SAGICOR FINANCIAL CORPORATION LIMITED

Interim Financial Statements

Three-months ended March 31, 2018

SAGICOR FINANCIAL CORPORATION LIMITED
FINANCIAL RESULTS
FOR THE THREE MONTHS ENDED MARCH 31, 2018

CHAIRMAN'S REVIEW

The Sagicor Group recorded another solid performance for the first three months to March 31, 2018. Group net income closed the period at US $38.9 million against a prior year result of US $27.0 million. Net income attributable to shareholders was US $19.9 million compared to the prior year result of US $16.7 million, an increase of 19%.

During the first three months of the year Sagicor Group adopted two new accounting standards which became effective from January 1, 2018. IFRS 15, Revenue from Contracts with Customers was adopted, and affects how income is recognised on contracts by companies. IFRS 9, Financial instruments, was also adopted, this accounting standard changes the way that financial instruments are recognised and measured. The standard introduces new measurement categories for financial instruments and an expected credit loss model for impairment. There was no significant impact on the implementation of both standards on the net assets of the Company.

Total revenue for the Group amounted to US $296.6 million, against a prior year amount of US $282.5 million, an increase of 5%. Revenue included a one-time gain of US $5.3 million on the acquisition of the British American insurance portfolio from the Government of Barbados. Benefits were US $132.1 million, compared to US $138.4 million for the previous year, a reduction of 5%. Expenses were US $117.6 million, compared to US $115.1 million for the same period in the prior year, an increase of 2%.

Group comprehensive income was US $17.0 million, compared to US $32.2 million for the prior year. Shareholder comprehensive income was US $5.8 million, compared to US $20.6 million for the prior year. The decline in comprehensive income was mainly due to marked-to-market losses on our international bond portfolio.

In the statement of financial position as at March 31, 2018, assets amounted to US $6.9 billion, and liabilities amounted to US $5.9 billion. Group equity was US $931.7 million, compared to US $ 939.6 million at December 31, 2017, Shareholders' equity was US $622.9 million, compared to US $626.9 million at December 31, 2017. The Group's debt was US $407.1 million with a debt to capital ratio of 30.4%, compared to 30.7% at December 31, 2017.

On behalf of the Board of Sagicor, I wish to thank our Shareholders and Customers for their continued support.

Stephen McNamara
Chairman
May 15, 2018

FINANCIAL HIGHLIGHTS *(in US currency except percentages)*	**Three months ended MARCH 31** **2018**	**2017** restated
Total revenue	$296.6m	$282.5m
Overall Group net income	$38.9m	$27.0m
Overall Shareholders' net income	$19.9m	$16.7m
Net income allocated to non-controlling interests	$10.8m	$10.6m
Total equity	$931.7m	$827.5m
Book Value per share	$2.03	$1.82
Ratio of Debt to Capital	30.4%	32.9%
Earnings per common share	6.5¢	5.5¢
Annualised return on common shareholders' equity	12.7%	9.2%

SAGICOR FINANCIAL CORPORATION LIMITED

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in US $000	As of March 31, 2018 (unaudited)	As of December 31,2017 Restated (audited)	As of December 31,2016 Restated (audited)
ASSETS			
Investment property	78,342	80,816	80,662
Property, plant and equipment	164,380	165,560	167,723
Associates and joint ventures	98,619	97,223	87,293
Intangible assets	79,625	81,714	83,487
Financial investments (note 8)	5,021,369	4,953,241	4,813,748
Reinsurance assets	787,066	797,391	777,344
Income tax assets	48,815	39,980	59,575
Miscellaneous assets and receivables	262,780	228,543	183,018
Cash resources	314,361	360,064	279,070
Assets of the discontinued operation	10,502	10,110	-
Total assets	**6,865,859**	**6,814,642**	**6,531,920**
LIABILITIES			
Actuarial liabilities	2,947,572	2,941,750	2,768,547
Other insurance liabilities	228,450	224,159	207,122
Investment contract liabilities (note 9)	375,340	379,018	377,576
Total policy liabilities	3,551,362	3,544,927	3,353,245
Notes and loans payable (note 10)	407,114	413,805	395,213
Deposits and security liabilities (note 11)	1,613,740	1,559,232	1,623,325
Provisions	72,117	80,027	101,292
Income tax liabilities	26,727	30,122	52,225
Accounts payable and accrued liabilities	263,090	246,976	204,975
Total liabilities	**5,934,150**	**5,875,089**	**5,730,275**

SAGICOR FINANCIAL CORPORATION LIMITED

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

Amounts in US $000	As of March 31, 2018 (unaudited)	As of December 31,2017 Restated (audited)	As of December 31,2016 Restated (audited)
EQUITY			
Share capital	3,059	3,059	3,029
Share premium	300,501	300,470	297,050
Reserves	(60,638)	(47,388)	(64,798)
Retained earnings	379,968	370,781	303,929
Shareholders' equity	622,890	626,922	539,210
Participating accounts	6,043	865	1,291
Non-controlling interests in subsidiaries	302,776	311,766	261,144
Total equity	**931,709**	**939,553**	**801,645**
Total liabilities and equity	**6,865,859**	**6,814,642**	**6,531,920**

These financial statements have been approved for issue by the Board of Directors on May 15, 2018.

Director

D. Miller

Director

SAGICOR FINANCIAL CORPORATION LIMITED

CONDENSED CONSOLIDATED STATEMENT OF INCOME

Amounts in US $000	Three months to March 31, 2018 (unaudited)	Three months to March 31, 2017 Restated (unaudited)
REVENUE		
Premium revenue (note 5)	220,280	206,768
Reinsurance premium expense (note 5)	(32,978)	(39,099)
Net premium revenue	187,302	167,669
Net gain/(losses) on derecognition of financial assets measured at amortised cost	32	-
Interest income earned from financial assets measured at amortised cost and FVOCI	70,174	-
Interest income earned from financial assets measured at fair value through profit and loss	4,203	-
Other investment income	4,006	91,506
Fees and other revenue	30,843	23,333
Total revenue	**296,560**	**282,508**
BENEFITS		
Policy benefits and change in actuarial liabilities (note 6)	131,762	162,931
Policy benefits and change in actuarial liabilities reinsured (note 6)	(12,041)	(38,925)
Net policy benefits and change in actuarial liabilities	119,721	124,006
Interest expense	12,371	14,346
Total benefits	**132,092**	**138,352**
EXPENSES		
Administrative expenses	70,040	69,674
Commissions and related compensation	24,824	25,385
Premium and asset taxes	7,118	6,307
Finance costs	8,621	8,347
Credit impairment losses	1,442	-
Depreciation and amortisation	5,572	5,369
Total expenses	**117,617**	**115,082**
INCOME BEFORE TAXES	**46,851**	**29,074**
Income taxes	(8,381)	(6,404)
NET INCOME FROM CONTINUING OPERATIONS	**38,470**	**22,670**

SAGICOR FINANCIAL CORPORATION LIMITED

CONDENSED CONSOLIDATED STATEMENT OF INCOME (continued)

Amounts in US $000	Three months to March 31, 2018 (unaudited)	Three months to March 31, 2017 Restated (unaudited)
Net income from continuing operations	38,470	22,670
Net income from discontinued operation (note 7)	392	4,285
NET INCOME FOR THE PERIOD	**38,862**	**26,955**
Net income is attributable to:		
Common shareholders:		
From continuing operations	19,497	12,371
From discontinued operation	392	4,285
	19,889	16,656
Participating policyholders	8,187	(289)
Non-controlling interests	10,786	10,588
	38,862	**26,955**
Basic earnings per common share:		
From continuing operations	6.4 cents	4.1 cents
From discontinued operation	0.1 cents	1.4 cents
	6.5 cents	5.5 cents
Fully diluted earnings per common share:		
From continuing operations	6.2 cents	4.0 cents
From discontinued operation	0.1 cents	1.4 cents
	6.3 cents	5.4 cents

SAGICOR FINANCIAL CORPORATION LIMITED

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in US $000	Three months to March 31, 2018 (unaudited)	Three months to March 31, 2017 Restated (unaudited)
NET INCOME FOR THE PERIOD	**38,862**	**26,955**
OTHER COMPREHENSIVE INCOME		
Items net of tax that may be reclassified subsequently to income:		
Available for sale financial assets:		
Gains on revaluation	-	7,949
Losses / (gains) transferred to income	-	4,466
Net gains on investments in debt instruments measured at FVOCI	(28,391)	-
Net (gain)/loss on financial assets measured at FVOCI reclassified to profit or loss on disposal	(3,637)	-
Net change in actuarial liabilities	13,163	(8,595)
Retranslation of foreign currency operations	(3,041)	(693)
Other items	(1)	-
	(21,907)	**3,127**
Items net of tax that will not be reclassified subsequently to income:		
Losses on revaluation of owner occupied property	-	(26)
Net gains on investments in equity instruments designated at fair value through other comprehensive income	14	-
Gains on defined benefit plans	-	2,133
	14	2,107
Other comprehensive income / (loss) for the period	**(21,893)**	**5,234**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**16,969**	**32,189**
Total comprehensive income/(loss) is attributable to:		
Common shareholders:		
From continuing operations	5,381	16,299
From discontinued operation	392	4,285
	5,773	20,584
Participating policyholders	8,160	(514)
Non-controlling interests	3,036	12,119
	16,969	**32,189**

SAGICOR FINANCIAL CORPORATION LIMITED

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amounts in US $000	**Share Capital** (unaudited)	**Share Premium** (unaudited)	**Reserves** (unaudited)	**Retained earnings** (unaudited)	**Total Shareholders' Equity** (unaudited)
Three months to March 31, 2018					
Balance at December 31, 2017	3,059	300,470	(47,482)	367,327	623,374
Prior year adjustment	-	-	94	3,454	3,548
	3,059	300,470	(47,388)	370,781	626,922
January 2018 adjustment-change on initial application of IFRS 9	-	-	(217)	(10,442)	(10,659)
Balance as restated	3,059	300,470	(47,605)	360,339	616,263
Total comprehensive income:					
From continuing operations	-	-	(14,116)	19,497	5,381
From discontinued operation	-	-	-	392	392
Transactions with holders of equity instruments:					
Movements in treasury shares	-	31	-	-	31
Changes in reserve for equity compensation benefits	-	-	1,259	-	1,259
Dividends declared	-	-	-	-	-
Transfers and other movements	-	-	(176)	(260)	(436)
Balance, end of period	**3,059**	**300,501**	**(60,638)**	**379,968**	**622,890**

SAGICOR FINANCIAL CORPORATION LIMITED

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amounts in US $000	**Total Shareholders' Equity** (unaudited)	**Participating Accounts** (unaudited)	**Non-controlling Interests** (unaudited)	**Total Equity** (unaudited)
Three months to March 31, 2018				
Balance at December 31, 2017	623,374	865	308,089	932,328
Prior year adjustment	3,548	-	3,677	7,225
	626,922	865	311,766	939,553
January 2018 adjustment-change on initial application of IFRS 9	(10,659)	(2,930)	(2,352)	(15,941)
Balance as restated	616,263	(2,065)	309,414	923,612
Total comprehensive income:				
From continuing operations	5,381	8,160	3,036	16,577
From discontinued operation	392	-	-	392
Transactions with holders of equity instruments:				
Movements in treasury shares	31	-	-	31
Changes in reserve for equity compensation benefits	1,259	-	-	1,259
Dividends declared	-	-	(10,464)	(10,464)
Transfers and other movements	(436)	(52)	790	302
Balance, end of period	**622,890**	**6,043**	**302,776**	**931,709**

SAGICOR FINANCIAL CORPORATION LIMITED

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amounts in US $000	Share Capital (unaudited)	Share Premium (unaudited)	Reserves (unaudited)	Retained earnings (unaudited)	Total Shareholders' Equity (unaudited)
Three months to March 31, 2017 Restated					
Balance, beginning of period	3,029	297,050	(64,795)	300,865	536,149
Prior period adjustment	-	-	(3)	3,064	3,061
Balance as restated	3,029	297,050	(64,798)	303,929	539,210
Total comprehensive income:					
From continuing operations	-	-	1,970	14,329	16,299
From discontinued operation	-	-	-	4,285	4,285
Transactions with holders of equity instruments:					
Movements in treasury shares	2	225	-	-	227
Changes in reserve for equity compensation benefits	-	-	1,099	-	1,099
Dividends declared	-	-	-	(7,576)	(7,576)
Transfers and other movements	-	-	438	(493)	(55)
Balance, end of period	**3,031**	**297,275**	**(61,291)**	**314,474**	**553,489**

SAGICOR FINANCIAL CORPORATION LIMITED

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Amounts in US $000	Total Shareholders' Equity (unaudited)	Participating Accounts (unaudited)	Non-controlling Interests (unaudited)	Total Equity (unaudited)
Three months to March 31, 2017 Restated				
Balance, beginning of period	536,149	1,291	257,974	795,414
Prior period adjustment	3,061	-	3,170	6,231
Balance as restated	539,210	1,291	261,144	801,645
Total comprehensive income:				
From continuing operations	16,299	(514)	12,119	27,904
From discontinued operation	4,285	-	-	4,285
Transactions with holders of equity instruments:				
Movements in treasury shares	227	-	-	227
Changes in reserve for equity compensation benefits	1,099	-	-	1,099
Dividends declared	(7,576)	-	-	(7,576)
Transfers and other movements	(55)	(54)	1	(108)
Balance, end of period	553,489	723	273,264	827,476

SAGICOR FINANCIAL CORPORATION LIMITED

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Amounts in US $000	Three months to March 31, 2018 (unaudited)	Three months to March 31, 2017 Restated (unaudited)
OPERATING ACTIVITIES		
Income before taxes	46,851	29,074
Adjustments for non-cash items, interest and dividends	(68,404)	(52,614)
Interest and dividends received	76,774	71,369
Interest paid	(24,758)	(25,876)
Income taxes paid	(11,201)	(16,443)
Net increase in investments and operating assets	(76,635)	(56,111)
Net change in operating liabilities	56,947	19,083
Net cash flows - operating activities	(426)	(31,518)
INVESTING ACTIVITIES		
Property, plant and equipment, net	(3,209)	(5,435)
Intangible assets, net	(489)	(2,426)
Net cash flows - investing activities	(3,698)	(7,861)
FINANCING ACTIVITIES		
Redemption of preference share	(1)	-
Shares issued to minority interest	43	(410)
Notes and loans payable, net	(689)	15,948
Dividends received from associates and joint ventures	120	120
Dividends paid to common shareholders	(3)	(6)
Net cash flows - financing activities	(530)	15,652
Effect of exchange rate changes	(332)	897
NET CHANGE IN CASH AND CASH EQUIVALENTS OF CONTINUING OPERATIONS	(4,986)	(22,830)
Cash and cash equivalents, beginning of period	325,726	312,106
CASH AND CASH EQUIVALENTS, END OF PERIOD (Note 13)	320,740	289,276

1. ACCOUNTING POLICIES

Basis of preparation

The condensed consolidated interim financial statements as of and for the three months ended March 31, 2018, have been prepared in accordance with IAS 34 'Interim Financial Reporting'. They do not include all of the information required for a full set of financial statements prepared in accordance with international financial reporting standards ("IFRS") and should therefore be read together with the audited consolidated financial statements of SAGICOR FINANCIAL CORPORATION LIMITED (the "Group") as at December 31, 2017 as included in the Annual Report for 2017. All accounting policies adopted and methods of computation applied in the condensed consolidated interim financial statements are the same as those applied in the 2017 audited consolidated financial statements except for IFRS 15 - 'Revenue from contracts with customers' ("IFRS 15"), and IFRS 9 – 'Financial Instruments' ("IFRS 9") as these standards became effective January 1, 2018.

The Group has not early adopted any standard or interpretation which is effective after January 1, 2018.

These condensed consolidated interim financial statements are presented in United States dollars (US$) and all values are rounded to the nearest thousand unless otherwise stated.

The amounts presented in these condensed consolidated interim financial statements as of and for the three months ended March 31, 2018 (and March 31, 2017) are unaudited.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have only also been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures.'

Set out below are disclosures relating to the impact of adoption of IFRS 9 on the Group. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are described in more detail below.

In accordance with the transition provisions in IFRS 15 the new rules have been adopted retrospectively. The Group's primary activities are insurance and banking. Insurance product revenue recognition is defined in IFRS 4 – 'Insurance Contracts'. Banking revenue primarily arises from the recognition of income on financial assets in accordance with the provisions of IFRS 9. There was no significant impact on the Group resulting from IFRS 15.

(a) Changes in accounting policies

IFRS 9 replaces IAS 39, and is effective from 1 January 2018.

IFRS 9 introduces key changes in the following areas:

- Classification and measurement - requiring asset classification and measurement based upon both business model and product characteristics.
- Impairment – introducing an expected credit loss model using forward looking information which replaces an incurred loss model.
- Hedge accounting – introducing changes to, and wider eligibility criteria to hedging of financial instruments.

The impact assessments included in this document have been estimated under an interim control environment with models that continue to undergo validation. The implementation of the comprehensive end state control environment will continue as the Group introduces business-as-usual controls throughout 2018.

Classification and measurement

IFRS 9 requires the classification of financial assets to be determined by a contractual cash flows test referred to as solely payment of principal and interest ("SPPI") and a business model test.

Financial assets that fail the SPPI test will be measured at fair value through the net income.

For assets passing the SPPI test, a business model test assesses the objective of holding the asset. The business model test for financial assets can be summarised as follows:

- Financial assets will be measured at amortised cost if they are held within a business model where the objective is to hold financial assets in order to collect contractual cash flows ("Hold to collect" business model).

- Financial assets will be measured at fair value through other comprehensive income if they are held within a business model where the objective is achieved by both collecting contractual cash flows and selling financial assets ("Hold to collect and sell" business model).

- Financial assets will be measured at fair value through net income if they do not meet the business model criteria of either "Hold to collect" or "Hold to collect and sell".

- Entities also have the option to designate a financial asset as measured at fair value through net income if doing so eliminates or significantly reduces a measurement or recognition inconsistency (accounting mismatch).

Impairment

IFRS 9 introduces a new impairment model that requires the recognition of an expected credit losses (“ECL”) on all financial assets measured at amortised cost or at fair value through other comprehensive income (other than equity instruments), lease receivables and certain loan commitments and financial guarantee contracts. The expected credit loss must also consider forward looking information to recognise impairment allowances earlier in the lifecycle of a product. IFRS 9 consequently is likely to increase the volatility of impairment allowances as the economic outlook changes, although cash flows and cash losses are expected to remain unchanged.

IFRS 9 introduces a three-stage approach to impairment as follows:

- Stage 1 - the recognition of 12 month expected credit losses, that is the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, if credit risk has not increased significantly since initial recognition;

- Stage 2 - lifetime expected credit losses for financial instruments for which credit risk has increased significantly since initial recognition; and

- Stage 3 - lifetime expected credit losses for financial instruments which are credit impaired.

In contrast, the IAS 39 impairment allowance assessment was based on an incurred loss model, and measured on assets where there was objective evidence that loss had been incurred, using information as at the balance sheet date.

2 (a) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

Reclassification

- The Group holds a small portfolio of debt instruments which failed to meet the “solely payments of principal and interest” (SPPI) test requirement for “fair value through other comprehensive income” classification under IFRS 9. These are hybrid securities with features of both debt and equity, with interest payments in shares and callable dates, but have no fixed maturity date. As a result, these instruments were classified as “fair value through profit and loss” under IFRS 9.

- The Group assessed its business model for securities within the Group’s portfolio and identified certain securities which are managed separately and actively traded for capital gains. These securities which were previously classified as available for sale and measured at “fair value through other comprehensive income” are reclassified to “fair value through profit and loss” under IFRS 9.

2 (b) Impairment of financial assets measured at amortized cost and fair value through other comprehensive income

At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) is required for ECL resulting from default events that are possible within the next 12 months (or less, where the remaining life is less than 12 months) (‘12-month ECL’). In the event of a significant increase in credit risk, allowance (or provision) 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’. Purchased or originated credit-impaired financial assets (POCI) are treated differently as set out below.

Unimpaired and without significant increase in credit risk (stage 1)

ECL resulting from default events that are possible within the next 12 months ('12-month ECL') are recognised for financial instruments that remain in stage 1.

Purchased or originated credit-impaired

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. This population includes the recognition of a new financial instrument following a renegotiation where concessions have been granted for economic or contractual reasons relating to the borrower's financial difficulty that otherwise would not have been considered. The amount of change-in-lifetime ECL is recognised in profit or loss until the POCI is derecognised, even if the lifetime ECL are less than the amount of ECL included in the estimated cash flows on initial recognition.

Movement between stages

Financial assets can be transferred between the different categories (other than POCI) depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments. Except for renegotiated loans, financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment.

Significant increase in credit risk (stage 2)

An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the risk of default occurring at the reporting date compared to that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions.

The Group uses credit ratings that reflect its assessment of the creditworthiness of a counterparty with respect to its financial obligation.

Where a security carries an external rating, the rating provided by the external rating agency is used. Securities without an external rating are assigned an internal Sagicor Risk Rate (SRR) according to the Company's internal rating model. The Sagicor Risk Rate is mapped to the external agencies and measured on the same scale.

If, at reporting, a financial asset drops out of investment grade, or if the credit rating of an asset which is in non-investment grade drops to a watch or default category from origination it is considered to have experienced a significant increase in credit risk.

Lending

Historically, the probability of default has not been calculated and the internal credit score was not regularly updated. As such there is no reliable internal quantitative measurement available. Externally there's no publication of default rate for lending products in the market. We have relied on other measurements as listed below for this assessment.

Qualitative Test

Management believes that days past due is the most suitable indicator of significant increase in credit risk for its lending portfolio. This is in line with credit management practice and internal reporting. This approach assumes that the financial instrument is considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual obligations.

Qualitative Test (continued)

Apart from days past due status, any qualitative indicator of significant increase in credit risk can trigger stage migration. These include known financial difficulty, credit issue with another account, expected forbearance or restructuring.

Backstop Criteria

30 days past due backstop is used for the lending portfolios.

Credit-impaired (stage 3)

The Group determines that a financial instrument is credit-impaired and in stage 3 by considering relevant objective evidence, primarily whether one or more of the following criteria is met:

- There is a missed contractual payment
- The borrower is more than 90 days past due on its contractual payments for issued lending products
- The borrower is unlikely to meet its financial obligation for issued lending products because

  - The borrower is in forbearance
  - The borrower is insolvent
  - The borrower is in breach of financial covenants

The criteria above have been applied to all financial instruments held by the Group and is consistent with the definition of default used for internal credit risk management purposes.

Measurement of ECL – Debt Securities

The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money.

The Group calculates ECL using three main components, a probability of default, a loss given default and the exposure at default ('EAD').

Model	**IFRS 9**
PD	• Point in time (based on current conditions, adjusted to take into account estimates of future conditions that will impact PD) • Default backstop of 90+ days past due for all portfolios
EAD	• Amortisation captured for term products
LGD	• Expected LGD (based on estimate of loss given default including the expected impact of future economic conditions such as changes in value of collateral) • Discounted using the original effective interest rate of the loan • Only costs associated with obtaining/selling collateral included.
Other	• Discounted back from point of default to balance sheet date.

Probability of Default (PD)

The model for developing a PD is based on an external data set which observed defaults over an observed period of time. The historical default analysis from Standard & Poor is used to determine the PD for the financial assets of the Sagicor Group for both corporate and sovereign debt. The data has been modelled to determine a PD based on the external rating or the equivalent internal rating. The transition matrix is then used to derive a cumulative PD.

The model assumes the external rating (or reliable internal rating) is available for borrowers in scope together with sufficient history of observed rating transitions (covering at least one credit cycle). The credit rating assigned to sovereign and corporate debt assumes a direct relationship to the financial asset's risk of default.

Loss Given Default (LGD*)*

Given the limitations of the in-house default data, the analysis for the LGD is based on recovery reports provided by Moody's which contains default and recovery statistics based on a history of ~~d~~defaults.

Management adjustments are also made in the modelling of the Loss Given Default for sovereign debt to account for factors which were not considered in the general modelling process. Within the report, several recovery rate methods are examined. The LGD used is based on ultimate recovery rates, which is the value creditors realise at the resolution of a default event.

Exposure at Default (EAD)

EAD is expected to be the amortised cost before any interest or principle payment of that period/month since it is expected that a bond holder going into default will unlikely pay the interest and principle due before default. Default is assumed to happen at the end of each period. Effective interest rate is generated from expected future cash flow, which is used to discount the expected credit loss (ECL) calculated.

Forward Looking Information

Credit losses are expected cash shortfalls from what is contractually due over the expected life of the financial instrument, discounted at the original effective interest rate. Expected credit losses are the unbiased probability-weighted credit losses determined by evaluating a range of possible outcomes and considering future economic conditions. When there is a non-linear relationship between forward looking economic scenarios and their associated credit losses, three scenarios are modelled to ensure an unbiased representative sample of the complete distribution when determining the expected loss.

The Oxford Global Economic Model provided the basis for the multi-scenario assessment used and weights of 80:10:10 (baseline, upside, downside respectively) were applied to calculate the weighted average ECL.

Economic variable assumptions

The most significant period-end assumptions used for the ECL estimate at January 1, 2018 are set out below. The base case, upside and downside were used for all portfolios.

		2018	2019	2020
Unemployment rate	Base	4.2%	4%	4.5%
(USA)	Upside	4.3%	4%	4.1%
	Downside	4.5%	4.7%	5.0%
World GDP	Base	3.70%	3.70%	3.80%
	Upside	5.55%	5.55%	5.58%
	Downside	2.75%	2.75%	2.77%
WTI Oil Prices/10	Base	6.25	5.84	5.51
	Upside	9.516	9.516	9.516
	Downside	1.961	1.961	1.961

Measurement of ECL - Lending financial assets

Three methodologies are used to determine the ECL for lending products – loss rate, cohort analysis and roll rate.

Loss rate method

The loss rate approach is used for portfolios which historically have experienced limited losses or have recorded write-off data rather than default or migration data. There have been regular write-offs each year and both experienced losses and expected losses can be easily determined. The loss rate tracks performing portfolios to see how much loss has been suffered each year.

Cohort analysis

The objective of the cohort analysis is to track the behaviour of performing loans. It takes the data from a given dataset and breaks it down into related groups for analysis. These related groups or cohorts usually share common characteristics or experiences within a defined time-span. This calculates the probability of default (PD)
Where the cohort analysis has been used the loss given default has been calculated based on collateral coverage within the current portfolio and the historical experience of collateral disposal.

Roll Rate Method

The roll rate model is used for portfolios which have limited observation periods and loss data. It measures how accounts are migrating through each delinquency bucket and calculates loss rate when balances reach 180 days past due. It then applies the loss rate to calculate ECL on a portfolio level.

Forward looking Information

Due to limited observation period and default data available, the scorecard approach was taken to determine the forward-looking factor to be applied to the lending products based on qualitative assessment. The scorecard considers the future state of different macroeconomic indicators and calculates an adjustment factor for ECL. It primarily utilises housing price, unemployment and GDP growth, and the indicators vary by region. They are weighted by their significance and five states are designed to capture a wide range of possible values for the indicators. Three distinct future macroeconomic scenarios are chosen. The base case scenario is assigned a weighting of 80% and represents the most likely outcome, whilst the upside and downside scenarios represent more optimistic and pessimistic outcomes with a weighting of 10% each. Each scenario used includes a projection of all relevant indicators for a 12-month period.

2 (c) Period over which ECL is measured

Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the Group is exposed to credit risk.

The expected credit loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent ‘step-up’ (or ‘step down’) between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

2 (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 the valuation date.

2 (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.

2 (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.

2 (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.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged and the type of hedge relationship designated.

Exchange rates

The following exchange rates were applied in these interim financial statements for the conversion of amounts to US dollars.

	Closing rate as of March 31, 2018	Closing rate as of December 31, 2017	Average rate for the Three months to March 31, 2018	Average rate for the Three months to March 31, 2017
Barbados dollar	2.0000	2.0000	2.0000	2.0000
Eastern Caribbean dollar	2.7000	2.7000	2.7000	2.7000
Jamaica dollar	125.6348	124.5754	125.3592	127.9138
Trinidad & Tobago dollar	6.7344	6.7628	6.7446	6.7408
Pound sterling	0.71260	0.74020	0.72304	0.80354

Restatements

The financial results for the three months ended March 31, 2017 have been restated from the amounts published by the Group in the report for the first quarter of 2017. All material changes are discussed below.

Effective January 1, 2018 the Group implemented a policy to harmonise its actuarial reserving practices across operational segments with respect to the recognition of mortality improvements. This change in policy was a voluntary change and was reflected as a prior period adjustment in accordance with IAS 8. The impact of this change was an increase in equity at December 31, 2016 by US $6.2 million. Net income for March 31, 2017 was increased by US $0.2 million.

Net income of the discontinued operation for March 31, 2017 and assets of the discontinued operation were increased by US $4.3 million to reflect the share of net income for 2017 attributable to the first three months of 2017.

Actuarial reserves (benefits) for the period ending March 31, 2017 was increased by US $1.6 million along with associated tax reductions of US $0.5 million. These adjustments related to various actuarial changes identified at December 2017 which were attributable to the period March 31, 2017.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Preparing the condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions, including the likelihood, timing or amount of future transactions or events, that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from the estimates made.

In preparing these condensed consolidated interim financial statements, significant judgments made by management in applying the Group's accounting policies and the key sources of estimating uncertainty were not significantly different than those made in the 2016 audited consolidated financial statements except for those judgements associated with the implementation of IFRS 9.

This note provides an overview of the areas related to IFRS 9 that involve a higher degree of judgement or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year.

Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and fair value through other comprehensive income is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 2.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

4. SEGMENTS

The Group conducts its business through three reportable operating segments.

- Sagicor Life: Engages in life and health insurance, annuities and pension administration in Barbados, Eastern Caribbean, Dutch Caribbean, Bahamas, Belize, Panamá and Trinidad and Tobago.
- Sagicor Jamaica: Engages in life and health insurance, annuities and pension administration in Jamaica, Cayman Islands and Costa Rica, and in commercial banking and investment management in Jamaica.
- Sagicor Life USA: Engages in life insurance and annuities in certain states of the USA.

There have been no changes in the reportable operating segments from 2016.

Segmented financial information is set out in the sections 4.1 to 4.4.

4.1 Statement of income from continuing operations by reportable operating segment (unaudited)

Amounts in US $000 **Three months to March 31, 2018**	**Sagicor Life**	**Sagicor Jamaica**	**Sagicor Life USA**	**Head office and other**	**Adjust-ments**	**Total**
Net premium revenue	76,627	74,496	27,460	8,719	-	187,302
Net gain/(losses) on derecognition of financials assets measured at amortised cost	-	32	-	-	-	32
Interest income	19,388	40,250	12,781	1,958	-	74,377
Other investment income	2,287	4,241	(1,726)	44	(840)	4,006
Fees and other revenue	8,034	18,975	(922)	4,761	(5)	30,843
Inter-segment revenues	3,693	-	-	587	(4,280)	-
Total revenue	**110,029**	**137,994**	**37,593**	**16,069**	**(5,125)**	**296,560**
Net policy benefits	49,411	49,367	22,575	4,208	-	125,561
Net change in actuarial liabilities	(11,637)	(1,090)	6,887	-	-	(5,840)
Interest expense	2,524	8,548	586	713	-	12,371
Administrative expenses	17,820	33,056	7,619	11,048	497	70,040
Commissions and premium and asset taxes	10,554	15,148	3,836	2,404	-	31,942
Finance costs	-	328	47	(62)	8,308	8,621
Credit impairment losses	(248)	1,805	(84)	(31)	-	1,442
Depreciation and Amortisation	1,493	2,461	702	916	-	5,572
Inter-segment expenses	1,220	502	(533)	3,592	(4,781)	-
Total benefits and expenses	**71,137**	**110,125**	**41,635**	**22,788**	**4,024**	**249,709**
Segment income before taxes	**38,892**	**27,869**	**(4,042)**	**(6,719)**	**(9,149)**	**46,851**
Income taxes	(2,900)	(6,385)	848	(226)	282	(8,381)
Net income - continuing operations	**35,992**	**21,484**	**(3,194)**	**(6,945)**	**(8,867)**	**38,470**
Net income / (loss) attributable to shareholders from continuing operations	27,805	10,550	(3,194)	(15,105)	(559)	**19,497**
Total comprehensive income / (loss) attributable to shareholders from continuing operations	26,199	3,002	(8,554)	(15,455)	189	**5,381**

4.1 Statement of income from continuing operations by reportable operating segment (unaudited) (continued)

Amounts in US $000 **Three months to March 31, 2017 Restated**	**Sagicor Life**	**Sagicor Jamaica**	**Sagicor Life USA**	**Head office and other**	**Adjust-ments**	**Total**
Net premium revenue	73,528	66,666	19,927	7,548	-	167,669
Interest income	18,932	39,049	11,769	2,179	-	71,929
Other investment income	3,175	8,762	7,155	509	(24)	19,577
Fees and other revenue	3,028	15,741	189	4,433	(58)	23,333
Inter-segment revenues	3,176	-	-	9,346	(12,522)	-
Total revenue	**101,839**	**130,218**	**39,040**	**24,015**	**(12,604)**	**282,508**
Net policy benefits	48,532	42,568	24,455	3,808	-	119,363
Net change in actuarial liabilities	4,232	1,330	(919)	-	-	4,643
Interest expense	3,513	9,655	384	794	-	14,346
Administrative expenses	16,776	35,997	7,140	9,502	259	69,674
Commissions and premium and asset taxes	10,904	14,848	3,807	2,133	-	31,692
Finance costs	-	111	11	(39)	8,264	8,347
Depreciation and Amortisation	1,644	2,184	396	1,145	-	5,369
Inter-segment expenses	1,194	263	(618)	3,143	(3,982)	-
Total benefits and expenses	**86,795**	**106,956**	**34,656**	**20,486**	**4,541**	**253,434**
Segment income before taxes	**15,044**	**23,262**	**4,384**	**3,529**	**(17,145)**	**29,074**
Income taxes	(2,048)	(2,653)	(1,535)	(163)	(5)	(6,404)
Net income - continuing operations	**12,996**	**20,609**	**2,849**	**3,366**	**(17,150)**	**22,670**
Net income / (loss) attributable to shareholders – continuing operations	13,285	10,123	2,849	(5,000)	(8,886)	**12,371**
Total comprehensive income / (loss) attributable to shareholders	15,445	11,565	5,098	(5,396)	(10,413)	**16,299**

4.2 Statement of financial position by reportable operating segment (unaudited)

Amounts in US $000	Sagicor Life	Sagicor Jamaica	Sagicor Life USA	Head office and other	Adjust-ments	Total
As of March 31, 2018						
Financial investments	1,403,810	2,306,064	1,161,110	150,385	-	5,021,369
Other external assets	368,484	518,324	839,519	176,869	(69,208)	1,833,988
Assets of discontinued operation	-	-	-	10,502	-	10,502
Inter-segment assets	241,587	13,459	3,717	62,318	(321,081)	-
Total assets	2,013,881	2,837,847	2,004,346	400,074	(390,289)	6,865,859
Policy liabilities	1,334,048	741,314	1,479,519	65,689	(69,208)	3,551,362
Other external liabilities	78,135	1,542,542	240,915	521,196	-	2,382,788
Inter-segment liabilities	28,332	4,686	51,587	236,476	(321,081)	-
Total liabilities	1,440,515	2,288,542	1,772,021	823,361	(390,289)	5,934,150
Net assets	**573,366**	**549,305**	**232,325**	**(423,287)**	**-**	**931,709**
As of December 31, 2017 Restated						
Financial investments	1,386,182	2,291,191	1,123,623	152,245	-	4,953,241
Other external assets	351,871	531,671	856,271	182,468	(70,990)	1,851,291
Assets of discontinued operation	-	-	-	10,110	-	10,110
Inter-segment assets	214,767	13,347	2,505	62,101	(292,720)	-
Total assets	1,952,820	2,836,209	1,982,399	406,924	(363,710)	6,814,642
Policy liabilities	1,296,525	757,480	1,495,300	66,612	(70,990)	3,544,927
Other external liabilities	89,643	1,507,289	194,836	538,394	-	2,330,162
Inter-segment liabilities	27,285	4,098	51,587	209,750	(292,720)	-
Total liabilities	1,413,453	2,268,867	1,741,723	814,756	(363,710)	5,875,089
Net assets	**539,367**	**567,342**	**240,676**	**(407,832)**	**-**	**939,553**

4.3 Revenues by products and services

Amounts in US $000	Three months to March 31, 2018 (unaudited)	Three months to March 31, 2017 (unaudited)
Life, health and annuity insurance contracts issued to individuals	169,515	158,034
Life, health and annuity insurance and pension administration contracts issued to groups	69,816	67,459
Property and casualty insurance	11,586	9,430
Banking, investment management and other financial services	40,001	38,867
Farming and unallocated revenues	5,642	8,718
Total revenue	**296,560**	**282,508**

4.4 Revenues by geographical area

Amounts in US $000	Three months to March 31, 2018 (unaudited)	Three months to March 31, 2017 (unaudited)
Barbados	48,538	42,526
Jamaica	131,226	121,779
Trinidad and Tobago	40,788	40,626
Other Caribbean	39,232	38,561
USA	36,776	39,016
Total revenue	**296,560**	**282,508**

5. PREMIUM REVENUE

Amounts in US $000	Gross premium		Ceded to reinsurers	
Three months to March 31,	**2018 (unaudited)**	**2017 (unaudited)**	**2018 (unaudited)**	**2017 (unaudited)**
Life insurance	108,432	99,597	7,719	7,455
Annuity	53,282	52,243	15,647	20,686
Health insurance	41,515	38,328	1,244	1,242
Property and casualty insurance	17,051	16,600	8,368	9,716
Total premium revenue	**220,280**	**206,768**	**32,978**	**39,099**

6. POLICY BENEFITS AND CHANGE IN ACTUARIAL LIABILITIES

Amounts in US $000	Gross benefit		Ceded to reinsurers	
Three months to March 31,	**2018**	**2017**	**2018**	**2017**
	(unaudited)	**(unaudited)**	**(unaudited)**	**(unaudited)**
Life insurance benefits	56,340	55,469	5,242	1,585
Annuity benefits	52,562	48,994	14,987	15,168
Health insurance benefits	32,006	28,371	(661)	44
Property and casualty claims	10,047	4,877	5,826	1,551
Total policy benefits	150,955	137,711	25,394	18,348
Change in actuarial liabilities	(19,193)	25,220	(13,353)	20,577
Total policy benefits and change in actuarial liabilities	**131,762**	**162,931**	**12,041**	**38,925**

7. DISCONTINUED OPERATION

The sale of Sagicor Europe and its subsidiaries by the Group to AmTrust Financial Services Inc. (AmTrust) was completed on December 23, 2013. The price adjustments are subject to a limit based on the terms of the agreement. During the financial period 2016 to 2018, the results are subject to further underwriting, investment and foreign currency adjustments constrained by the limit as the experience develops.

The movement in price adjustments subsequent to the sale were as follows:

Amounts in US $000	**Period to March 31, 2018 (unaudited)**
Liability of discontinued operation:	
Estimated amount payable December 31, 2016	-
Estimated experience gain for the three months ended March 2017	(4,285)
Estimated experience gain for the nine months from April 30 to December 31, 2017	(5,825)
Estimated amount receivable December 31, 2017	(10,110)
Experience loss for the three months ended March 31, 2018	-
Net currency movements to March 31, 2018	(392)
Estimated amount receivable March 31, 2018	(10,502)

8. FINANCIAL INVESTMENTS

The following table presents the carrying values and estimated fair values of financial investments.

Amounts in US $000	**March 31, 2018 (unaudited)**		**December 31, 2017**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets at fair value through other comprehensive income:				
Debt securities	2,281,712	2,281,712	2,266,275	2,266,275
Equity securities	806	806	86,862	86,862
	2,282,518	2,282,518	2,353,137	2,353,137
Financial assets at fair value through profit or loss:				
Debt securities	186,004	186,004	180,484	180,484
Equity securities	250,811	250,811	158,621	158,621
Derivative financial instruments	24,401	24,401	32,477	32,477
Mortgage loans	25,179	25,179	45,447	45,447
	486,395	486,395	417,029	417,029
Financial assets at amortised cost:				
Debt securities	1,069,168	1,169,505	1,051,683	1,155,331
Mortgage loans	314,671	313,714	296,939	296,867
Policy loans	145,672	150,357	142,132	149,995
Finance loans and finance leases	563,006	550,509	564,399	551,922
Securities purchased for re-sale	40,557	40,557	16,518	16,518
Deposits	119,382	119,382	111,404	111,404
	2,252,456	2,344,024	2,183,075	2,282,037
Total financial investments	**5,021,369**	**5,112,937**	**4,953,241**	**5,052,203**
Non-derivative financial assets at fair value through profit or loss:				
Designated at fair value upon recognition	451,834	451,834	375,917	375,917
Assets held for trading	10,160	10,160	8,635	8,635
	461,994	**461,994**	**384,552**	**384,552**

9. INVESTMENT CONTRACT LIABILITIES

The following table presents the carrying values and estimated fair values of investment contract liabilities.

Amounts in US $000	March 31, 2018 (unaudited)		December 31, 2017	
	Carrying value	**Fair Value**	**Carrying value**	**Fair value**
At amortised cost:				
Deposit administration liabilities	112,779	112,779	121,483	121,483
Other investment contracts	119,728	120,034	117,782	119,915
	232,507	232,813	239,265	241,398
At fair value through profit or loss:				
Unit linked deposit administration liabilities	142,833	142,833	139,753	139,753
Total investment contract liabilities	**375,340**	**375,646**	**379,018**	**381,151**

10. NOTES AND LOANS PAYABLE

The following table presents the carrying values and estimated fair values of notes and loans payable.

Amounts in US $000	March 31, 2018 (unaudited)		December 31, 2017	
	Carrying value	**Fair value**	**Carrying value**	**Fair Value**
8.875% senior notes due 2022	310,212	356,931	317,028	364,131
8.25% convertible redeemable preference shares due 2020	11,228	11,261	11,310	11,887
7.75% convertible redeemable preference share due 2018	5,153	5,200	5,181	5,433
4.85% notes due 2019	75,853	75,512	74,929	76,199
Finance lease payable	4,668	4,668	5,357	5,357
Total notes and loans payable	**407,114**	**453,572**	**413,805**	**463,007**

11. DEPOSIT AND SECURITY LIABILITIES

The following table presents the carrying values and estimated fair values of deposit and security liabilities.

Amounts in US $000	March 31, 2018 (unaudited)		December 31, 2017	
	Carrying value	**Fair Value**	**Carrying value**	**Fair value**
At amortised cost:				
Other funding instruments	315,884	322,314	279,874	284,980
Customer deposits	784,204	780,808	750,948	749,834
Securities sold for re-purchase	474,714	469,474	476,034	473,771
Bank overdrafts	3,668	3,668	2,568	2,568
	1,578,470	1,576,264	1,509,424	1,511,153
At fair value through profit or loss:				
Structured products	34,582	34,582	47,576	47,576
Derivative financial instruments	688	688	2,232	2,232
	35,270	35,270	49,808	49,808
Total deposit and security liabilities	**1,613,740**	**1,611,534**	**1,559,232**	**1,560,961**

12. FAIR VALUE DISCLOSURES OF ASSETS AND LIABILITIES CARRIED AT FAIR VALUE

12.1 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.

Applying the fair value hierarchy to the Group's property, results in a classification of Level 3 to all properties as set out below:

Amounts in US $000	As of March 31, 2018 (unaudited)	As of December 31, 2017
	Level 3	**Level 3**
Investment property	78,342	80,816
Owner-occupied lands	35,232	35,232
Owner-occupied land and buildings	77,467	78,465
Total properties	**191,041**	**194,513**

12. FAIR VALUE DISCLOSURES OF ASSETS AND LIABILITIES CARRIED AT FAIR VALUE (continued)

12.1 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.

	Three months to March 31, (unaudited)				December 31,
	2018	2018	2018	2018	2017
Amounts in US $000	Investment property	Owner-occupied lands	Owner-occupied land and buildings	Total	Total
Balance, beginning of period	80,816	35,232	78,465	194,513	195,702
Additions	7	-	418	425	3,175
Transfers in / (out)	-	-	-	-	(1,696)
Fair value changes recorded in net investment income	-	-	-	-	74
Fair value changes recorded in other comprehensive income	-	-	(1,027)	(1,027)	(2,227)
Depreciation	(2,500)	-	(280)	(2,780)	(1,098)
Effect of exchange rate changes	19	-	(109)	(90)	583
Balance, end of period	**78,342**	**35,232**	**77,467**	**191,041**	**194,513**

12.2 Financial instruments carried at fair value

The fair value of financial instruments is 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.

(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.

12.2 Financial instruments carried at fair value (continued)

(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 financial assets at fair value through other comprehensive income comprise primarily of 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 market yields of government instruments of similar durations in the country of issue of the instruments.

Level 3 assets designated fair value through profit or loss include mortgage loans and 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 used in determining the fair value of Level 3 instruments.

The results of applying the fair value hierarchy to the Group's financial instruments are set out in the tables below:

12.2 Financial instruments carried at fair value (continued)

Amounts in US $000	As of March 31, 2018 (unaudited)			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through other comprehensive income:				
Debt securities	641,436	1,637,779	2,497	2,281,712
Equity securities	670	-	136	806
	642,106	1,637,779	2,633	2,282,518
Investments at fair value through profit or loss:				
Debt securities	20,481	66,816	98,707	186,004
Equity securities	37,260	201,557	11,994	250,811
Derivative financial instruments	-	688	23,713	24,401
Mortgage loans	-	-	25,179	25,179
	57,741	269,061	159,593	486,395
Total assets	**699,847**	**1,906,840**	**162,226**	**2,768,913**
Total assets by percentage	25%	69%	6%	100%
Investment contracts:				
Unit linked deposit administration liabilities	-	-	142,833	142,833
Deposit and security liabilities:				
Structured products	-	-	34,582	34,582
Derivative financial instruments	-	688	-	688
	-	688	34,582	35,270
Total liabilities	**-**	**688**	**177,415**	**178,103**
Total liabilities by percentage	0%	0%	100%	100%

Transfers from Level 1 to Level 2 in the three months ended March 31, 2018 - Nil.

12.2 Financial instruments carried at fair value (continued)

Amounts in US $000	As of December 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through other comprehensive income:				
Debt securities	653,516	1,610,263	2,496	2,266,275
Equity securities	23,314	53,167	10,381	86,862
	676,830	1,663,430	12,877	2,353,137
Investments at fair value through profit or loss:				
Debt securities	19,185	62,542	98,757	180,484
Equity securities	14,269	144,352	-	158,621
Derivative financial instruments	-	2,232	30,245	32,477
Mortgage loans	-	-	45,447	45,447
	33,454	209,126	174,449	417,029
Total assets	**710,284**	**1,872,556**	**187,326**	**2,770,166**
Total assets by percentage	26%	68%	6%	100%
Investment contracts:				
Unit linked deposit administration liabilities	-	-	139,753	139,753
Deposit and security liabilities:				
Structured products	-	-	47,576	47,576
Derivative financial instruments	-	2,232	-	2,232
	-	2,232	47,576	49,808
Total liabilities	**-**	**2,232**	**187,329**	**189,561**
Total liabilities by percentage	0%	1%	99%	100%

The transfer from Level 1 to Level 2 in 2017 was nil.

For Level 3 instruments, reasonable changes in inputs which could be applied to the valuation of fair value through other comprehensive income securities would affect other comprehensive income. Reasonable changes in inputs which could be applied to the valuations of investments 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 movements in Level 3 instruments for the period.

12.2 Financial instruments carried at fair value (continued)

	Three months to March 31,				December 31,
	2018 (unaudited)	**2018 (unaudited)**	**2018 (unaudited)**	**2018 (unaudited)**	**2017**
Amounts in US $000	**Financial assets at fair value through other comprehensive income**	**Investments at fair value through profit or loss**	**Derivative financial instruments**	**Total assets**	**Total assets**
Balance, beginning of period	12,877	144,204	30,245	187,326	176,342
Reclassification on initial application of IFRS 9	(9,036)	(10,641)	-	(19,677)	-
Additions	-	5,190	3,986	9,176	78,882
Fair value changes recorded in net investment income	-	(375)	(1,520)	(1,895)	21,044
Fair value changes recorded in other comprehensive income	1	-	-	1	(98)
Disposals	(1,207)	(2,860)	(8,998)	(13,065)	(87,814)
Transfer (out of) Level 3 classification	-	-	-	-	(16)
Effect of exchange rate changes	(2)	362	-	360	(1,014)
Balance, end of period	**2,633**	**135,880**	**23,713**	**162,226**	**187,326**
Fair value changes recorded in net investment income for instruments held at the end of the period	-	(355)	(2,028)	(2,383)	11,587

12.2 Financial instruments carried at fair value (continued)

	Three months to March 31,			December 31,
	2018 (unaudited)	2018 (unaudited)	2018 (unaudited)	2017
Amounts in US $000	Policy liabilities	Structured products	Total liabilities	Total liabilities
Balance, beginning of period	139,753	47,576	187,329	165,447
Issues	4,553	-	4,553	44,185
Settlements	(1,743)	(10,267)	(12,010)	(28,256)
Fair value changes recorded within interest expense	(326)	-	(326)	125
Transfers to/(from) instruments carried at amortised cost	-	(2,759)	(2,759)	3,682
Effect of exchange rate changes	596	32	628	2,146
Balance, end of period	**142,833**	**34,582**	**177,415**	**187,329**
Fair value changes recorded in interest expense for instruments held at the end of the period	(326)	-	(326)	125

13. CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents comprise:

Amounts in US $000	March 31, 2018 (unaudited)	March 31, 2017 (unaudited)
Cash resources	219,532	227,741
Call deposits and other liquid balances	125,752	117,617
Bank overdrafts	(3,668)	(351)
Other short-term borrowings	(20,876)	(55,731)
	320,740	289,276

14. IMPACT OF NEW STANDARDS AND PRIOR PERIOD ADJUSTMENT ON FINANCIAL STATEMENTS

Amounts in US $000	**December 31, 2017 as originally Presented** (audited)	**IAS 8** (unaudited)	**December 31, 2017 Restated** (unaudited)	**IFRS 9** (unaudited)	**January 1, 2018 Restated** (unaudited)
ASSETS					
Investment property	80,816		80,816		80,816
Property, plant and equipment	165,560		165,560		165,560
Associates and joint ventures	97,223		97,223		97,223
Intangible assets	81,714		81,714		81,714
Financial investments (note 8)	4,953,241		4,953,241	(16,177)	4,937,064
Reinsurance assets	797,391		797,391		797,391
Income tax assets	39,980		39,980	284	40,264
Miscellaneous assets and receivables	228,543		228,543	(48)	228,495
Cash resources	360,064		360,064		360,064
Assets of the discontinued Operation	10,110		10,110		10,110
Total assets	**6,814,642**		**6,814,642**	**(15,941)**	**6,798,701**
LIABILITIES					
Actuarial liabilities	2,950,820	(9,070)	2,941,750		2,941,750
Other insurance liabilities	224,159		224,159		224,159
Investment contract liabilities (note 9)	379,018		379,018		379,018
Total policy liabilities	3,553,997	(9,070)	3,544,927	-	3,554,927
Notes and loans payable (note 10)	413,805		413,805		413,805
Deposits and security liabilities (note 11)	1,559,232		1,559,232		1,559,232
Provisions	80,027		80,027		80,027
Income tax liabilities	28,277	1,845	30,122		30,122
Accounts payable and accrued liabilities	246,976		246,976		246,976
Total liabilities	**5,882,314**	**(7,225)**	**5,875,089**	**-**	**5,875,089**

14. IMPACT OF NEW STANDARDS AND PRIOR PERIOD ADJUSTMENT ON FINANCIAL STATEMENTS (continued)

Amounts in US $000	December 31, 2017 as originally presented (audited)	IAS 8 (unaudited)	December 31, 2017 Restated (unaudited)	IFRS 9 (unaudited)	January 1, 2018 Restated (unaudited)
EQUITY					
Share capital	3,059		3,059		3,059
Share premium	300,470		300,470		300,470
Reserves	(47,482)	94	(47,388)	(217)	(47,605)
Retained earnings	367,327	3,454	370,781	(10,442)	360,339
Shareholders' equity	623,374	3,548	626,922	(10,659)	616,263
Participating accounts	865		865	(2,930)	(2,065)
Non-controlling interests in subsidiaries	308,089	3,677	311,766	(2,352)	309,414
Total equity	**932,328**	**7,225**	**939,553**	**(15,941)**	**923,612**
Total liabilities and equity	**6,814,642**	**-**	**6,814,642**	**(15,941)**	**6,798,701**

14. IMPACT OF PRIOR PERIOD ADJUSTMENT ON FINANCIAL STATEMENTS

Amounts in US $000	March 31, 2017 as originally presented (unaudited)	IAS 8 (unaudited)	March 31, 2017 Restated (unaudited)
REVENUE			
Premium revenue (note 5)	206,768		206,768
Reinsurance premium expense (note 5)	(39,099)		(39,099)
Net premium revenue	167,669	-	167,669
Net gain/(losses) on derecognition of financial assets measured at amortised cost	-		-
Interest income earned from financial assets measured at amortised cost and FVOCI	-		-
Interest income earned from financial assets measured at fair value through profit and loss	-		-
Other investment income	91,506		91,506
Fees and other revenue	23,333		23,333
Total revenue	**282,508**	**-**	**282,508**
BENEFITS			
Policy benefits and change in actuarial liabilities (note 6)	161,759	1,172	162,931
Policy benefits and change in actuarial liabilities reinsured (note 6)	(38,925)		(38,925)
Net policy benefits and change in actuarial liabilities	122,834	1,172	124,006
Interest expense	14,346		14,346
Total benefits	**137,180**	**1,172**	**138,352**

14. IMPACT OF PRIOR PERIOD ADJUSTMENT ON FINANCIAL STATEMENTS (continued)

Amounts in US $000	March 31, 2017 as originally presented (unaudited)	IAS 8 (unaudited)	March 31, 2017 Restated (unaudited)
EXPENSES			
Administrative expenses	69,674		69,674
Commissions and related compensation	25,385		25,385
Premium and asset taxes	6,307		6,307
Finance costs	8,347		8,347
Credit impairment losses	-		-
Depreciation and amortisation	5,369		5,369
Total expenses	**115,082**	**-**	**115,082**
INCOME BEFORE TAXES	**30,246**	**(1,172)**	**29,074**
Income taxes	(6,872)	468	(6,404)
NET INCOME FROM CONTINUING OPERATIONS	23,374	(704)	22,670
Net income from discontinued operation (note 5)	-	4,285	4,285
NET INCOME FOR THE PERIOD	**23,374**	**3,581**	**26,955**
Net income is attributable to:			
Common shareholders:			
From continuing operations	13,256	(885)	12,371
From discontinued operation	-	4,285	4,285
	13,256	**3,400**	**16,656**
Participating policyholders	(289)	**-**	**(289)**
Non-controlling interests	10,407	181	10,588
	23,374	**3,581**	**26,955**

14. IMPACT OF PRIOR PERIOD ADJUSTMENT ON FINANCIAL STATEMENTS

Amounts in US $000	**December 31, 2016 as originally presented** (audited)	**IAS 8** (unaudited)	**December 31, 2016 Restated** (unaudited)
ASSETS			
Investment property	80,662		80,662
Property, plant and equipment	167,723		167,723
Associates and joint ventures	87,293		87,293
Intangible assets	83,487		83,487
Financial investments	4,813,748		4,813,748
Reinsurance assets	777,344		777,344
Income tax assets	59,575		59,575
Miscellaneous assets and receivables	183,018		183,018
Cash resources	279,070		279,070
Assets of the discontinued operation	-		-
Total assets	**6,531,920**	**-**	**6,531,920**
LIABILITIES			
Actuarial liabilities	2,776,362	(7,815)	2,768,547
Other insurance liabilities	207,122		207,122
Investment contract liabilities	377,576		377,576
Total policy liabilities	3,361,060	(7,815)	3,353,245
Notes and loans payable	395,213		395,213
Deposits and security liabilities	1,623,325		1,623,325
Provisions	101,292		101,292
Income tax liabilities	50,641	1,584	52,225
Accounts payable and accrued liabilities	204,975		204,975
Total liabilities	**5,736,506**	**(6,231)**	**5,730,275**

14. IMPACT OF PRIOR PERIOD ADJUSTMENT ON FINANCIAL STATEMENTS (continued)

Amounts in US $000	December 31, 2016 as originally presented (audited)	IAS 8 (unaudited)	December 31, 2016 Restated (unaudited)
EQUITY			
Share capital	3,029		3,029
Share premium	297,050		297,050
Reserves	(64,795)	(3)	(64,798)
Retained earnings	300,865	3,064	303,929
Shareholders' equity	536,149	3,061	539,210
Participating accounts	1,291		1,291
Non-controlling interests in subsidiaries	257,974	3,170	261,144
Total equity	**795,414**	**6,231**	**801,645**
Total liabilities and equity	**6,531,920**	**-**	**6,531,920**