credit risk (continued)

(a) Investment portfolios

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

Investment portfolios					
Risk Rating	**Classification**	**2017 Exposure**		**2016 Exposure**	
		$000	**%**	**$000**	**%**
1	Minimal risk	161,742	3	171,776	3
2	Low risk	477,802	8	906,907	15
3	Moderate risk	1,850,143	30	1,109,299	18
4	Acceptable risk	283,462	5	424,493	7
5	Average risk	2,463,522	39	2,973,999	49
6	Higher risk	596,931	10	115,568	2
7	Special mention	6,669	0	30	0
8	Substandard	968	0	557	0
TOTAL RATED EXPOSURES		5,841,239	95	5,702,629	94
UN-RATED EXPOSURES		420,145	5	404,874	6
TOTAL		6,261,384	100	6,107,503	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.

40 FINANCIAL RISK (continued)

40.1 Credit risk (continued)

(b) Lending portfolios

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

Lending portfolios					
Risk Rating	Classification	2017 Exposure		2016 Exposure	
		$000	%	$000	%
1	Minimal risk	967,610	50	804,192	43
2	Low risk	242,869	12	284,938	16
3	Moderate risk	466,219	24	385,422	21
4	Acceptable risk	115,339	6	153,985	8
5	Average risk	83,301	4	70,399	4
6	Higher risk	25,599	1	50,675	3
7	Special mention	22,613	1	30,659	2
8	Substandard	8,409	0	17,406	1
9	Doubtful	14,085	1	15,064	1
10	Loss	22,096	1	24,308	1
TOTAL RATED EXPOSURES		1,968,140	100	1,837,048	100
UN-RATED EXPOSURES		172	0	152	0
TOTAL		1,968,312	100	1,837,200	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 $9,800.

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.

Year ended December 31, 2017 Amounts expressed in BDS $000

40 FINANCIAL RISK (continued)

40.1 Credit risk (continued)

(b) Lending portfolios (continued)

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

	2017	2016
Barbados	404,196	391,196
Jamaica	1,039,539	927,349
Trinidad & Tobago	309,320	290,818
Other Caribbean	213,609	226,602
USA	1,648	1,235
	1,968,312	1,837,200

(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.

Year ended December 31, 2017 Amounts expressed in BDS $000

40 FINANCIAL RISK (continued)

40.1 Credit risk (continued)

(c) Past due and impaired financial investments

2017	**Debt securities**	**Mortgage loans**	**Finance loans & leases**
Neither past due nor impaired	4,974,050	514,175	1,043,720
Past due up to 3 months, but not impaired	14,020	46,397	68,390
Past due up to 12 months, but not impaired	-	6,968	3,196
Past due up to 5 years, but not impaired	-	8,009	-
Past due over 5 years, but not impaired	-	4,513	-
Total past due, but not impaired	14,020	65,887	71,586
Impaired assets (net of impairment)	88	36,489	13,492
Total carrying value	4,988,158	616,551	1,128,798
Accumulated allowances on impaired assets	375	14,761	28,827
Accrued interest on impaired assets	6	784	-

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	-

40 FINANCIAL RISK (continued)

40.1 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.

40.2 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.

Year ended December 31, 2017 Amounts expressed in BDS $000

40.2 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.

	Contractual un-discounted cash flows			
2017	**On demand or within 1 year**	**1 to 5 years**	**After 5 years**	**Total**
Financial liabilities:				
Investment contract liabilities	626,248	70,841	-	697,089
Notes and loan payable	12,813	24,766	-	37,579
Deposit and security liabilities:				
Other funding instruments	147,157	129,401	35,917	312,475
Customer deposits	1,374,170	142,074	17,411	1,533,655
Structured products	70,018	30,712	-	100,730
Securities sold under agreements to repurchase	955,880	-	-	955,880
Derivative financial instruments	4,016	447	-	4,463
Bank overdrafts	5,135	-	-	5,135
Accounts payable and accrued liabilities	287,089	183,483	887	471,459
Total financial liabilities	3,482,526	581,724	54,215	4,118,465
Off financial statement commitments:				
Loan commitments	152,384	1,961	3,624	157,969
Operating lease and rental payments	7,159	7,114	-	14,273
Customer guarantees and letters of credit	35,661	3,692	23,116	62,469
Other – guarantees, acceptances and other financial facilities	35,530	-	-	35,530
Total off financial statements commitments	230,734	12,767	26,740	270,241
Total	3,713,260	594,491	80,955	4,388,706

Year ended December 31, 2017 Amounts expressed in BDS $000

40.2 Liquidity risk (continued)

(a) Financial liabilities and commitments (continued)

	Contractual un-discounted cash flows			
2016	**On demand or 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

Year ended December 31, 2017 Amounts expressed in BDS $000

40 FINANCIAL RISK (continued)

40.2 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			
2017	**Maturing within 1 year**	**Maturing 1 to 5 years**	**Maturing after 5 years**	**Total**
Actuarial liabilities	80,056	384,153	2,718,041	3,182,250
Other insurance liabilities	184,958	41,750	89,399	316,107
Total	265,014	425,903	2,807,440	3,498,357

	Expected discounted cash flows			
2016	**Maturing within 1 year**	**Maturing 1 to 5 years**	**Maturing after 5 years**	**Total**
Actuarial liabilities	116,544	365,923	2,482,737	2,965,204
Other insurance liabilities	156,886	30,594	90,590	281,070
Total	273,430	396,517	2,573,327	3,246,274

Year ended December 31, 2017 Amounts expressed in BDS $000

40 FINANCIAL RISK (continued)

40.2 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			
2017	**Maturing within 1 year**	**Maturing 1 to 5 years**	**Maturing after 5 years**	**Total**
Debt securities	347,459	763,518	3,877,181	4,988,158
Mortgage loans	25,539	47,070	543,942	616,551
Policy loans	1,000	13,853	208,110	222,963
Finance loans and finance leases	251,135	319,162	558,501	1,128,798
Securities purchased under agreements to resell	33,035	-	-	33,035
Deposits	547,662	12,172	4,140	563,974
Derivative financial instruments	4,016	447	-	4,463
Reinsurance assets: share of actuarial liabilities	484	-	-	484
Reinsurance assets: other	51,496	-	-	51,496
Premiums receivable	106,348	-	-	106,348
Other accounts receivable	148,115	141,633	441	290,189
Cash resources	660,023	-	16,194	676,217
Total	2,176,312	1,297,855	5,208,509	8,682,676

Year ended December 31, 2017 Amounts expressed in BDS $000

40 FINANCIAL RISK (continued)

40.2 Liquidity risk (continued)

(c) Financial and insurance assets (continued)

	Contractual or expected discounted cash flows			
2016	**Maturing within 1 year**	**Maturing 1 to 5 years**	**Maturing after 5 years**	**Total**
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

40.3 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.

Year ended December 31, 2017 Amounts expressed in BDS $000

40 FINANCIAL RISK (continued)

40.3 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 42.4). 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.

2017	Exposure within 1 year	Exposure of 1 to 5 years	Exposure after 5 years	Not exposed to interest	Total
Other insurance liabilities	15,840	9,512	89,399	201,356	316,107
Investment contract liabilities	626,243	69,542	-	-	695,785
Notes and loans payable	10,384	22,712	-	(116)	32,980
Deposit and security liabilities:					
Other funding instruments	126,446	99,546	36,085	504	262,581
Customer deposits	1,359,111	138,924	-	3,861	1,501,896
Structured products	81,156	13,339	-	656	95,151
Securities sold under agreements to repurchase	949,158	-	-	2,910	952,068
Derivative financial instruments	-	-	-	4,463	4,463
Bank overdrafts	5,135	-	-	-	5,135
Accounts payable and accruals	3,834	141,893	-	286,739	432,466
Total	3,177,307	495,468	125,484	500,373	4,298,632

Year ended December 31, 2017 Amounts expressed in BDS $000

40 FINANCIAL RISK (continued)

40.3 Interest rate risk (continued)

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

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.

2017	Exposure within 1 year	Exposure of 1 to 5 years	Exposure after 5 years	Not exposed to interest	Total
Debt securities	816,522	641,856	3,454,926	74,854	4,988,158
Equity securities	-	-	-	423,610	423,610
Mortgage loans	32,769	56,201	525,389	2,192	616,551
Policy loans	850	13,310	200,888	7,915	222,963
Finance loans and leases	973,708	75,546	76,382	3,162	1,128,798
Securities purchased under agreements to resell	32,869	-	-	166	33,035
Deposits	559,053	680	3,400	841	563,974
Derivative financial instruments	-	-	-	4,463	4,463
Reinsurance assets: other	94	-	-	51,402	51,496
Premiums receivable	368	-	-	105,980	106,348
Other accounts receivable	8,343	142,339	-	139,507	290,189
Cash resources	539,057	-	-	137,160	676,217
Total	2,963,633	929,932	4,260,985	951,252	9,105,802

Year ended December 31, 2017 Amounts expressed in BDS $000

40 FINANCIAL RISK (continued)

40.3 Interest rate risk (continued)

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

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

	2017	2016
Financial assets:		
Debt securities	6.6%	6.7%
Mortgage loans	6.2%	6.2%
Policy loans	7.8%	7.7%
Finance loans and finance leases	11.6%	12.6%
Securities purchased under agreements to resell	5.1%	9.2%
Deposits	2.3%	0.8%
Financial liabilities		
Investment contract liabilities	6.3%	6.5%
Notes and loan payable	8.1%	-
Other funding instruments	2.7%	2.5%
Customer deposits	2.0%	2.1%
Securities sold under agreements to repurchase	3.6%	4.5%

Year ended December 31, 2017 Amounts expressed in BDS $000

40 FINANCIAL RISK (continued)

40.3 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 42.4. 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.

2017				2016			
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%	- 0.5%	17,049	42,594	- 1.0%	- 0.5%	2,113	26,282
+ 1.0%	+ 0.5%	(17,711)	(39,382)	+ 2.5%	+ 2.0%	(7,379)	(93,032)

40.4 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.

40 FINANCIAL RISK (continued)

40.4 Foreign exchange risk (continued)

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

	BDS$ 000 equivalents of balances denominated in					
2017	**Barbados $**	**Jamaica $**	**Trinidad $**	**EC $**	**US $**	**Other currencies**
ASSETS						
Financial investments[1]	1,094,340	1,885,457	881,791	277,767	3,119,674	298,913
Reinsurance assets	10,074	621	15,128	16,952	5,761	3,444
Receivables [1]	63,054	248,409	15,716	34,391	23,012	12,005
Cash resources	57,241	206,523	54,002	30,531	210,193	117,727
	1,224,709	2,341,010	966,637	359,641	3,358,640	432,089
Other assets [2]	406,459	721,177	145,569	33,080	141,309	(4,034)
Total assets	1,631,168	3,062,187	1,112,206	392,721	3,499,949	428,055
LIABILITIES						
Actuarial liabilities	802,775	703,827	675,457	108,881	700,913	190,397
Other insurance liabilities[1]	138,445	46,131	60,822	39,591	10,208	20,910
Investment contracts	68,503	143,298	298,762	89,470	77,917	17,835
Notes and loan payable	-	32,980	-	-	-	-
Deposits and securities	164,586	1,095,509	2,695	31,348	1,493,560	33,596
Provisions	40,600	56,728	25,788	1,420	3,628	13,642
Accounts payable and accruals	76,044	266,563	25,759	9,155	42,204	12,741
	1,290,953	2,345,036	1,089,283	279,865	2,328,430	289,121
Other liabilities [2]	29,654	2,390	31,466	8,174	2,108	4,484
Total liabilities	1,320,607	2,347,426	1,120,749	288,089	2,330,538	293,605
Net position	310,561	714,761	(8,543)	104,682	1,169,411	134,450

[1] Monetary balances only [2] Non-monetary and income tax balances and retirement plan assets

40 FINANCIAL RISK (continued)

40.4 Foreign exchange risk (continued)

	BDS$ 000 equivalents of balances denominated in					
2016	**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 only [2] Non-monetary and income tax balances and retirement plan assets

40 FINANCIAL RISK (continued)

40.4 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 25).

- 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 21). 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.

Year ended December 31, 2017 Amounts expressed in BDS $000

40 FINANCIAL RISK (continued)

40.4 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, 2017 and for the year then ended are considered in the following table.

	Amounts denominated in		Total amounts	Effect of a 10% depreciation
	JMD	BBD		
Financial position:				
Assets	3,132,945	2,224,391	5,357,336	(313,295)
Liabilities	2,243,638	1,977,916	4,221,554	(224,364)
Net position	889,307	246,475	1,135,782	(88,931)
Represented by:				
Currency risk of the Group's investment in foreign operations				(88,931)
Income statement:				
Revenue	967,324	142,965	1,110,289	(72,761)
Benefits	(453,342)	(92,928)	(546,270)	45,334
Expenses	(314,677)	(29,712)	(344,389)	31,468
Income taxes	(45,651)	-	(45,651)	4,565
Net income	153,654	20,325	173,979	8,606
Represented by:				
Currency risk relating to the future cash flows of monetary balances				23,971
Currency risk of reported results of foreign operations				(15,365)
				8,606

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

40.5 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.

40 FINANCIAL RISK (continued)

40.5 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.

Year ended December 31, 2017 Amounts expressed in BDS $000

40 FINANCIAL RISK (continued)

40.5 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.

2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Available for sale securities:				
Debt securities	1,297,480	1,225,048	4,991	2,527,519
Equity securities	39,552	59,460	7,356	106,368
	1,337,032	1,284,508	12,347	2,633,887
Investments at fair value through income:				
Debt securities	38,369	125,084	197,514	360,967
Equity securities	28,537	288,705	-	317,242
Derivative financial instruments	-	4,463	-	4,463
Mortgage loans	-	-	90,894	90,894
	66,906	418,252	288,408	773,566
Total assets	1,403,938	1,702,760	300,755	3,407,453
Total assets by percentage	41%	50%	9%	100%
Investment contracts:				
Unit linked deposit administration liabilities	-	-	279,506	279,506
	-	-	279,506	279,506
Deposit and security liabilities:				
Structured products	-	-	95,151	95,151
Derivative financial instruments	-	4,463	-	4,463
	-	4,463	95,151	99,614
Total liabilities	-	4,463	374,657	379,120
Total liabilities by percentage	0%	1%	99%	100%

Year ended December 31, 2017 Amounts expressed in BDS $000

40 FINANCIAL RISK (continued)

40.5 Fair value of financial instruments (continued)

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

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%

Transfers from Level 1 to Level 2 in 2017 – Nil (2016 - $119,504). Transfers from Level 2 to Level 1 in 2017 – $39,637 (2016 - Nil).

Year ended December 31, 2017 Amounts expressed in BDS $000

40 FINANCIAL RISK (continued)

40.5 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.

	2017			2016
Assets	**Available for sale securities**	**Investments at fair value through income**	**Total**	**Total**
Balance, beginning of year	13,096	272,391	285,487	336,942
Additions	1,970	107,639	109,609	47,143
Transfers into Level 3 classification	-	-	-	152
Fair value changes recorded in income	-	352	352	1,517
Fair value changes recorded in other comprehensive income	(196)	-	(196)	(616)
Disposals and divestitures	(1,982)	(90,458)	(92,440)	(84,429)
Transfers out of Level 3 classification	(12)	(20)	(32)	-
Effect of exchange rate changes	(529)	(1,496)	(2,025)	(15,222)
Balance, end of year	12,347	288,408	300,755	285,487
Fair value changes recorded in income for investments held at end of year	-	352	352	2,108

Year ended December 31, 2017 Amounts expressed in BDS $000

40 FINANCIAL RISK (continued)

40.5 Fair value of financial instruments (continued)

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

	2017			2016
Liabilities	**Policy liabilities – Unit linked deposit administration**	**Structured Products**	**Total**	**Total**
Balance, beginning of year	261,335	69,557	330,892	320,578
Fair value changes recorded in income	250	-	250	375
Issues	30,933	57,436	88,369	71,327
Settlements	(16,483)	(40,028)	(56,511)	(45,501)
Transfers to instruments carried at amortised cost	-	7,363	7,363	(503)
Effect of exchange rate changes	3,471	823	4,294	(15,384)
Balance, end of year	279,506	95,151	374,657	330,892
Fair value changes recorded in income for instruments held at end of year	250	-	250	375

(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, 15 and 16.

Year ended December 31, 2017 Amounts expressed in BDS $000

40 FINANCIAL RISK (continued)

40.5 Fair value of financial instruments (continued)

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

The fair value hierarchy of other financial instruments carried at amortised cost as of December 31, 2017 is set out in the following tables:

	Level 1	Level 2	Level 3	Total
Held to maturity securities:				
Debt securities	-	-	-	-
Loans and receivables:				
Debt securities	-	894,747	1,411,578	2,306,325
Mortgage loans	-	-	526,416	526,416
Policy loans	-	-	222,963	222,963
Finance loans and finance leases	-	-	1,103,843	1,103,843
Securities purchased for resale	-	-	33,035	33,035
	-	894,747	3,297,835	4,192,582
	-	894,747	3,297,835	4,192,582

	Level 1	Level 2	Level 3	Total
Investment contracts:				
Deposit administration liabilities	-	-	242,966	242,966
Other investment contracts	-	-	173,313	173,313
	-	-	416,279	416,279
Notes and loans payable:				
Convertible redeemable preference shares	-	-	34,640	34,640
Deposit and security liabilities:				
Other funding instruments	-	-	272,794	272,794
Customer deposits	-	2,792	1,496,875	1,499,667
Securities sold for repurchase	-	-	947,541	947,541
	-	2,792	2,717,210	2,720,002
	-	2,792	3,168,129	3,170,921

Year ended December 31, 2017 Amounts expressed in BDS $000

40 FINANCIAL RISK (continued)

40.5 Fair value of financial instruments (continued)

(c) Equity price risk

The Group is exposed to equity price risk arising from changes in the market values of its equity securities. The Group mitigates this risk by establishing overall limits of equity holdings for each investment portfolio and by maintaining diversified holdings within each portfolio of equity securities.

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, 2017 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	26,938	5,388
Listed on US stock exchanges and markets	31,097	6,219
Listed on other exchanges and markets	48,333	9,667
	106,368	21,274

40.6 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.

Year ended December 31, 2017 Amounts expressed in BDS $000

40 FINANCIAL RISK (continued)

40.6 Derivative financial instruments and hedging activities (continued)

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

	<<<<<<<< 2017 >>>>>>>>			<<<<<<<< 2016 >>>>>>>>		
	Contract / notional amount	**Fair Value**		**Contract / notional amount**	**Fair Value**	
		Assets	**Liabilities**		**Assets**	**Liabilities**
Derivatives held for trading:						
Equity indexed options	65,130	4,463	4,463	64,980	2,728	2,728
	65,130	4,463	4,463	64,980	2,728	2,728

(i) Equity indexed options

The Group has purchased equity indexed options in respect of structured products.

For certain structured product contracts with customers (note 16), 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.

Year ended December 31, 2017 Amounts expressed in BDS $000

40 FINANCIAL RISK (continued)

40.7 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.

2017	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 arrange-ments	Financial instruments collateral	Net amount
ASSETS						
Financial investments	7,944,054	-	7,944,054	(2,423,826)	(116,807)	5,403,421
Securities purchases under resale agreement	33,035	-	33,035	-	-	33,035
Derivative financial instruments	4,463	-	4,463	(4,463)	-	-
	7,981,552	-	7,981,552	(2,428,289)	(116,807)	5,436,456
LIABILITIES						
Security Liabilities	2,816,831	-	2,816,831	(2,382,132)	(80,278)	354,421
Derivative financial instruments	4,463	-	4,463	(4,463)	-	-
	2,821,294	-	2,821,294	(2,386,595)	(80,278)	354,421

Year ended December 31, 2017 Amounts expressed in BDS $000

40 FINANCIAL RISK (continued)

40.7 Offsetting financial assets and liabilities (continued)

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 arrange-ments	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)	-	-
	7,803,245	-	7,803,245	(1,645,064)	(252,244)	5,905,937
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)	-	-
	2,978,005	-	2,978,005	(834,548)	(171,558)	1,971,899

41 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.

41.1 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.

41 INSURANCE RISK - PROPERTY & CASUALTY CONTRACTS (continued)

41.1 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.

41.2 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.

Year ended December 31, 2017 Amounts expressed in BDS $000

41 INSURANCE RISK - PROPERTY & CASUALTY CONTRACTS (continued)

41.2 Claims risk (continued)

Total Insurance coverage		**2017**	**2016**
Property	Gross	16,697,457	15,346,805
	Net	2,821,833	2,166,563
Motor	Gross	866,982	771,955
	Net	866,982	385,977
Accident & liability	Gross	5,539,363	4,551,542
	Net	4,507,699	2,172,395
Total	Gross	23,102,802	20,670,302
	Net	8,196,514	4,724,935

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 2017 is presented below and results in estimated gross and net losses.

Scenario:	**Gross loss**	**Net loss**
A Barbados and St. Lucia windstorm having a 200 year return period.	416,569	15,000

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

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. 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 Sagicor credit risk rating of 1 or 2. Insurers also place reinsurance coverage with various reinsurers to limit their exposure to any one reinsurer.

41 INSURANCE RISK - PROPERTY & CASUALTY CONTRACTS (continued)

41.3 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	• maximum retention of $9,000 for a single event; • maximum retention of $15,000 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, 23 and 26 and information on reinsurance balances is included in notes 9, 19 and 40.

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.

41 INSURANCE RISK - PROPERTY & CASUALTY CONTRACTS (continued)

41.3 Reinsurance risk (continued)

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

Sagicor Risk Rating	Classification	2017 Exposure	
		$000	%
1	Minimal risk	589,030	42%
2	Low risk	811,970	58%
3	Moderate risk	-	-
4	Acceptable risk	-	-
5	Average risk	-	-
	TOTAL	1,401,000	100%

42 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.

42.1 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.

Year ended December 31, 2017 Amounts expressed in BDS $000

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

42.1 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 42.2(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.

2017 Premium revenue by location of insureds	Gross	Ceded	Net
Barbados	47,642	2,445	45,197
Jamaica	155,193	3,984	151,209
Trinidad & Tobago	53,284	1,293	51,991
Other Caribbean	51,804	2,054	49,750
Total	307,923	9,776	298,147

Year ended December 31, 2017 Amounts expressed in BDS $000

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

42.1 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 42.4. The impact on gross claims of increasing the total liability by 5% for un-reinsured health insurance claims is illustrated in the following table.

	2017		2016	
	Liability	**5% increase in liability**	**Liability**	**5% increase in liability**
Actuarial liability	93,598	4,680	95,727	4,786
Claims payable	8,556	428	8,564	428
	102,154	5,108	104,291	5,214

42.2 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.

Year ended December 31, 2017 Amounts expressed in BDS $000

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

42.2 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		2017		2016	
		Individual contracts	Group contracts	Individual contracts	Group contracts
Barbados	Gross	7,947,322	2,598,926	7,711,595	2,676,441
	Net	7,360,454	2,495,536	7,093,281	2,573,127
Jamaica	Gross	16,090,747	11,870,467	14,215,810	9,802,977
	Net	15,869,731	11,765,898	13,923,014	9,738,187
Trinidad & Tobago	Gross	6,983,276	4,450,974	6,645,562	4,759,545
	Net	5,801,203	4,231,511	5,483,363	4,524,810
Other Caribbean	Gross	15,934,975	2,886,868	15,472,109	3,649,942
	Net	13,902,511	2,565,564	13,258,333	3,294,301
Total	Gross	46,956,320	21,807,235	44,045,076	20,888,905
	Net	42,933,899	21,058,509	39,757,991	20,130,425

Year ended December 31, 2017 Amounts expressed in BDS $000

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

42.2 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		2017		2016	
		Individual contracts	Group contracts	Individual contracts	Group contracts
Barbados	Gross	233,174	90,834	221,088	87,347
	Net	233,174	90,834	221,088	87,347
Jamaica	Gross	1,216	683,744	1,149	587,191
	Net	1,216	683,744	1,149	587,191
Trinidad & Tobago	Gross	240,683	-	230,507	-
	Net	240,683	-	230,507	-
Other Caribbean	Gross	61,441	56	53,653	54
	Net	61,441	56	53,653	54
USA	Gross	146,182	-	153,513	-
	Net	146,182	-	153,513	-
Total	Gross	682,696	774,634	659,910	674,592
	Net	682,696	774,634	659,910	674,592

(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.

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

42.2 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 40 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.

42.3 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

42.4 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)).

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

42.4 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**	
	2017	**2016**	**2017**	**2016**
Base net actuarial liability - $000	1,912,611	1,872,098	748,965	654,367
Scenario	**Increase in liability**		**Increase in liability**	
Worsening rate of lapse	289,783	271,455	107,736	95,270
High interest rate	(178,578)	(168,667)	(222,116)	(197,469)
Low interest rate	322,948	312,253	204,366	248,800
Worsening mortality / morbidity	75,056	71,616	85,551	74,417
Higher expenses	38,107	41,429	35,059	29,878

Year ended December 31, 2017 Amounts expressed in BDS $000

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

42.5 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.

43. 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:

	2017	2016
Pension and insurance fund assets	4,144,463	3,452,933
Mutual fund, unit trust and other investment fund assets	2,265,855	1,780,469
	6,410,318	5,233,402

Fee income under administration is discussed in note 25.

Year ended December 31, 2017 Amounts expressed in BDS $000

44 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 $2,469,780 (2016 - $2,838,651) 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.

45 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.

45.1 Capital resources

The principal capital resources of the Group are as follows:

	2017	**2016**
Shareholder's equity	1,807,402	1,681,652
Non-controlling interests	616,188	515,956
Notes and loans payable	32,980	-
Total capital resources	2,456,570	2,197,608

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.

Year ended December 31, 2017 Amounts expressed in BDS $000

45 CAPITAL MANAGEMENT (continued)

45.2 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 2017 and 2016, all applicable externally imposed capital requirements were complied with.

	Sagicor Investments Jamaica		Sagicor Bank Jamaica	
	2017	**2016**	**2017**	**2016**
Actual capital base to risk weighted assets	16%	13%	15%	14%
Required capital base to risk weighted assets	10%	10%	10%	10%

45.3 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, 2017, the Group was in compliance with the compliance obligations.

45 CAPITAL MANAGEMENT (continued)

45.3 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, 2017 and 2016, the Parent Company group satisfied these requirements.

Year ended December 31, 2017 Amounts expressed in BDS $000

46. 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, Central America and Trinidad and Tobago. The companies are set out in the following table.

Sagicor Life Segment Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagicor Life Inc	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%

Year ended December 31, 2017 Amounts expressed in BDS $000

46. 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 subsidiaries operating in Jamaica 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%

Year ended December 31, 2017 Amounts expressed in BDS $000

46. 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 Securities Jamaica Limited	Securities trading	Jamaica	49.11%
Associates			
Sagicor Real Estate X-Fund Limited (note 36)	Investment in real estate activities	St. Lucia	14.39%

Control of Sagicor Group Jamaica Limited is established through the following:

- The Group's effective shareholder's interest gives it the power to appoint 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

(c) Other Group Companies

Other Group Companies	Principal Activities	Country of Incorporation	Effective Shareholders' 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%

47 BREACH OF INSURANCE REGULATIONS – RELATED PARTY BALANCES

As at December 31, 2017, one of the Group's subsidiaries, Sagicor Life Jamaica Limited exceeded the regulated 5% maximum of related party balances to total assets of the company. Management is in discussions with the Regulator, Financial Services Commission, in relation to this matter. The regulator has not imposed any penalty.

48 EVENTS AFTER DECEMBER 31, 2017

Subsequent to the year-end, certain affiliates of Sagicor Group Jamaica Limited (SGJ), including Sagicor Real Estate X Fund Limited, entered into an agreement for a business combination with Playa Hotels & Resorts N.V. "Playa", an entity listed on the NASDAQ. Under the terms of the agreement, SGJ's affiliated entities will receive 20 million shares of Playa and US$100 million in cash in return for certain owned and managed hotels in Jamaica.

The properties subject to the agreement comprise properties owned by the Sagicor Sigma Real Estate Fund, the Sagicor Pooled Investment Funds and Sagicor X Fund Property Limited. The properties include 4 existing resorts, being the 489-room Hilton Rose Hall, the 268-room Jewel Runaway Bay, the 250-room Jewel Dunn's River and the 225-room Jewel Paradise Cove, as well as a newly-built 88-room Sentry Palm hotel tower and spa at Jewel Grande and 2 developable land sites with a potential density of up to 700 rooms. A hotel management contract for the Jewel Grande Sabal Palm Towers is also included in the agreement.