

CHAIRMAN'S REVIEW

The Sagicor Group delivered strong operational performance for financial year 2018. Each business segment grew their revenue, and each delivered positive net income, in spite of significant one-time items, in particular the restructuring of the Government of Barbados debt (GoB). We are pleased with our performance in the face of these challenges.

Total revenue increased 22% to US \$1,484.3 million, compared to the prior year amount of US \$1,218.6 million, an increase of US \$265.7 million. All segments experienced year on year growth. The largest single source of revenue growth was increased premiums in the USA segment driven by a strategic direction to increase production and to cease reinsurance and retain 100% of production starting in Q2 2018. In addition, fee income grew significantly in the Jamaican segment due in part to growth in investment banking business.

Group net income was US \$103.0 million, compared to US \$115.9 million in the prior year. Net income attributable to shareholders was US \$43.7 million, compared to US \$72.4 million in the prior year, a reduction of US \$28.7 million. Both Group net income and net income attributable to shareholders were affected by the GoB restructuring. Management estimates that absent the GoB restructuring, net income attributable to shareholders would have been US \$82.9 million, representing growth of 15%.

Benefits were US \$765.3 million, compared to US \$659.4 million for the prior year, an increase of 16%. The growth in benefits (which include actuarial provisions for future benefits) reflects and is consistent with our revenue growth.

Expenses were US \$590.7 million, compared to US \$436.4 million for the prior year, driven in part by US \$95.5 million of credit impairment provisions, which were partially offset by positive change in actuarial liabilities related to restructured debt. Administrative expenses grew 13% to US \$303.1 million, as the company incurred one-time costs related to its ongoing transaction with Alignvest Acquisition II Corporation. Commissions and related compensation grew 19% to US \$117.3 million, in line with growth in premiums.

Income taxes were US \$50.7 million. This compared to US \$19.3 million in the prior year when the Company had a one-time tax benefit of US \$14.2 million in the USA segment arising from the Tax Cuts and Jobs Act. The remaining increase in taxes resulted from growth in taxable lines of business.

Group comprehensive income was US \$38.9 million, compared to US \$180.1 million for the prior year, a decrease of US \$141.2 million. Group comprehensive income in 2018 included the provision for GoB debt restructuring and management estimates that group comprehensive income would have been US \$87.7 million without such restructuring. Group comprehensive income in 2017 also benefited from significant gains on available for sale assets and retranslation of foreign currency assets, both of which reversed to losses in 2018.

Group assets were US \$7.3 billion and Group liabilities were US \$6.2 billion, resulting in Group equity of US \$1.1 billion, compared to US \$0.9 billion in the prior year. Shareholders' equity was US \$600.9 million, compared to US \$624.6 million for the prior year.

The Group's debt was US \$490.3 million, with a debt to capital ratio of 30.2%, compared to 30.6% for the prior year. The increase in the Group's debt is related to the debt of the Sagicor X Fund Group, which remains unchanged, but is now consolidated onto our balance sheet.

Sagicor has fully provisioned for the exchange of GoB debt as agreed with the Government of Barbados. On September 7, 2018 the Government of Barbados (GoB) entered into a Staff-Level Agreement with the International Monetary Fund (IMF) to provide financial and technical assistance. As part of the programme, the GoB announced on October 15, 2018 that its Exchange Offer received unanimous support from the domestic creditors including Sagicor. The Sagicor Group has made a gross provision of US \$ 98.8 million and took a charge, net of offsetting adjustments, of US \$ 48.8 million attributable to shareholders.

During the year the Sagicor Group adopted two new accounting standards which became effective from January 1, 2018: IFRS 15, Revenue from Contracts with Customers which affects how income is recognised on contracts by companies, and IFRS 9, Financial Instruments. IFRS 9 changes the way that financial instruments are recognised and measured. The standard introduces new measurement categories for financial instruments and an expected, instead of an incurred, credit loss model for impairment. In addition, our subsidiary, Sagicor Group Jamaica, was deemed to have effective control of Sagicor X Fund Group from October 1, 2018 based on its shareholding and influence and from that date has accounted for Sagicor X Fund as a subsidiary as required by IFRS 10. This change has resulted in the operations, results and balance sheet of Sagicor X Fund Group being included within the financial statements. This has the effect of increasing assets and debt on our consolidated balance sheet, including a significant increase in non-controlling interests in subsidiaries.

The discontinued operations represent our UK business, which was sold in 2013. During 2018 there were positive developments in this exposure which resulted in net income of US \$7.1 million. At close of the year the company carried a receivable of US \$17.2 million in respect of this business which was settled by a cash payment to us in February 2019 to fully close off our exposure to this business.

Sagicor voluntarily adopted Canadian risk based capital and reserving standards in 1991. The capital ratio, "Minimum Continuing Capital and Surplus Requirements" (MCCSR) seeks to demonstrate to stakeholders the financial strength of the company. Canadian regulators expected insurance companies to maintain an MCCSR ratio of 150% and Sagicor has consistently maintained a ratio above 200%. As at the end of the year our MCCSR Ratio was 234%.

Sagicor is rated on an annual basis by AM Best, Standard and Poor's Global Ratings, and Fitch Ratings. We have been rated by AM Best since 1998, S&P since 2006 and Fitch since 2015. These ratings are an independent measure of our financial strength. The current ratings are as follows:

- S&P - BB- stable
- Fitch - BB- stable

On November 27, 2018, Sagicor Group announced that it had entered into a transformative transaction with Alignvest Acquisition II Corporation (Alignvest) which heralds in yet another significant milestone in our long and storied history. Through this transaction, Sagicor will acquire a listing on the Toronto Stock Exchange, where we will have international exposure, greater access to capital to fund growth and be exposed to proper price discovery for its shares, providing an opportunity to unlock fair value for all shareholders. At the same time, Sagicor also announced that Sagicor and Alignvest will acquire Scotiabank's life insurance operations in Jamaica and in Trinidad & Tobago. The completion of the transaction with Alignvest is expected in the second half of 2019, subject shareholders' approval and customary regulatory approvals.

On behalf of the Board of Sagicor, I wish to thank our shareholders, staff, agents and customers for their continued support.



Stephen McNamara
Chairman
April 18, 2019

FINANCIAL HIGHLIGHTS <i>(in US Currency except percentages)</i>	Year ended December 31	
	2018	2017
Total revenue	\$1,484.3m	\$1,218.6m
Overall Group net income	\$103.0m	\$115.9m
Overall shareholders' net income	\$43.7m	\$72.4m
Net income allocated to non-controlling interests	\$52.1m	\$44.5m
Total equity	\$1,135.5m	\$937.2m
Book Value per share	\$1.96	\$2.04
Ratio of Debt to Capital	30.2%	30.6%
Earnings per common share	11.9¢	20.5¢
Annualised return to common shareholders' equity	6.2%	11.3%

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2018


Amounts expressed in US\$000

	2018	2017 restated	January 1, 2017 restated
ASSETS			
Investment property	93,494	80,816	80,662
Property, plant and equipment	262,288	165,560	167,723
Associates and joint ventures	236,132	97,223	87,293
Intangible assets	97,312	81,714	83,487
Financial investments	5,347,663	4,953,241	4,813,748
Reinsurance assets	714,597	797,391	777,344
Income tax assets	54,365	39,980	59,575
Miscellaneous assets and receivables	143,647	228,543	183,018
Cash resources	358,687	360,064	279,070
Assets of discontinued operation	17,239	10,110	-
Total assets	7,325,424	6,814,642	6,531,920
LIABILITIES			
Actuarial liabilities	3,024,464	2,944,700	2,771,824
Other insurance liabilities	247,577	224,159	207,122
Investment contract liabilities	390,397	379,018	377,576
Total policy liabilities	3,662,438	3,547,877	3,356,522
Notes and loans payable	490,275	413,805	395,213
Deposit and security liabilities	1,674,033	1,559,232	1,623,325
Provisions	74,287	80,027	101,292
Income tax liabilities	48,236	29,502	51,078
Accounts payable and accrued liabilities	240,694	246,976	204,975
Total liabilities	6,189,963	5,877,419	5,732,405
Share capital	3,061	3,059	3,029
Share premium	300,665	300,470	297,050
Reserves	(76,995)	(47,388)	(64,798)
Retained earnings	374,138	368,451	301,799
Total shareholders' equity	600,869	624,592	537,080
Participating accounts	4,078	865	1,291
Non-controlling interests in subsidiaries	530,514	311,766	261,144
Total equity	1,135,461	937,223	799,515
Total liabilities and equity	7,325,424	6,814,642	6,531,920

These financial statements have been approved for issue by the Board of Directors on April 18, 2019.



Director



Director

CONSOLIDATED STATEMENT OF INCOME

Year ended December 31, 2018

Amounts expressed in US\$000

	2018	2017 restated
REVENUE		
Premium revenue	1,141,429	898,354
Reinsurance premium expense	(87,388)	(152,722)
Net premium revenue	1,054,041	745,632
Gain on derecognition of amortised cost investments	10,434	-
Gain reclassified to income from accumulated OCI	9,339	-
Net investment income	295,965	379,236
Fees and other revenue	114,482	93,740
Total revenue	1,484,261	1,218,608
BENEFITS		
Policy benefits and change in actuarial liabilities	728,360	719,320
Policy benefits and change in actuarial liabilities reinsured	(15,555)	(114,839)
Net policy benefits and change in actuarial liabilities	712,805	604,481
Interest costs	52,521	54,949
Total benefits	765,326	659,430
EXPENSES		
Administrative expenses	303,071	267,427
Commissions and related compensation	117,316	98,749
Premium and asset taxes	13,956	13,569
Finance costs	36,511	34,746
Credit impairment losses	95,519	-
Depreciation and amortisation	24,277	21,871
Total expenses	590,650	436,362
OTHER		
Gain arising on business combinations, acquisitions and divestitures	18,238	2,261
INCOME BEFORE TAXES	146,523	125,077
Income taxes	(50,702)	(19,313)
NET INCOME FROM CONTINUING OPERATIONS	95,821	105,764
Net income from discontinued operation	7,129	10,110
NET INCOME FOR THE YEAR	102,950	115,874
Net income/(loss) is attributable to:		
Common shareholders:		
From continuing operations	36,521	62,313
From discontinued operation	7,129	10,110
	43,650	72,423
Participating policyholders	7,222	(1,044)
Non-controlling interests	52,078	44,495
	102,950	115,874
Basic earnings per common share:		
From continuing operations	11.9 cents	20.5 cents
From discontinued operation	2.3 cents	3.3 cents
	14.2 cents	23.8 cents
Fully diluted earnings per common share:		
From continuing operations	11.7 cents	20.0 cents
From discontinued operation	2.3 cents	3.2 cents
	14.0 cents	23.2 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31, 2018

Amounts expressed in US\$000

	2018	2017 restated
OTHER COMPREHENSIVE INCOME		
Items net of tax that may be reclassified subsequently to income:		
Financial assets measured at fair value through other comprehensive income (FVOCI):		
(Losses) on revaluation	(82,864)	-
Losses / (gains) transferred to income	(1,891)	-
Available for sale assets:		
Gains on revaluation	-	62,577
(Gains) transferred to income	-	(12,259)
Net change in actuarial liabilities	41,614	(18,152)
Retranslation of foreign currency operations	(25,185)	9,920
	(68,326)	42,086
Items net of tax that will not be reclassified subsequently to income:		
Gains / (losses) on revaluation of owner-occupied property	6,894	(1,759)
Gains / (losses) on equity securities designated at fair value through other comprehensive income	73	-
Gains / (losses) on defined benefit plans	(2,685)	23,914
	4,282	22,155
OTHER COMPREHENSIVE INCOME / (LOSS) FROM CONTINUING OPERATIONS	(64,044)	64,241
TOTAL COMPREHENSIVE INCOME		
Net income	102,950	115,874
Other comprehensive income / (loss)	(64,044)	64,241
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	38,906	180,115
Total comprehensive income / (loss) is attributable to:		
Common shareholders:		
From continuing operations	2,917	96,436
From discontinued operation	7,129	10,110
	10,046	106,546
Participating policyholders	6,356	(210)
Non-controlling interests	22,504	73,779
	38,906	180,115

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended December 31, 2018

Amounts expressed in US\$000

	Share Capital	Share Premium	Reserves	Retained Earnings	Total Shareholders' Equity	Participating Accounts	Non-controlling Interests	Total Equity
2018								
Balance, December 31, 2017 as reported previously	3,059	300,470	(47,482)	367,327	623,374	865	308,089	932,328
Prior year adjustment to actuarial liabilities	-	-	94	1,124	1,218	-	3,677	4,895
Balance, December 31, 2017 as restated	3,059	300,470	(47,388)	368,451	624,592	865	311,766	937,223
Transition adjustment on adoption of IFRS 9	-	-	(217)	(10,442)	(10,659)	(2,930)	(2,352)	(15,941)
Balance, January 1, 2018	3,059	300,470	(47,605)	358,009	613,933	(2,065)	309,414	921,282
Total comprehensive income from continuing operations	-	-	(29,634)	32,551	2,917	6,356	22,504	31,777
Total comprehensive income from discontinued operation	-	-	-	7,129	7,129	-	-	7,129
Transactions with holders of equity instruments:								
Movements in treasury shares	2	195	-	-	197	-	-	197
Changes in reserve for equity compensation benefits	-	-	(787)	-	(787)	-	(28)	(815)
Dividends declared	-	-	-	(15,300)	(15,300)	-	(18,554)	(33,854)
Acquisition/disposal of subsidiary and insurance business	-	-	-	-	-	-	222,755	222,755
Changes in ownership interest in subsidiaries	-	-	-	(3,092)	(3,092)	-	(9,581)	(12,673)
Disposal of interest in subsidiaries	-	-	(935)	935	-	-	(2,221)	(2,221)
Transfers and other movements	-	-	1,966	(6,094)	(4,128)	(213)	6,225	1,884
Balance, December 31, 2018	3,061	300,665	(76,995)	374,138	600,869	4,078	530,514	1,135,461
2017								
Balance, December 31, 2016 as reported previously	3,029	297,050	(64,795)	300,865	536,149	1,291	257,974	795,414
Prior year adjustment to actuarial liabilities	-	-	(3)	934	931	-	3,170	4,101
Balance, December 31, 2016 as restated	3,029	297,050	(64,798)	301,799	537,080	1,291	261,144	799,515
Total comprehensive income from continuing operations	-	-	21,537	74,899	96,436	(210)	73,779	170,005
Total comprehensive income from discontinued operation	-	-	-	10,110	10,110	-	-	10,110
Transactions with holders of equity instruments:								
Allotments of common shares	21	2,021	-	-	2,042	-	-	2,042
Movements in treasury shares	9	1,399	-	-	1,408	-	-	1,408
Changes in reserve for equity compensation benefits	-	-	(6,270)	-	(6,270)	-	(75)	(6,345)
Dividends declared	-	-	-	(15,216)	(15,216)	-	(19,861)	(35,077)
Transfers and other movements	-	-	2,143	(3,141)	(998)	(216)	(3,221)	(4,435)
Balance, December 31, 2017 as restated	3,059	300,470	(47,388)	368,451	624,592	865	311,766	937,223

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 2018

Amounts expressed in US\$000

	2018	2017 restated		2018	2017 restated
OPERATING ACTIVITIES			FINANCING ACTIVITIES		
Income before taxes	146,523	125,077	Movement in treasury shares	(202)	(203)
Adjustments for non-cash items, interest and dividends	65,655	(111,849)	Redemption of SFC preference shares	(1)	-
Interest and dividends received	303,371	305,810	Shares issued to / (purchased from) non-controlling interests	1,967	(5,504)
Interest paid	(89,029)	(83,627)	Changes in ownership of subsidiaries	(12,673)	-
Income taxes paid	(31,720)	(43,352)	Notes and loans payable, net	(6,134)	16,182
Net increase in investments and operating assets	(580,553)	(157,602)	Dividends paid to common shareholders	(14,959)	(14,950)
Net increase in operating liabilities	232,016	(45,282)	Dividends paid to non-controlling interests	(19,337)	(19,861)
Net cash flows - operating activities	46,263	(10,825)	Net cash flows - financing activities	(51,339)	(24,336)
INVESTING ACTIVITIES			Effects of exchange rate changes	(3,672)	1,875
Property, plant and equipment, net	(326)	(13,385)	NET CHANGE IN CASH AND CASH EQUIVALENTS - CONTINUING OPERATIONS	(16,788)	(49,434)
Associates and joint ventures, net	(146)	(6,908)	Cash and cash equivalents, beginning of year	338,349	387,783
Dividends received from associates and joint ventures	600	2,561	CASH AND CASH EQUIVALENTS, END OF YEAR	321,561	338,349
Purchase of intangible assets	(4,795)	(6,182)			
Changes in subsidiary and associate holdings, net of cash and cash equivalents	10,422	7,766			
Sale of subsidiaries, net	(13,795)	-			
Net cash flows - investing activities	(8,040)	(16,148)			

