

SAGICOR FINANCIAL CORPORATION LIMITED

Interim Financial Statements

Six-months ended June 30, 2019



SAGICOR FINANCIAL CORPORATION LIMITED

FINANCIAL RESULTS

FOR THE SIX MONTHS ENDED JUNE 30, 2019

CHAIRMAN'S STATEMENT

The Sagicor Group maintained a solid performance for the first six months to June 30, 2019. Group net income closed the period at US \$58.4 million against a prior year result of US \$39.4 million. Net income attributable to shareholders from continuing operations was US \$26.2 million compared to the prior year result of US \$21.5 million. Net income to shareholders from continuing operations in 2018 included the impact of a provision on the Government of Barbados Debt and was partially offset by certain one-time positive earnings releases.

Total revenue for the Group amounted to US \$992.8 million, against a prior year amount of US \$633.3 million, an increase of US \$359.5 million or 57%. Revenue growth was driven primarily by the USA business segment which generated premium growth, amplified by our strategic decision to cease reinsuring its premiums to third parties. Revenues continue to grow year over year in the Sagicor Jamaica and Sagicor Life business segments as well.

Benefits including change in actuarial liabilities for future benefits were US \$639.7 million, compared to US \$298.4 million for the previous year and was consistent with the growth in premium income. Expenses including credit impairment losses were US \$268.3 million, compared to US \$286.9 million for the same period in the prior year, a decrease of 6%. Expenses in the prior year included credit impairment losses of US \$57.8 million, largely related to the impairment of the Government of Barbados debt. Current year expenses included the impact of higher commissions related to sales growth in the USA segment.

Group comprehensive income was US \$102.0 million, compared to a loss of US \$17.0 million for the prior year. Shareholder comprehensive income from continuing operations was US \$57.5 million, compared to a loss of US \$13.0 million for the prior year. The Group continues to benefit from significant net gains on investments measured at Fair Value through Other Comprehensive Income. Losses incurred on the retranslation of foreign currency operations reduced this year when compared to the previous year.

In the statement of financial position as at June 30, 2019, assets amounted to US \$7.9 billion, and liabilities amounted to US \$6.6 billion. Group equity was US \$1,224.7 million, compared to US \$1,135.5 million at December 31, 2018. Shareholders' equity was US \$658.6 million, compared to US \$600.9 million at December 31, 2018. The Group's debt was US \$473.9 million with a debt to capital ratio of 27.9%, compared to 30.2% at December 31, 2018.

On June 4, our shareholders overwhelmingly approved the previously announced transaction with Alignvest Acquisition II Corporation ("AQY"), with 99.5% of shares voting in favour of the transaction. Our shareholders showed further support by electing to receive an aggregate of approximately US \$20 million in cash consideration out of the maximum available US \$205 million we offered to them. As a result, the vast majority of Sagicor's shareholders will continue to retain their investment in Sagicor post the transaction.

Following completion of the Transaction, which is expected to close in the fourth quarter of 2019 subject to customary regulatory approvals, it is expected that Sagicor will retain over US \$420 million of net cash from the transaction, leaving our company exceptionally well capitalized for future growth.

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

Stephen McNamara
Chairman
August 9, 2019

FINANCIAL HIGHLIGHTS <i>(in US Currency except percentages)</i>	Six months ended JUNE 30	
	2019	2018
Total revenue	\$992.8m	\$633.3m
Overall Group net income	\$58.4m	\$39.4m
Overall shareholders' net income	\$26.7m	\$24.9m
Net income allocated to non-controlling interests	\$31.0m	\$22.8m
Total equity	\$1,224.7m	\$889.0m
Book Value per share	\$2.15	\$1.95
Ratio of Debt to Capital	27.9%	31.7%
Earnings per common share from continuing operations	8.5¢	7.0¢
Annualised return to common shareholders' equity	8.5%	7.2%

SAGICOR FINANCIAL CORPORATION LIMITED
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<u>Amounts in US \$000</u>	As of June 30, 2019 (unaudited)	As of December 31, 2018 (audited)
ASSETS		
Investment property	92,545	93,494
Property, plant and equipment	278,235	262,288
Associates and joint ventures	243,632	236,132
Intangible assets	91,723	97,312
Financial investments (note 9)	5,870,127	5,347,663
Reinsurance assets	737,059	714,597
Income tax assets	35,112	54,365
Miscellaneous assets and receivables	156,706	143,647
Cash resources	356,572	358,687
Assets of discontinued operation (note 8)	-	17,239
Total assets	7,861,711	7,325,424
LIABILITIES		
Actuarial liabilities	3,440,871	3,024,464
Other insurance liabilities	244,613	247,577
Investment contract liabilities (note 10)	420,993	390,397
Total policy liabilities	4,106,477	3,662,438
Notes and loans payable (note 11)	473,915	490,275
Lease liabilities (note 16)	18,283	-
Deposits and security liabilities (note 12)	1,695,474	1,674,033
Provisions	66,324	74,287
Income tax liabilities	40,592	48,236
Accounts payable and accrued liabilities	235,969	240,694
Total liabilities	6,637,034	6,189,963
EQUITY		
Share capital	3,062	3,061
Share premium	300,635	300,665
Reserves	(38,757)	(76,995)
Retained earnings	393,665	374,138
Total shareholders' equity	658,605	600,869
Participating accounts	3,605	4,078
Non-controlling interests in subsidiaries	562,467	530,514
Total equity	1,224,677	1,135,461
Total liabilities and equity	7,861,711	7,325,424

These financial statements have been approved for issue by the Board of Directors on August 9, 2019.


 Director


 Director

The accompanying notes form an integral part of these financial statements.

SAGICOR FINANCIAL CORPORATION LIMITED
CONDENSED CONSOLIDATED STATEMENT OF INCOME

	Six months to June 30, 2019 (unaudited)	Six months to June 30, 2018 (unaudited)	Three months to June 30, 2019 (unaudited)	Three months to June 30, 2018 (unaudited)
<u>Amounts in US \$000</u>				
REVENUE				
Premium revenue (note 5)	715,413	461,327	332,356	241,047
Reinsurance premium expense (note 5)	(37,643)	(51,297)	(19,645)	(18,319)
Net premium revenue	677,770	410,030	312,711	222,728
Gain on derecognition of amortised cost investments	1,663	2,096	281	2,064
Gain reclassified to income from accumulated OCI	3,530	-	4,960	-
Net investment income (note 6)	225,544	165,000	108,089	86,617
Fees and other revenue	84,316	56,153	43,263	30,590
Total revenue	992,823	633,279	469,304	341,999
BENEFITS				
Policy benefits and change in actuarial liabilities (note 7)	686,725	325,807	310,787	194,045
Policy benefits and change in actuarial liabilities reinsured (note 7)	(76,027)	(53,451)	(34,544)	(41,410)
Net policy benefits and change in actuarial liabilities	610,698	272,356	276,243	152,635
Interest costs	29,002	26,060	15,622	13,689
Total benefits	639,700	298,416	291,865	166,324
EXPENSES				
Administrative expenses	161,020	138,979	86,135	68,939
Commissions and related compensation	60,296	51,578	29,696	26,754
Premium and asset taxes	9,785	9,816	2,442	2,698
Finance costs	19,993	17,484	10,017	8,863
Credit impairment losses	(19)	57,827	(67)	56,385
Depreciation and amortisation	17,245	11,234	9,133	5,662
Total expenses	268,320	286,918	137,356	169,301
(Loss) / gain arising on business combinations, acquisitions and divestitures	(347)	5,280	(347)	-
INCOME BEFORE TAXES	84,456	53,225	39,736	6,374
Income taxes	(26,574)	(17,195)	(14,204)	(8,814)
NET INCOME / (LOSS) FROM CONTINUING OPERATIONS	57,882	36,030	25,532	(2,440)

The accompanying notes form an integral part of these financial statements.

SAGICOR FINANCIAL CORPORATION LIMITED
CONDENSED CONSOLIDATED STATEMENT OF INCOME

<u>Amounts in US \$000</u>	Six months to June 30, 2019 (unaudited)	Six months to June 30, 2018 (unaudited)	Three months to June 30, 2019 (unaudited)	Three months to June 30, 2018 (unaudited)
Net income / (loss) from continuing operations	57,882	36,030	25,532	(2,440)
Net income from discontinued operation (note 8)	517	3,357	-	2,965
NET INCOME FOR THE PERIOD	58,399	39,387	25,532	525
Net income / (loss) is attributable to:				
Common shareholders:				
From continuing operations	26,194	21,543	11,095	2,046
From discontinued operation (note 8)	517	3,357	-	2,965
	26,711	24,900	11,095	5,011
Participating policyholders	705	(8,310)	457	(16,497)
Non-controlling interests	30,983	22,797	13,980	12,011
	58,399	39,387	25,532	525
Basic earnings per common share:				
From continuing operations	8.5 cents	7.0 cents	3.6 cents	0.7 cents
From discontinued operation	0.2 cents	1.1 cents	0.0 cents	1.0 cents
	8.7 cents	8.1 cents	3.6 cents	1.7 cents
Fully diluted earnings per common share:				
From continuing operations	8.4 cents	6.9 cents	3.5 cents	0.7 cents
From discontinued operation	0.2 cents	1.1 cents	0.0 cents	0.9 cents
	8.6 cents	8.0 cents	3.5 cents	1.6 cents

The accompanying notes form an integral part of these financial statements.

SAGICOR FINANCIAL CORPORATION LIMITED
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<u>Amounts in US \$000</u>	Six months to June 30, 2019 (unaudited)	Six months to June 30, 2018 (unaudited)	Three months to June 30, 2019 (unaudited)	Three months to June 30, 2018 (unaudited)
NET INCOME FOR THE PERIOD	58,399	39,387	25,532	525
OTHER COMPREHENSIVE INCOME:				
Items net of tax that may be reclassified subsequently to income:				
Financial assets measured at fair value through other comprehensive income:				
Gains / (losses) on revaluation	76,149	(65,113)	10,214	(36,722)
Losses / (gains) transferred to income	42,197	(1,749)	41,768	1,888
Net change in actuarial liabilities	(64,106)	29,874	(29,956)	16,711
Retranslation of foreign currency operations	(7,653)	(17,782)	(12,113)	(14,741)
Other items	-	-	-	1
	46,587	(54,770)	9,913	(32,863)
Items net of tax that will not be reclassified subsequently to income:				
(Losses)/gains arising on revaluation of owner occupied property	(2,964)	832	59	832
Net gains on equity securities designated at fair value through other comprehensive income	18	27	1	13
Losses on defined benefit plans	-	(2,500)	-	(2,500)
	(2,946)	(1,641)	60	(1,655)
Other comprehensive income/(loss) from continuing operations	43,641	(56,411)	9,973	(34,518)
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD	102,040	(17,024)	35,505	(33,993)
Total comprehensive income / (loss) is attributable to:				
Common shareholders:				
From continuing operations	57,453	(12,976)	19,205	(18,357)
From discontinued operation	517	3,357	-	2,965
	57,970	(9,619)	19,205	(15,392)
Participating policyholders	1,325	(9,061)	681	(17,221)
Non-controlling interests	42,745	1,656	15,619	(1,380)
	102,040	(17,024)	35,505	(33,993)

The accompanying notes form an integral part of these financial statements.

SAGICOR FINANCIAL CORPORATION LIMITED
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital	Share Premium	Reserves	Retained earnings	Total Shareholders' Equity
<u>Amounts in US \$000</u>	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Six months to June 30, 2019					
Balance as of December 31, 2018	3,061	300,665	(76,995)	374,138	600,869
Total comprehensive income:					
From continuing operations	-	-	31,259	26,194	57,453
From discontinued operation	-	-	-	517	517
Transactions with holders of equity instruments:					
Movements in treasury shares	1	(30)	-	-	(29)
Changes in reserve for equity compensation benefits	-	-	6,296	-	6,296
Dividends declared	-	-	-	(7,658)	(7,658)
Transfers and other movements	-	-	683	474	1,157
Balance as of June 30, 2019	3,062	300,635	(38,757)	393,665	658,605

	Total Shareholders' Equity	Participating Accounts	Non-controlling interests	Total Equity
<u>Amounts in US \$000</u>	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Six months to June 30, 2019				
Balance as of December 31, 2018	600,869	4,078	530,514	1,135,461
Total comprehensive income:				
From continuing operations	57,453	1,325	42,745	101,523
From discontinued operation	517	-	-	517
Transactions with holders of equity instruments:				
Movements in treasury shares	(29)	-	-	(29)
Changes in reserve for equity compensation benefits	6,296	-	-	6,296
Dividends declared	(7,658)	-	(12,036)	(19,694)
Transfers and other movements	1,157	(1,798)	1,244	603
Balance as of June 30, 2019	658,605	3,605	562,467	1,224,677

The accompanying notes form an integral part of these financial statements.

SAGICOR FINANCIAL CORPORATION LIMITED
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital	Share Premium	Reserves	Retained earnings	Total Shareholders' Equity
<u>Amounts in US \$000</u>	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Six months to June 30, 2018					
Balance as of December 31, 2017	3,059	300,470	(47,482)	367,327	623,374
Prior period adjustment to actuarial liabilities	-	-	94	1,124	1,218
Transition adjustment on adoption of IFRS 9	-	-	(217)	(10,442)	(10,659)
Balance as restated	3,059	300,470	(47,605)	358,009	613,933
Total comprehensive income:					
From continuing operations	-	-	(32,019)	19,043	(12,976)
From discontinued operation	-	-	-	3,357	3,357
Transactions with holders of equity instruments:					
Movements in treasury shares	-	16	-	-	16
Changes in reserve for equity compensation benefits	-	-	(1,686)	-	(1,686)
Dividends declared	-	-	-	(7,648)	(7,648)
Transfers and other movements	-	-	(204)	1,956	1,752
Balance as of June 30, 2018	3,059	300,486	(81,514)	374,717	596,748

The accompanying notes form an integral part of these financial statements.

SAGICOR FINANCIAL CORPORATION LIMITED
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Total Shareholders' Equity (unaudited)	Participating Accounts (unaudited)	Non-controlling Interests (unaudited)	Total Equity (unaudited)
<u>Amounts in US \$000</u>				
Six months to June 30, 2018				
Balance as of December 31, 2017	623,374	865	308,089	932,328
Prior period adjustment to actuarial liabilities	1,218	-	3,677	4,895
Transition adjustment on adoption of IFRS 9	(10,659)	(2,930)	(2,352)	(15,941)
Balance as restated	613,933	(2,065)	309,414	921,282
Total comprehensive income:				
From continuing operations	(12,976)	(9,061)	1,656	(20,381)
From discontinued operation	3,357	-	-	3,357
Transactions with holders of equity instruments:				
Movements in treasury shares	16	-	-	16
Changes in reserve for equity compensation benefits	(1,686)	-	-	(1,686)
Dividends declared	(7,648)	-	(10,449)	(18,097)
Transfers and other movements	1,752	(104)	2,868	4,516
Balance as of June 30, 2018	596,748	(11,230)	303,489	889,007

The accompanying notes form an integral part of these financial statements.

SAGICOR FINANCIAL CORPORATION LIMITED
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

<u>Amounts in US \$000</u>	Six months to June 30, 2019	Six months to June 30, 2018
	(unaudited)	Restated (unaudited)
OPERATING ACTIVITIES		
Income before taxes	84,456	53,225
Adjustments for non-cash items, interest and dividends (note 15)	161,209	(68,759)
Interest and dividends received	155,116	152,321
Interest paid	(44,894)	(38,317)
Income taxes paid	(34,861)	(20,188)
Net change in investments and operating assets (note 15)	(323,927)	(253,129)
Net change in operating liabilities (note 15)	43,384	225,265
Net cash flows - operating activities	40,483	50,418
INVESTING ACTIVITIES		
Property, plant and equipment, net (note 15)	(4,250)	(5,049)
Associates and joint ventures, net	-	(149)
Dividends received from associates and joint ventures	320	120
Purchase of intangible assets	(831)	(1,852)
Net cash flows - investing activities	(4,761)	(6,930)
FINANCING ACTIVITIES		
Redemption of SFC preference share	-	(1)
Shares issued to non-controlling interest	746	2,304
Notes and loans payable, net (note 15)	(12,670)	(1,377)
Principal elements of lease payments	(1,815)	-
Dividends paid to common shareholders	(7,496)	(7,484)
Dividends paid to non-controlling interest	(12,036)	(10,449)
Net cash flows - financing activities	(33,271)	(17,007)
Effect of exchange rate changes	(2,730)	(5,800)
Net change in cash and cash equivalents - continuing operations	(279)	20,681
Net change in cash and cash equivalents – discontinued operation	17,756	-
Cash and cash equivalents, beginning of period	321,561	338,349
Cash and cash equivalents, end of period	339,038	359,030

The accompanying notes form an integral part of these financial statements.

SAGICOR FINANCIAL CORPORATION LIMITED
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2019

1. GENERAL INFORMATION

These unaudited interim condensed consolidated financial statements (“condensed financial statements”) of Sagicor Financial Corporation Limited and its subsidiaries (the “Group”) are presented in compliance with International Accounting Standard (“IAS”) 34 - Interim Financial Reporting. The condensed financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the audited 2018 annual consolidated financial statements and the accompanying notes included in pages 96 to 243 of the Annual Report for 2018. The condensed financial statements however do include certain disclosures required in the annual financial statements but which are additional to the requirements of IAS 34.

2. ACCOUNTING POLICIES

Except as indicated below, these condensed financial statements have been prepared using the same accounting policies and methods used in preparation of the audited 2018 annual consolidated financial statements. The principle accounting policies are described in note 2 of those annual consolidated financial statements.

2.1 Adoption of IFRS 16 Leases

Effective January 1, 2019, the Sagicor Group adopted IFRS 16. This 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 is also affected because the total expense is higher typically in the earlier years of a lease and lower in later years. Additionally, operating expenses are replaced with interest and depreciation, so key metrics like Earnings before Interest, Tax, Depreciation and Amortization will change.

Operating cash flows will be higher as cash payments for the principal portion of the leased liability are classified within financing activities. Only the part of the payments that reflect interest can continue to be presented as operating cash flows.

In accordance with the transition provisions in IFRS 16, the standard has been implemented using the modified retrospective method with no restatement of comparative information.

(i) Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate has been applied to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of the initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

The standard introduces new disclosure requirements for interim financial statements which are set out in note 16.

SAGICOR FINANCIAL CORPORATION LIMITED
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2019

2. ACCOUNTING POLICIES (continued)

2.2 Exchange rates

The following exchange rates were applied for the conversion of amounts to US dollars.

	Closing rates as of June 30, 2019	Closing rates as of December 31, 2018	Average rates for the six months to June 30, 2019	Average rates for the six months to June 2018
Barbados dollar	2.0000	2.0000	2.0000	2.0000
Eastern Caribbean dollar	2.7000	2.7000	2.7000	2.7000
Jamaica dollar	130.5374	127.3996	130.4506	125.5454
Trinidad & Tobago dollar	6.7476	6.7804	6.7578	6.7422
Pound sterling	0.78570	0.78310	0.77056	0.72650

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

3.1 Extension and termination options

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended.

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

SAGICOR FINANCIAL CORPORATION LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED JUNE 30, 2019

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, health, annuity, property and casualty insurance business, pension administration services, banking and financial services, hospitality and real estate investment services in Jamaica, Cayman Islands and Costa Rica.
- 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 2018. Segmented financial information is set out in the sections 4.1 to 4.5.

4.1 Statement of income from continuing operations by reportable operating segment

<u>Amounts in US \$000</u>	Sagicor Life	Sagicor Jamaica	Sagicor Life USA	Head office and other	Adjust- ments	Total
Six months to June 30, 2019						
Net premium revenue	189,005	161,534	308,719	18,512	-	677,770
Net gain/(losses) on derecognition of amortised cost investments	42	1,636	(15)	-	-	1,663
Net gains/(losses) reclassified to income from accumulated OCI	499	2,248	775	-	8	3,530
Interest income	39,271	80,628	36,085	1,981	-	157,965
Other investment income	5,012	33,965	27,986	691	(75)	67,579
Fees and other revenue	3,049	73,652	(1,051)	8,345	321	84,316
Inter-segment revenues	9,654	-	-	21,487	(31,141)	-
Total revenue	246,532	353,663	372,499	51,016	(30,887)	992,823
Net policy benefits	108,265	100,645	55,986	10,402	-	275,298
Net change in actuarial liabilities	40,384	36,935	258,081	-	-	335,400
Interest costs	7,881	16,841	4,030	250	-	29,002
Administrative expenses	37,517	84,893	17,452	19,819	1,339	161,020
Commissions and premium and asset taxes	21,681	26,943	16,086	5,371	-	70,081
Finance costs	22	2,768	268	(6)	16,941	19,993
Credit impairment losses	(1,069)	838	289	(77)	-	(19)
Depreciation and amortisation	3,553	9,859	2,341	1,492	-	17,245
Inter-segment expenses	1,048	1,058	1,646 ⁽¹⁾	9,376	(13,128)	-
Total benefits and expenses	219,282	280,780	356,179	46,627	5,152	908,020
Loss arising on business combinations and acquisitions	(347)	-	-	-	-	(347)
Segment income / (loss) before taxes	26,903	72,883	16,320	4,389	(36,039)	84,456
Income taxes	(5,205)	(16,829)	(3,427)	(1,119)	6	(26,574)
Net income - continuing operations	21,698	56,054	12,893	3,270	(36,033)	57,882
Net income / (loss) attributable to shareholders from continuing operations	20,993	24,737	12,893	(13,335)	(19,094)	26,194
Total comprehensive income / (loss) attributable to shareholders from continuing operations	27,547	36,580	25,210	(12,920)	(18,964)	57,453

(1) During 2015, Sagicor Life USA entered into a reinsurance agreement with Sagicor Life; included in the inter-segment expenses is \$527 relating to this transaction.

SAGICOR FINANCIAL CORPORATION LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED JUNE 30, 2019

4. SEGMENTS (continued)

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

<u>Amounts in US \$000</u>						
Six months to June 30, 2018	Sagicor Life	Sagicor Jamaica	Sagicor Life USA	Head office and other	Adjustments	Total
Net premium revenue	153,688	146,965	92,077	17,300	-	410,030
Net gain/(losses) on derecognition of amortised cost investments	-	2,096	-	-	-	2,096
Interest income	39,808	81,411	26,913	4,109	-	152,241
Other investment income	3,002	9,220	1,249	117	(829)	12,759
Fees and other revenue	5,753	45,689	(5,025)	9,889	(153)	56,153
Inter-segment revenues	7,474	-	-	38,179	(45,653)	-
Total revenue	209,725	285,381	115,214	69,594	(46,635)	633,279
Net policy benefits	100,695	101,128	49,018	8,193	-	259,034
Net change in actuarial liabilities	(28,998)	2,512	39,808	-	-	13,322
Interest costs	5,344	17,379	1,929	1,408	-	26,060
Administrative expenses	33,845	66,703	14,993	22,539	899	138,979
Commissions and premium and asset taxes	21,038	25,966	9,362	5,028	-	61,394
Finance costs	-	659	97	(73)	16,801	17,484
Credit impairment losses	48,049	7,918	(286)	2,146	-	57,827
Depreciation and amortisation	3,094	4,950	1,386	1,804	-	11,234
Inter-segment expenses	2,071	907	(570) ⁽¹⁾	7,297	(9,705)	-
Total benefits and expenses	185,138	228,122	115,737	48,342	7,995	585,334
Gain arising on business combinations and acquisitions	5,280	-	-	-	-	5,280
Segment income/(loss) before taxes	29,867	57,259	(523)	21,252	(54,630)	53,225
Income taxes	(5,138)	(12,017)	110	(417)	267	(17,195)
Net income - continuing operations	24,729	45,242	(413)	20,835	(54,363)	36,030
Net income / (loss) attributable to shareholders from continuing operations	33,039	22,217	(413)	4,262	(37,562)	21,543
Total comprehensive income / (loss) attributable to shareholders from continuing operations	30,557	1,511	(9,552)	3,476	(38,968)	(12,976)

(1) During 2015, Sagicor Life USA entered into a reinsurance agreement with Sagicor Life; included in the inter-segment expenses is \$1,576 relating to this transaction.

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4. SEGMENTS (continued)

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

<u>Amounts in US \$000</u>						
Three months to June 30, 2019	Sagicor Life	Sagicor Jamaica	Sagicor Life USA	Head office and other	Adjustments	Total
Net premium revenue	82,131	81,911	139,306	9,363	-	312,711
Net gain/(losses) on derecognition of amortised cost investments	-	288	(7)	-	-	281
Net gains/(losses) reclassified to income from accumulated OCI	57	4,566	329	-	8	4,960
Interest income	20,173	41,369	18,666	996	-	81,204
Other investment income	3,494	15,239	7,697	484	(29)	26,885
Fees and other revenue	980	39,217	(1,873)	4,618	321	43,263
Inter-segment revenues	4,906	-	-	20,437	(25,343)	-
Total revenue	111,741	182,590	164,118	35,898	(25,043)	469,304
Net policy benefits	53,519	50,748	29,258	6,018	-	139,543
Net change in actuarial liabilities	7,538	22,649	106,513	-	-	136,700
Interest costs	4,882	8,930	1,680	130	-	15,622
Administrative expenses	20,754	44,590	8,015	12,578	198	86,135
Commissions and premium and asset taxes	10,956	10,758	7,497	2,927	-	32,138
Finance costs	(16)	1,371	127	(30)	8,565	10,017
Credit impairment losses	(707)	352	369	(81)	-	(67)
Depreciation and amortisation	1,790	5,224	1,163	956	-	9,133
Inter-segment expenses	(462)	576	1,942 ⁽¹⁾	4,794	(6,850)	-
Total benefits and expenses	98,254	145,198	156,564	27,292	1,913	429,221
Gain arising on business combinations and acquisitions	(347)	-	-	-	-	(347)
Segment income/(loss) before taxes	13,140	37,392	7,554	8,606	(26,956)	39,736
Income taxes	(2,883)	(8,764)	(1,558)	(999)	-	(14,204)
Net income - continuing operations	10,257	28,628	5,996	7,607	(26,956)	25,532
Net income / (loss) attributable to shareholders from continuing operations	9,800	14,304	5,996	(612)	(18,393)	11,095
Total comprehensive income / (loss) attributable to shareholders from continuing operations	11,812	13,085	12,438	30	(18,160)	19,205

(1) During 2015, Sagicor Life USA entered into a reinsurance agreement with Sagicor Life; inter-segment expenses include a \$724 reduction relating to this transaction.

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4. SEGMENTS (continued)

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

<u>Amounts in US \$000</u>						
Three months to June 30, 2018	Sagicor Life	Sagicor Jamaica	Sagicor Life USA	Head office and other	Adjustments	Total
Net premium revenue	77,061	72,469	64,617	8,581	-	222,728
Net gain/(losses) on derecognition of amortised cost investments	-	2,064	-	-	-	2,064
Interest income	20,420	41,161	14,132	2,151	-	77,864
Other investment income	715	4,979	2,975	73	11	8,753
Fees and other revenue	2,999	26,714	(4,103)	5,128	(148)	30,590
Inter-segment revenues	3,781	-	-	37,592	(41,373)	-
Total revenue	104,976	147,387	77,621	53,525	(41,510)	341,999
Net policy benefits	51,284	51,761	26,443	3,985	-	133,473
Net change in actuarial liabilities	(17,361)	3,602	32,921	-	-	19,162
Interest costs	2,820	8,831	1,343	695	-	13,689
Administrative expenses	16,025	33,647	7,374	11,491	402	68,939
Commissions and premium and asset taxes	10,484	10,818	5,526	2,624	-	29,452
Finance costs	-	331	50	(11)	8,493	8,863
Credit impairment losses	48,297	6,113	(202)	2,177	-	56,385
Depreciation and amortisation	1,601	2,489	684	888	-	5,662
Inter-segment expenses	851	405	(37) ⁽¹⁾	3,705	(4,924)	-
Total benefits and expenses	114,001	117,997	74,102	25,554	3,971	335,625
Segment income/(loss) before taxes	(9,025)	29,390	3,519	27,971	(45,481)	6,374
Income taxes	(2,238)	(5,632)	(738)	(191)	(15)	(8,814)
Net income - continuing operations	(11,263)	23,758	2,781	27,780	(45,496)	(2,440)
Net income / (loss) attributable to shareholders from continuing operations	5,234	11,667	2,781	19,367	(37,003)	2,046
Total comprehensive income / (loss) attributable to shareholders from continuing operations	4,358	(1,491)	(998)	18,931	(39,157)	(18,357)

(1) During 2015, Sagicor Life USA entered into a reinsurance agreement with Sagicor Life; included in the inter-segment expenses is \$603 relating to this transaction.

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4. SEGMENTS (continued)

4.2 Statement of financial position by reportable operating segment

<u>Amounts in US \$000</u>	Sagicor Life	Sagicor Jamaica	Sagicor Life USA	Head office and other	Adjust- ments	Total
As of June 30, 2019						
Financial investments	1,393,325	2,534,747	1,857,540	84,515	-	5,870,127
Other external assets	324,196	716,200	826,230	182,427	(57,469)	1,991,584
Inter-segment assets	314,994	14,912	5,182	139,473	(474,561)	-
Total assets	2,032,515	3,265,859	2,688,952	406,415	(532,030)	7,861,711
Policy liabilities	1,353,387	807,953	1,927,970	74,636	(57,469)	4,106,477
Other external liabilities	99,288	1,577,547	387,859	465,863	-	2,530,557
Inter-segment liabilities	69,324	4,979	100,835	299,423	(474,561)	-
Total liabilities	1,521,999	2,390,479	2,416,664	839,922	(532,030)	6,637,034
Net assets	510,516	875,380	272,288	(433,507)	-	1,224,677

<u>Amounts in US \$000</u>	Sagicor Life	Sagicor Jamaica	Sagicor Life USA	Head office and other	Adjust- ments	Total
As of December 31, 2018						
Financial investments	1,418,031	2,344,113	1,499,927	85,592	-	5,347,663
Other external assets	324,345	745,357	789,294	163,419	(61,893)	1,960,522
Assets of discontinued operation	-	-	-	17,239	-	17,239
Inter-segment assets	266,094	14,976	3,861	109,595	(394,526)	-
Total assets	2,008,470	3,104,446	2,293,082	375,845	(456,419)	7,325,424
Policy liabilities	1,297,308	753,793	1,602,601	70,629	(61,893)	3,662,438
Other external liabilities	160,824	1,526,230	373,901	466,570	-	2,527,525
Inter-segment liabilities	62,229	5,617	70,085	256,595	(394,526)	-
Total liabilities	1,520,361	2,285,640	2,046,587	793,794	(456,419)	6,189,963
Net assets	488,109	818,806	246,495	(417,949)	-	1,135,461

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4. SEGMENTS (continued)

4.3 Revenues by products and services

<u>Amounts in US \$000</u>	Six months to June 30, 2019	Six months to June 30, 2018	Three months to June 30, 2019	Three months to June 30, 2018
Life, health and annuity insurance contracts issued to individuals	677,936	369,847	313,178	205,612
Life, health and annuity insurance and pension administration contracts issued to groups	147,810	139,563	77,536	69,747
Property and casualty insurance	26,622	23,495	14,768	11,909
Banking, investment management and other financial services	90,743	85,329	47,217	45,328
Hotel, farming and unallocated revenues	49,712	15,045	16,605	9,403
Total revenue	992,823	633,279	469,304	341,999

4.4 Revenues by geographical area

<u>Amounts in US \$000</u>	Six months to June 30, 2019	Six months to June 30, 2018	Three months to June 30, 2019	Three months to June 30, 2018
Barbados	86,687	86,433	43,162	43,175
Jamaica	315,344	272,588	163,644	141,362
Trinidad and Tobago	94,770	83,393	47,343	42,605
Other Caribbean	102,135	76,456	40,902	37,224
USA	393,887	114,409	174,253	77,633
Total revenue	992,823	633,279	469,304	341,999

4.5 Revenues from service contracts with customers

Revenues from service contracts with customers consist primarily of management and administration fees earned from third party investment funds, pension plans and insurance benefit plans (managed funds or administrative service only (ASO) benefit plans). These service contracts generally impose single performance obligations, each consisting of a series of similar related services to the unitholder or policyholder of each fund or plan. The Group's performance obligations within these service arrangements are generally satisfied over time as the unitholders and policyholders simultaneously receive and consume contracted benefits over time.

The Group also earns revenues for the provision of corporate finance, stockbroking, trust and related services to various customers.

The various fees are billed periodically and are collected either by deduction or within a short period of time.

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4. SEGMENTS (continued)

4.5 Revenues from service contracts with customers (continued)

The following table discloses revenue from service contracts with customers by reportable operating segment.

<u>Amounts in US \$000</u>	Sagicor Life	Sagicor Jamaica	Sagicor Life USA	Head office and other	Adjust- ments	Total
Six months to June 30, 2019						
Revenue from contracts with customers:						
Products transferred at a point in time	-	28,095	111	-	-	28,206
Products and services transferred over time	4,045	36,524	-	-	-	40,569
Total included in fees and other revenue	4,045	64,619	111	-	-	68,775
Six months to June 30, 2018						
Revenue from contracts with customers:						
Products transferred at a point in time	-	19,006	116	-	-	19,122
Products and services transferred over time	3,755	16,094	-	(14)	-	19,835
Total included in fees and other revenue	3,755	35,100	116	(14)	-	38,957

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4. SEGMENTS (continued)

4.5 Revenues from service contracts with customers (continued)

The following table discloses revenue from service contracts with customers by reportable operating segment.

<u>Amounts in US \$000</u>	Sagicor Life	Sagicor Jamaica	Sagicor Life USA	Head office and other	Adjust- ments	Total
Three months to June 30, 2019						
Revenue from contracts with customers:						
Products transferred at a point in time	-	12,316	43	-	-	12,359
Products and services transferred over time	2,182	18,458	-	-	-	20,640
Total included in fees and other revenue	2,182	30,774	43	-	-	32,999
Three months to June 30, 2018						
Revenue from contracts with customers:						
Products transferred at a point in time	-	11,891	69	-	-	11,960
Products and services transferred over time	1,965	8,298	-	(7)	-	10,256
Total included in fees and other revenue	1,965	20,189	69	(7)	-	22,216

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5. PREMIUM REVENUE

<u>Amounts in US \$000</u>	Gross premium		Ceded to reinsurers	
	2019	2018	2019	2018
Six months to June 30,				
Life insurance	224,281	217,898	14,853	15,712
Annuity	363,769	125,214	63	15,761
Health insurance	89,429	83,594	3,304	2,529
Property and casualty insurance	37,934	34,621	19,423	17,295
Total premium revenue	715,413	461,327	37,643	51,297

<u>Amounts in US \$000</u>	Gross premium		Ceded to reinsurers	
	2019	2018	2019	2018
Three months to June 30,				
Life insurance	114,397	109,466	7,672	7,993
Annuity	153,778	71,932	15	114
Health insurance	44,838	42,079	2,027	1,285
Property and casualty insurance	19,343	17,570	9,931	8,927
Total premium revenue	332,356	241,047	19,645	18,319

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6. NET INVESTMENT INCOME

<u>Amounts in US \$000</u>	Six months to June 30, 2019	Six months to June 30, 2018	Three months to June 30, 2019	Three months to June 30, 2018
Income from financial investments				
Interest income (amortised cost):				
Debt securities	40,372	40,437	20,736	21,461
Mortgage loans	9,879	8,807	5,065	4,688
Policy loans	5,185	4,952	2,618	2,486
Finance loans and finance leases	30,664	32,097	16,073	16,348
Securities purchased for resale	109	717	89	326
Deposits	807	1,347	495	785
	87,016	88,357	45,076	46,094
Interest Income (FVOCI): Debt Securities	65,053	55,777	33,118	27,866
FVTPL investments:				
Fair value changes and interest income from debt securities	12,797	3,841	5,549	1,704
Fair value changes and dividend income from equity securities	29,208	8,586	16,053	4,645
Fair value changes and interest income from mortgage securities	1,505	768	959	80
Other items	5	2	1	(2)
	43,515	13,197	22,562	6,427
Total income from financial investments	195,584	157,331	100,756	80,387
Investment income				
Other income / (loss) on financial investments	21,606	2,405	6,044	3,319
Investment property income and fair value gains / (losses)	5,206	2,913	2,934	1,849
Share of operating income of associates and joint venture	8,696	3,634	974	1,766
Other investment income	42	195	(172)	107
	231,134	166,478	110,536	87,428
Investment expenses:				
Direct operating expenses of investment property	4,597	942	2,260	582
Other direct investment expenses	993	536	187	229
	5,590	1,478	2,447	811
Net Investment income	225,544	165,000	108,089	86,617

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7. POLICY BENEFITS AND CHANGE IN ACTUARIAL LIABILITIES

<u>Amounts in US \$000</u>	Gross benefit		Ceded to reinsurers	
	2019	2018	2019	2018
Six months to June 30,				
Life insurance benefits	117,921	115,699	9,426	9,960
Annuity benefits	131,304	112,889	42,154	33,350
Health insurance benefits	68,917	65,316	1,667	(68)
Property and casualty claims	13,104	13,558	2,701	5,186
Total policy benefits	331,246	307,462	55,948	48,428
Change in actuarial liabilities	355,479	18,345	20,079	5,023
Total policy benefits and change in actuarial liabilities	686,725	325,807	76,027	53,451

<u>Amounts in US \$000</u>	Gross benefit		Ceded to reinsurers	
	2019	2018	2019	2018
Three months to June 30,				
Life insurance benefits	61,109	59,359	4,456	4,718
Annuity benefits	64,691	60,327	21,300	18,363
Health insurance benefits	34,115	33,310	634	593
Property and casualty claims	6,735	3,511	717	(640)
Total policy benefits	166,650	156,507	27,107	23,034
Change in actuarial liabilities	144,137	37,538	7,437	18,376
Total policy benefits and change in actuarial liabilities	310,787	194,045	34,544	41,410

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8. 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 sales price was subject to price adjustments up to contractually specified limits until the end of the run-off period on December 31, 2018. The price adjustments include underwriting, investment and foreign exchange results and were subject to a reasonable risk premium adjustment by the buyer.

The movement in price adjustments were as follows:

<u>Amounts in US \$000</u>	Period to June 30, 2019
Liability of discontinued operation:	
Estimated amount receivable December 31, 2017	(10,110)
Experience gain for the six months to June 30, 2018	(3,587)
Net currency movements for six months to June 30, 2018	230
Estimated receivable June 30, 2018	(13,467)
Experience gain for the six months to December 31, 2018	(4,214)
Net currency movements to December 31, 2018	442
Estimated amount receivable December 31, 2018	(17,239)
Payment received	17,756
Net currency movements to June 30, 2019	(517)
Estimated amount receivable June 30, 2019	-

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9. FINANCIAL INVESTMENTS

Analysis of financial investments

Amounts in US \$000

	June 30, 2019		December 31, 2018	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets at fair value through other comprehensive income				
Debt securities	3,015,143	3,015,143	2,633,633	2,633,633
Equity securities	46	46	271	271
	3,015,189	3,015,189	2,633,904	2,633,904
Financial assets at fair value through profit and loss				
Debt securities	209,386	209,386	198,807	198,807
Equity securities	323,217	323,217	267,234	267,234
Derivative financial instruments	30,302	30,302	7,696	7,696
Mortgage loans	30,086	30,086	30,143	30,143
Deposits	51	51	8	8
	593,042	593,042	503,888	503,888
Investments at amortised cost (loans and receivables):				
Debt securities	1,154,957	1,285,388	1,097,041	1,219,042
Mortgage loans	348,993	349,653	337,020	336,873
Policy loans	148,505	172,440	147,046	171,421
Finance loans and finance leases	525,062	529,131	514,486	500,261
Securities purchased for re-sale	22,178	22,178	7,170	7,170
Deposits	62,201	62,201	107,108	107,108
	2,261,896	2,420,991	2,209,871	2,341,875
Total financial investments	5,870,127	6,029,222	5,347,663	5,479,667
Non-derivative financial assets at fair value through profit or loss:				
Assets designated at fair value upon initial recognition	554,915	554,915	488,557	488,557
Assets held for trading	7,825	7,825	7,635	7,635
	562,740	562,740	496,192	496,192

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10. INVESTMENT CONTRACT LIABILITIES

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

<u>Amounts in US \$000</u>	June 30, 2019		December 31, 2018	
	Carrying value	Fair Value	Carrying value	Fair value
At amortised cost:				
Deposit administration liabilities	123,851	123,851	110,585	110,585
Other investment contracts	138,962	138,962	130,670	130,669
	262,813	262,813	241,255	241,254
At fair value through income:				
Unit linked deposit administration liabilities	158,180	158,180	149,142	149,142
Total investment contract liabilities	420,993	420,993	390,397	390,396

11. NOTES AND LOANS PAYABLE

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

<u>Amounts in US \$000</u>	June 30, 2019		December 31, 2018	
	Carrying value	Fair value	Carrying value	Fair Value
Liabilities at amortised cost:				
8.875% senior notes due 2022	319,798	333,832	318,910	334,625
8.25% convertible redeemable preference shares due 2020	-	-	11,115	11,105
4.85% notes due 2019	75,086	74,942	75,039	74,124
Mortgage loans	76,317	78,752	76,952	76,952
Bank loans and other funding instruments	2,714	2,714	8,259	8,259
	473,915	490,240	490,275	505,065

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12. DEPOSIT AND SECURITY LIABILITIES

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

<u>Amounts in US \$000</u>	June 30, 2019		December 31, 2018	
	Carrying value	Fair Value	Carrying value	Fair value
At amortised cost:				
Other funding instruments	365,268	365,667	461,572	462,223
Customer deposits	770,936	758,997	721,634	726,136
Securities sold for re-purchase	491,882	492,792	423,772	423,790
Bank overdrafts	11,265	11,265	2,158	2,158
	1,639,351	1,628,721	1,609,136	1,614,307
At fair value through income:				
Structured products	55,218	55,218	64,650	64,650
Derivative financial instruments	905	905	247	247
	56,123	56,123	64,897	64,897
Total deposit and security liabilities	1,695,474	1,684,844	1,674,033	1,679,204

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

13.1 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.

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

13.1 Property (continued)

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

<u>Amounts in US \$000</u>	As of	As of
	June 30, 2019	December 31, 2018
	Level 3	Level 3
Investment property	92,545	93,494
Owner-occupied lands	35,232	35,232
Owner-occupied land and buildings	167,389	168,371
Total properties	295,166	297,097

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 period.

<u>Amounts in US \$000</u>	Six months to June 30, 2019			December 31, 2018	
	Investment property	Owner-occupied lands	Owner-occupied land and buildings	Total	Total
Balance, beginning of period	93,494	35,232	168,371	297,097	194,513
Additions	59	-	399	458	2,566
Assumed on acquisition	-	-	-	-	119,627
Transfers in / (out)	-	-	-	-	(125)
Fair value changes recorded in net investment income	-	-	-	-	(1,090)
Fair value changes recorded in other comprehensive income	-	-	-	-	(226)
Depreciation	-	-	(1,558)	(1,558)	(1,879)
Disposals and divestitures	(591)	-	(10)	(601)	(11,899)
Effect of exchange rate changes	(417)	-	187	(230)	(4,390)
Balance, end of period	92,545	35,232	167,389	295,166	297,097

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

13.2 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.

(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 fair value through other comprehensive income 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 market yields of government instruments of similar durations in the country of issue of the instruments.

Level 3 assets designated fair value through profit and loss 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.

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

13.2 Financial instruments carried at fair value (continued)

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

<u>Amounts in US \$000</u>	As of June 30, 2019			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through other comprehensive income:				
Debt securities	614,396	2,400,747	-	3,015,143
Equity securities	-	-	46	46
	614,396	2,400,747	46	3,015,189
Financial assets at fair value through profit and loss:				
Debt securities	18,141	96,742	94,503	209,386
Equity securities	47,102	252,091	24,024	323,217
Derivative financial instruments	-	905	29,397	30,302
Mortgage loans	-	-	30,086	30,086
Deposits	-	51	-	51
	65,243	349,789	178,010	593,042
Total assets	679,639	2,750,536	178,056	3,608,231
Total assets by percentage	19%	76%	5%	100%
Investment contracts:				
Unit linked deposit administration liabilities	-	-	158,180	158,180
	-	-	158,180	158,180
Deposit and security liabilities:				
Structured products	-	-	55,218	55,218
Derivative financial instruments	-	905	-	905
	-	905	55,218	56,123
Total liabilities	-	905	213,398	214,303
Total liabilities by percentage	0%	0%	100%	100%

Transfers from Level 1 to Level 2 in the six months to June 30, 2019 – Nil.

Transfers from Level 2 to Level 1 in the six months to June 30, 2019 – Nil.

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

13.2 Financial instruments carried at fair value (continued)

Amounts in US \$000	As of December 31, 2018			
	Level 1	Level 2	Level 3	Total
Available for sale securities:				
Debt securities	646,960	1,986,673	-	2,633,633
Equity securities	223	-	48	271
	647,183	1,986,673	48	2,633,904
Investments at fair value through income:				
Debt securities	15,949	104,332	78,526	198,807
Equity securities	32,677	210,290	24,267	267,234
Derivative financial instruments	-	247	7,449	7,696
Mortgage loans	-	-	30,143	30,143
Deposits	-	8	-	8
	48,626	314,877	140,385	503,888
Total assets	695,809	2,301,550	140,433	3,137,792
Total assets by percentage	23%	73%	4%	100%
Investment contracts:				
Unit linked deposit administration liabilities	-	-	149,142	149,142
Deposit and security liabilities:				
Structured products	-	-	64,650	64,650
Derivative financial instruments	-	247	-	247
	-	247	64,650	64,897
Total liabilities	-	247	213,792	214,039
Total liabilities by percentage	0%	0%	100%	100%

Transfers from Level 1 to Level 2 in 2018 – Nil.

Transfers from Level 2 to Level 1 2018 – Nil.

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

13.2 Financial instruments carried at fair value (continued)

Movements in Level 3 Instruments

The following tables present to movements in Level 3 Instruments for the period:

<u>Amounts in US \$000</u>	Six months to June 30, 2019				December 31, 2018
	Investments at FVOCI	Investments at FVTPL	Derivative financial instruments	Total assets	Total assets
Balance, beginning of period	48	132,936	7,449	140,433	187,326
Reclassifications on adoption of IFRS 9	-	-	-	-	(17,187)
Additions	-	17,377	10,970	28,347	65,117
Fair value changes recorded in investment income	-	1,785	20,659	22,444	(7,338)
Fair value changes recorded in other comprehensive income	-	-	-	-	(75)
Disposals	-	(3,437)	(9,681)	(13,118)	(90,704)
Transfers (out of) Level 3 classification	-	(6)	-	(6)	(10)
Effect of exchange rate changes	(2)	(42)	-	(44)	3,304
Balance, end of period	46	148,613	29,397	178,056	140,433
Fair value changes recorded in investment income for instruments held at the end of the period	-	1,301	13,281	14,582	(9,746)

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

13.2 Financial instruments carried at fair value (continued)

<u>Amounts in US \$000</u>	Six months to June 30, 2019			December 31, 2018
	Investment contracts	Structured products	Total liabilities	Total liabilities
Balance, beginning of period	149,142	64,650	213,792	187,329
Issues	10,332	-	10,332	77,358
Settlements	(3,439)	(9,739)	(13,178)	(51,882)
Fair value changes recorded in interest expense	1,493	794	2,287	(1,121)
Transfers (to)/from instruments carried at amortised cost	-	-	-	4,078
Effect of exchange rate changes	652	(487)	165	(1,970)
Balance, end of period	158,180	55,218	213,398	213,792
Fair value changes recorded in interest expense for instruments held at the end of the period	1,493	-	1,493	(1,121)

14. CREDIT RISK

14.1 Credit risk exposure – financial investments subject to impairment

The following tables analyse the credit risk exposure of financial investments for which an ECL allowance is recognized. The gross carrying amounts of investments below represent the Group's maximum exposure to credit risk on these assets.

<u>Amounts in US \$000</u>	June 30, 2019				December 31, 2018	
	Stage 1 12-month ECL	ECL Staging Stage 2 life-time ECL	Stage 3 life-time ECL	Purchased credit- impaired	Total	Total
Debt securities – amortised cost						
Credit grade:						
Investment	265,187	-	-	-	265,187	213,821
Non-investment	699,157	6,984	-	150,090	856,231	875,938
Watch	25,209	4,716	-	5,977	35,902	10,350
Default	-	-	247	-	247	788
Unrated	572	-	-	23	595	-
Gross carrying amount	990,125	11,700	247	156,090	1,158,162	1,100,897
Loss allowance	(1,789)	(1,029)	(59)	(328)	(3,205)	(3,856)
Carrying amount	988,336	10,671	188	155,762	1,154,957	1,097,041

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SIX MONTHS ENDED JUNE 30, 2019

14. CREDIT RISK (continued)

14.1 Credit risk exposure – financial investments subject to impairment (continued)

<u>Amounts in US \$000</u>	June 30, 2019				December 31, 2018	
	Stage 1 12-month ECL	ECL Staging Stage 2 life-time ECL	Stage 3 life-time ECL	Purchased credit- impaired	Total	Total
Mortgage loans – amortised cost						
Credit grade:						
Investment	215,954	6,508	2,694	-	225,156	220,586
Non-investment	96,073	3,290	574	-	99,937	94,385
Watch	225	2,597	12,319	-	15,141	13,190
Default	-	-	10,966	-	10,966	11,239
Gross carrying amount	312,252	12,395	26,553	-	351,200	339,400
Loss allowance	(662)	(175)	(1,370)	-	(2,207)	(2,380)
Carrying amount	311,590	12,220	25,183	-	348,993	337,020

<u>Amounts in US \$000</u>	June 30, 2019				December 31, 2018	
	Stage 1 12-month ECL	ECL Staging Stage 2 life-time ECL	Stage 3 life-time ECL	Purchased credit- impaired	Total	Total
Finance loans and leases – amortised cost						
Credit grade:						
Investment	1,494	-	-	-	1,494	1,519
Non-investment	502,438	16,581	-	-	519,019	507,871
Watch	-	2,556	-	-	2,556	2,942
Default	-	-	12,651	-	12,651	15,522
Gross carrying amount	503,932	19,137	12,651	-	535,720	527,854
Loss allowance	(3,754)	(798)	(6,106)	-	(10,658)	(13,368)
Carrying amount	500,178	18,339	6,545	-	525,062	514,486

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14. CREDIT RISK (continued)

14.1 Credit risk exposure – financial investments subject to impairment (continued)

<u>Amounts in US \$000</u>	June 30, 2019				December 31, 2018	
	ECL Staging			Purchased credit- impaired	Total	Total
Securities purchased for resale – amortised cost	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL			
Credit grade:						
Non-investment	22,178	-	-	-	22,178	7,170
Gross carrying amount	22,178	-	-	-	22,178	7,170
Loss allowance	-	-	-	-	-	-
Carrying amount	22,178	-	-	-	22,178	7,170

<u>Amounts in US \$000</u>	June 30, 2019				December 31, 2018	
	ECL Staging			Purchased credit- impaired	Total	Total
Policy loans – amortised cost	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL			
Credit grade:						
Investment	80,104	-	-	-	80,104	79,658
Non-investment grade	68,555	-	-	-	68,555	67,498
Gross carrying amount	148,659	-	-	-	148,659	147,156
Loss allowance	(154)	-	-	-	(154)	(110)
Carrying amount	148,505	-	-	-	148,505	147,046

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14. CREDIT RISK (continued)

14.1 Credit risk exposure – financial investments subject to impairment (continued)

<u>Amounts in US \$000</u>	June 30, 2019				December 31, 2018		
	ECL Staging				Purchased credit-impaired	Total	Total
Deposits – amortised cost	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL				
Credit grade:							
Investment	39,801	-	-	-	39,801	72,335	72,335
Non-investment	10,416	1	-	-	10,417	34,170	34,170
Watch	11,436	371	-	-	11,807	592	592
Unrated	432	-	-	-	432	430	430
Gross carrying amount	62,085	372	-	-	65,457	107,527	107,527
Loss allowance	(192)	(64)	-	-	(256)	(419)	(419)
Carrying amount	61,893	308	-	-	62,201	107,108	107,108

<u>Amounts in US \$000</u>	June 30, 2019				December 31, 2018		
	ECL Staging				Purchased credit-impaired	Total	Total
Debt securities – FVOCI	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL				
Credit grade:							
Investment	2,255,325	4,125	-	-	2,259,450	2,128,635	2,128,635
Non-investment	557,727	83,118	12,719	-	653,564	565,586	565,586
Default	-	-	43,689	-	43,689	23,467	23,467
Gross carrying amount	2,813,052	87,243	56,408	-	2,956,703	2,717,688	2,717,688
Loss allowance	(1,855)	(6,203)	(19,998)	-	(28,056)	(29,212)	(29,212)
Carrying amount	2,811,197	81,040	36,410	-	2,928,647	2,688,476	2,688,476

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14. CREDIT RISK (continued)

14.2 Loss allowances

The allowance for ECL is recognised in each reporting period and is impacted by a variety of factors, as described below:

- Transfers between stages due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired during the period;
- 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 inputs used in the calculation including the effect of 'step-up' (or 'step down') between 12-month and life-time ECL;
- Impacts on the measurement of ECL due to changes made to models and assumptions; and
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements;

The following tables contain analysis of the movement of loss allowances in respect of financial investments subject to impairment.

DEBT SECURITIES - FVOCI

<u>Amounts in US \$000</u>	<u>ECL staging</u>				<u>Total</u>
	<u>Stage 1</u> <u>12-month</u> <u>ECL</u>	<u>Stage 2</u> <u>Lifetime</u> <u>ECL</u>	<u>Stage 3</u> <u>Lifetime</u> <u>ECL</u>	<u>Purchased</u> <u>credit-</u> <u>impaired</u>	
Six months ended June 30, 2019					
Loss Allowance as at January 1, 2019	1,646	8,011	19,555	-	29,212
Transfers:					
Transfer from Stage 1 to Stage 2	(3)	3	-	-	-
Transfer from Stage 2 to Stage 1	38	(38)	-	-	-
Transfer from Stage 2 to Stage 3	-	(276)	276	-	-
New financial assets originated or purchased	594	200	-	-	794
Financial assets fully derecognised during the period	(325)	(1,436)	-	-	(1,761)
Changes to inputs used in ECL calculation	(87)	(230)	137	-	(180)
Foreign exchange adjustment	(8)	(31)	30	-	(9)
Loss Allowance as at June 30, 2019	1,855	6,203	19,998	-	28,056
Six months ended June 30, 2018					
Loss Allowance as at January 1, 2018	2,780	8,863	95	-	11,738
Transfers:					
Transfer from Stage 1 to Stage 2	(6)	6	-	-	-
Transfer from Stage 1 to Stage 3	(777)	-	777	-	-
Transfer from Stage 2 to Stage 3	-	(1,826)	1,826	-	-
New financial assets originated or purchased	461	-	-	-	461
Financial assets fully derecognised during the period	(532)	(785)	-	-	(1,317)
Changes in models/assumptions used in ECL calculation	(6)	-	-	-	(6)
Changes to inputs used in ECL calculation	(122)	729	8,756	156	9,519
Foreign exchange adjustment	(29)	47	33	-	51
Loss Allowance as at June 30, 2018	1,769	7,034	11,487	156	20,446

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14. CREDIT RISK (continued)

14.2 Loss allowances (continued)

DEBT SECURITIES – AMORTISED COST

<u>Amounts in US \$000</u>	ECL staging				Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit- impaired	
Six months ended June 30, 2019					
Loss Allowance as at January 1, 2019	1,855	1,228	161	612	3,856
New financial assets originated or purchased	258	-	-	-	258
Financial assets fully derecognised during the period	(211)	-	(104)	-	(315)
Changes in models/assumptions used in ECL calculation	(1)	-	-	-	(1)
Changes to inputs used in ECL calculation	(97)	(199)	2	(284)	(578)
Foreign exchange adjustment	(15)	-	-	-	(15)
Loss Allowance as at June 30, 2019	1,789	1,029	59	328	3,205
Six months ended June 30, 2019					
Loss Allowance as at January 1, 2018	1,928	8,581	-	917	11,426
Transfers:					
Transfer from Stage 1 to Stage 3	(271)	-	271	-	-
Transfer from Stage 2 to Stage 3	-	(8,491)	8,491	-	-
New debt securities originated or purchased	1,444	-	142	43	1,629
Financial assets fully derecognised during the period	(99)	(1)	-	-	(100)
Changes in models/assumptions used in ECL calculation	(12)	-	9,780	-	9,768
Changes to inputs used in ECL calculation	(5)	(24)	34,288	(40)	34,219
Foreign exchange adjustment	(23)	-	(1)	-	(24)
Loss Allowance as at June 30, 2018	2,962	65	52,971	920	56,918

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SIX MONTHS ENDED JUNE 30, 2019

14. CREDIT RISK (continued)

14.2 Loss allowances (continued)

MORTGAGE LOANS - AMORTISED COST

<u>Amounts in US \$000</u>	ECL staging				Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit- impaired	
Six months ended June 30, 2019					
Loss Allowance as at January 1, 2019	625	283	1,472	-	2,380
Transfers:					
Transfer from Stage 1 to Stage 2	(8)	8	-	-	-
Transfer from Stage 1 to Stage 3	(5)	-	5	-	-
Transfer from Stage 2 to Stage 1	107	(107)	-	-	-
Transfer from Stage 2 to Stage 3	-	(39)	39	-	-
Transfer from Stage 3 to Stage 2	-	159	(159)	-	-
Transfer from Stage 3 to Stage 1	76	-	(76)	-	-
New financial assets originated or purchased	98	11	21	-	130
Financial assets fully derecognised during the period	(23)	(18)	(313)	-	(354)
Changes in models/assumptions used in ECL calculation	29	7	-	-	36
Changes to inputs used in ECL calculation	(235)	(126)	400	-	39
Foreign exchange adjustment	(2)	(3)	(19)	-	(24)
Loss Allowance as at June 30, 2019	662	175	1,370	-	2,207
Six months ended June 30, 2018					
Loss Allowance as at January 1, 2018	941	309	1,149	-	2,399
Transfers:					
Transfer from Stage 1 to Stage 2	(51)	51	-	-	-
Transfer from Stage 1 to Stage 3	(1)	-	1	-	-
Transfer from Stage 2 to Stage 1	72	(72)	-	-	-
Transfer from Stage 2 to Stage 3	-	(1)	1	-	-
New financial assets originated or purchased	26	1	-	-	27
Financial assets fully derecognised during the period	(10)	(8)	-	-	(18)
Changes to inputs used in ECL calculation	(399)	46	(1,144)	-	(1,497)
Foreign exchange adjustment	(27)	(1)	-	-	(28)
Loss Allowance as at June 30, 2018	551	325	7	-	883

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SIX MONTHS ENDED JUNE 30, 2019

14. CREDIT RISK (continued)

14.2 Loss allowances (continued)

FINANCE LOANS AND FINANCE LEASES - AMORTISED COST

<u>Amounts in US \$000</u>	ECL staging				Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit- impaired	
Six months ended June 30, 2019					
Loss Allowance as at January 1, 2019	4,441	1,196	7,731	-	13,368
Transfers:					
Transfer from Stage 1 to Stage 2	(99)	99	-	-	-
Transfer from Stage 1 to Stage 3	(17)	-	17	-	-
Transfer from Stage 2 to Stage 1	413	(413)	-	-	-
Transfer from Stage 2 to Stage 3	-	(85)	85	-	-
Transfer from Stage 3 to Stage 1	3	-	(3)	-	-
New financial assets originated or purchased	676	110	169	-	955
Financial assets fully derecognised during the period	(519)	(251)	(1,745)	-	(2,515)
Changes in models/assumptions used in ECL calculation	(36)	(28)	-	-	(64)
Changes to inputs used in ECL calculation	(1,028)	188	6	-	(834)
Foreign exchange adjustment	(80)	(18)	(154)	-	(252)
Loss Allowance as at June 30, 2019	3,754	798	6,106	-	10,658
Six months ended June 30, 2018					
Loss Allowance as at January 1, 2018	6,113	1,427	8,295	-	15,835
Transfers:					
Transfer from Stage 1 to Stage 2	(114)	114	-	-	-
Transfer from Stage 1 to Stage 3	(10)	-	10	-	-
Transfer from Stage 2 to Stage 1	287	(287)	-	-	-
Transfer from Stage 2 to Stage 3	-	(235)	235	-	-
Transfer from Stage 3 to Stage 2	-	103	(103)	-	-
New financial assets originated or purchased	1,250	98	223	-	1,571
Financial assets fully derecognised during the period	(782)	(323)	(748)	-	(1,853)
Changes to inputs used in ECL calculation	(85)	859	1,065	-	1,839
Foreign exchange adjustment	(206)	(60)	(287)	-	(553)
Loss Allowance as at June 30, 2018	6,453	1,696	8,690	-	16,839

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14. CREDIT RISK (continued)

14.2 Loss allowances (continued)

DEPOSITS - AMORTISED COST

<u>Amounts in US \$000</u>	ECL staging				Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit- impaired	
Six months ended June 30, 2019					
Loss Allowance as at January 1, 2019	355	64	-	-	419
New financial assets originated or purchased	53	-	-	-	53
Financial assets fully derecognised during the period	(47)	-	-	-	(47)
Changes to inputs used in ECL calculation	(169)	-	-	-	(169)
Loss Allowance as at June 30, 2019	192	64	-	-	256
Six months ended June 30, 2018					
Loss Allowance as at January 1, 2018	506	51	-	-	557
New financial assets originated or purchased	240	-	-	-	240
Financial assets fully derecognised during the period	(27)	-	-	-	(27)
Changes in models/assumptions used in ECL calculation	(42)	-	-	-	(42)
Changes to inputs used in ECL calculation	(197)	(1)	-	-	(198)
Loss Allowance as at June 30, 2018	480	50	-	-	530

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SIX MONTHS ENDED JUNE 30, 2019

14. CREDIT RISK (continued)

14.2 Loss allowances (continued)

The most significant period-end assumptions used for the ECL were as follows:

Economic variable assumptions

		As of June 30, 2019		
		2020	2021	2022
Unemployment rate (USA)	Base	3.7%	3.9%	3.8%
	Upside	3.7%	3.9%	3.8%
	Downside	4.0%	4.3%	4.4%
World GDP	Base	3.5%	3.6%	3.6%
	Upside	5.1%	5.3%	5.3%
	Downside	2.6%	2.7%	2.7%
WTI Oil Prices/10	Base	\$5.63	\$5.41	\$5.29
	Upside	\$9.48	\$9.48	\$9.48
	Downside	\$3.46	\$3.32	\$3.25

Sagicor's lending operations in Barbados, Trinidad, and Jamaica have limited readily available information regarding economic forecasts. Management has examined the information within the market and selected economic drivers that have the best correlation to the portfolio's performance. Economic state is assigned to reflect the driver's impact on ECL.

Barbados	Expected state for the next 12 months	
Unemployment rate	Base	Negative
	Upside	Stable
	Downside	Negative
GDP growth	Base	Stable
	Upside	Stable
	Downside	Negative
Trinidad & Tobago	Expected state for the next 12 months	
Unemployment rate	Base	Negative
	Upside	Stable
	Downside	Negative
GDP growth	Base	Stable
	Upside	Positive
	Downside	Negative
Jamaica	Expected state for the next 12 months	
Interest rate	Base	Positive
	Upside	Positive
	Downside	Stable
Unemployment rate	Base	Positive
	Upside	Super Positive
	Downside	Negative

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SIX MONTHS ENDED JUNE 30, 2019

14. CREDIT RISK (continued)

14.2 Loss allowances (continued)

Amounts in US \$000

Significant increase in credit risk (SICR)

SICR criteria *	Actual threshold applied	Change in threshold	ECL impact of Change in threshold
Debt securities	2-notch downgrade since origination	1-notch downgrade since origination	\$1,187

The staging for lending products is primarily based on days past due with 30-day used as backstop, thus sensitivity analysis is not performed.

Debt securities	Loss Given Default		ECL impact of	
	Actual rate applied	Change in rate	Increase in value	Decrease in value
Corporate	52%	(- /+ 5) %	\$831	(\$792)
Sovereign (excluding Government of Barbados and Government of Jamaica)	45%	(- /+ 5) %	\$333	(\$333)
Sovereign (Government of Barbados - external)	36%	(- /+ 5) %	\$2,818	(\$844)
Sovereign (Government of Barbados - BAICO Bonds*)	27%	(- /+ 5) %	\$43	(43)
Sovereign (Government of Jamaica)	15%	(- /+ 5) %	\$229	(\$229)

Scenario design

The weightings assigned to each economic scenario as at January 1 and June 30, 2019 are set out in the following table.

	Base	Upside	Downside
Sagicor Life portfolios	80%	10%	10%
Sagicor Jamaica portfolios	80%	10%	10%
Sagicor Life USA	80%	10%	10%

The results of varying the upside and downside scenarios are as follows.

	Base – 80%	Base – 80%
	Upside – 5%	Upside – 15%
	Downside – 15%	Downside – 5%
	Increase in ECL	Decrease in ECL
Debt securities	\$221	(\$221)
Lending products	\$185	\$137
Government of Barbados - BAICO bonds (*)	\$3	(\$3)

*As part of the acquisition of the British American Insurance Company (BAICO) portfolio the Company received bonds issued by the Government of Barbados of US\$46.6 million to support the policyholder liabilities transferred. In order to safeguard the interest of policyholders these bonds were issued with a protective clause in accordance with the sale and purchase agreement approved by the Supreme Court which prevented the Government of Barbados from restructuring these bonds at any time. Accordingly, these bonds have been excluded from the Government of Barbados's restructuring plan, and have been classified as stage 1.

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14. CREDIT RISK (continued)

14.3 IFRS 9 Carrying Values

The following tables explain the changes in the carrying value between the beginning and the end of the period due to these factors. The gross carrying amounts of investments below represent the Group's maximum exposure to credit risk on these assets.

DEBT SECURITIES - FVOCI

<u>Amounts in US \$000</u>	ECL staging				Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit- impaired	
Six months ended June 30, 2019					
Gross carrying amount as at January 1, 2019	2,566,176	97,233	54,279	-	2,717,688
Transfers:					
Transfer from Stage 1 to Stage 2	(2,588)	2,588	-	-	-
Transfer from Stage 2 to Stage 3	-	(739)	739	-	-
New financial assets originated or purchased	713,483	2,640	-	-	716,123
Financial assets fully derecognised during the period	(392,523)	(13,925)	-	-	(406,448)
Changes in principle and interest	(61,242)	(343)	1,305	-	(60,280)
Foreign exchange adjustment	(10,254)	(211)	85	-	(10,380)
Gross carrying amount as at June 30, 2019	2,813,052	87,243	56,408	-	2,956,703
Six months ended June 30, 2018					
Gross carrying amount as at January 1, 2018	2,061,339	136,393	2,330	-	2,200,062
Transfers:					
Transfer from Stage 1 to Stage 2	(6,891)	6,891	-	-	-
Transfer from Stage 1 to Stage 3	(18,021)	-	18,021	-	-
Transfer from Stage 2 to Stage 3	-	(31,385)	31,385	-	-
New financial assets originated or purchased	525,127	-	-	-	525,127
Financial assets fully derecognised during the period	(304,294)	(10,046)	-	-	(314,340)
Changes in principle and interest	(22,150)	(4,516)	(6,538)	2,304	(30,900)
Foreign exchange adjustment	(11,322)	(70)	136	-	(11,256)
Gross carrying amount as at June 30, 2018	2,223,788	97,267	45,334	2,304	2,368,693

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SIX MONTHS ENDED JUNE 30, 2019

14. CREDIT RISK (continued)

14.3 IFRS 9 Carrying Values (continued)

DEBT SECURITIES - AMORTISED COST

<u>Amounts in US \$000</u>	ECL staging				Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit- impaired	
Six months ended June 30, 2019					
Gross carrying amount as at January 1, 2019	931,848	12,152	798	156,099	1,100,897
New financial assets originated or purchased	167,562	-	-	-	167,562
Financial assets fully derecognised during the period	(118,039)	-	(307)	(662)	(119,008)
Write-offs	(82)	-	-	-	(82)
Changes in principle and interest	14,862	(453)	(244)	653	14,818
Foreign exchange adjustment	(6,026)	1	-	-	(6,025)
Gross carrying amount as at June 30, 2019	990,125	11,700	247	156,090	1,158,162
Six months ended June 30, 2018					
Gross carrying amount as at January 1, 2018	813,354	225,621	-	12,708	1,051,683
Transfers:					
Transfer from Stage 1 to Stage 3	(14,806)	-	14,806	-	-
Transfer from Stage 2 to Stage 3	-	(213,403)	213,403	-	-
New financial assets originated or purchased	124,912	1,682	-	202	126,796
Financial assets fully derecognised during the period	(52,672)	(515)	(885)	(319)	(54,391)
Changes in principle and interest	2,952	(5,866)	2,343	(23)	(594)
Foreign exchange adjustment	(9,072)	-	1	-	(9,071)
Gross carrying amount as at June 30, 2018	864,668	7,519	229,668	12,568	1,114,423

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14. CREDIT RISK (continued)

14.3 IFRS 9 Carrying Values (continued)

MORTGAGE LOANS - AMORTISED COST

<u>Amounts in US \$000</u>	ECL staging				Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit- impaired	
Six months ended June 30, 2019					
Gross carrying amount as at January 1, 2019	297,646	17,079	24,675	-	339,400
Transfers:					
Transfer from Stage 1 to Stage 2	(5,047)	5,047	-	-	-
Transfer from Stage 1 to Stage 3	(3,023)	-	3,023	-	-
Transfer from Stage 2 to Stage 1	5,824	(5,824)	-	-	-
Transfer from Stage 2 to Stage 3	-	(3,795)	3,795	-	-
Transfer from Stage 3 to Stage 2	-	990	(990)	-	-
Transfer from Stage 3 to Stage 1	1,149	-	(1,149)	-	-
New financial assets originated or purchased	30,281	316	77	-	30,674
Financial assets fully derecognised during the period	(8,290)	(563)	(2,521)	-	(11,374)
Changes in principle and interest	(5,493)	(747)	(235)	-	(6,475)
Foreign exchange adjustment	(795)	(108)	(122)	-	(1,025)
Gross carrying amount as at June 30, 2019	312,252	12,395	26,553	-	351,200
Six months ended June 30, 2018					
Gross carrying amount as at January 1, 2018	270,719	17,567	29,934	-	318,220
Transfers:					
Transfer from Stage 1 to Stage 2	(5,616)	5,616	-	-	-
Transfer from Stage 1 to Stage 3	(98)	-	98	-	-
Transfer from Stage 2 to Stage 1	5,582	(5,582)	-	-	-
Transfer from Stage 2 to Stage 3	-	(1,427)	1,427	-	-
Transfer from Stage 3 to Stage 2	-	768	(768)	-	-
Transfer from Stage 3 to Stage 1	327	-	(327)	-	-
New financial assets originated or purchased	19,464	205	145	-	19,814
Financial assets fully derecognised during the period	(10,785)	(1,249)	(563)	-	(12,597)
Changes in principle and interest	(3,749)	(222)	(1,474)	-	(5,445)
Foreign exchange adjustment	(1,068)	(179)	(171)	-	(1,418)
Gross carrying amount as at June 30, 2018	274,776	15,497	28,301	-	318,574

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED JUNE 30, 2019

14. CREDIT RISK (continued)

14.3 IFRS 9 Carrying Values (continued)

FINANCE LOANS AND FINANCE LEASES - AMORTISED COST

<u>Amounts in US \$000</u>	ECL staging				Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit- impaired	
Six months ended June 30, 2019					
Gross carrying amount as at January 1, 2019	497,099	15,233	15,522	-	527,854
Transfers:					
Transfer from Stage 1 to Stage 2	(11,314)	11,314	-	-	-
Transfer from Stage 1 to Stage 3	(1,968)	-	1,968	-	-
Transfer from Stage 2 to Stage 1	5,850	(5,850)	-	-	-
Transfer from Stage 2 to Stage 3	-	(927)	927	-	-
Transfer from Stage 3 to Stage 1	6	-	(6)	-	-
New financial assets originated or purchased	90,945	2,508	309	-	93,762
Financial assets fully derecognised during the period	(58,794)	(2,758)	(5,076)	-	(66,628)
Changes in principle and interest	(9,314)	(320)	(746)	-	(10,380)
Foreign exchange adjustment	(8,578)	(63)	(247)	-	(8,888)
Gross carrying amount as at June 30, 2019	503,932	19,137	12,651	-	535,720
Six months ended June 30, 2018					
Gross carrying amount as at January 1, 2018	544,414	12,236	19,946	-	576,596
Transfers:					
Transfer from Stage 1 to Stage 2	(9,758)	9,758	-	-	-
Transfer from Stage 1 to Stage 3	(994)	-	994	-	-
Transfer from Stage 2 to Stage 1	2,319	(2,319)	-	-	-
Transfer from Stage 2 to Stage 3	-	(1,420)	1,420	-	-
Transfer from Stage 3 to Stage 2	-	169	(169)	-	-
New financial assets originated or purchased	105,433	3,806	3,834	-	113,073
Financial assets fully derecognised during the period	(74,289)	(1,897)	(1,226)	-	(77,412)
Write-offs	-	(3)	(67)	-	(70)
Changes in principle and interest	(6,841)	(856)	(207)	-	(7,904)
Foreign exchange adjustment	(11,879)	(314)	(461)	-	(12,654)
Gross carrying amount as at June 30, 2018	548,405	19,160	24,064	-	591,629

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14. CREDIT RISK (continued)

14.3 IFRS 9 Carrying Values (continued)

SECURITIES PURCHASED FOR RESALE - AMORTISED COST

<u>Amounts in US \$000</u>	ECL staging				Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit- impaired	
Six months ended June 30, 2019					
Gross carrying amount as at January 1, 2019	7,170	-	-	-	7,170
New financial assets originated or purchased	400,244	-	-	-	400,244
Financial assets fully derecognised during the period	(385,171)	-	-	-	(385,171)
Changes in principle and interest	(6)	-	-	-	(6)
Foreign exchange adjustment	(59)	-	-	-	(59)
Gross carrying amount as at June 30, 2019	22,178	-	-	-	22,178
Six months ended June 30, 2018					
Gross carrying amount as at January 1, 2018	16,518	-	-	-	16,518
Financial assets fully derecognised during the period	16,519	-	-	-	16,519
Foreign exchange adjustment	(1,186)	-	-	-	(1,186)
Gross carrying amount as at June 30, 2018	31,851	-	-	-	31,851

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SIX MONTHS ENDED JUNE 30, 2019

14. CREDIT RISK (continued)

14.3 IFRS 9 Carrying Values (continued)

DEPOSITS - AMORTISED COST

<u>Amounts in US \$000</u>	ECL staging				Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit- impaired	
Six months ended June 30, 2019					
Gross carrying amount as at January 01, 2019	107,156	371	-	-	107,527
New financial assets originated or purchased	20,331	-	-	-	20,331
Financial assets fully derecognised during the period	(62,786)	-	-	-	(62,786)
Changes in principle and interest	(2,189)	1	-	-	(2,188)
Foreign exchange adjustment	(427)	-	-	-	(427)
Gross carrying amount as at June 30, 2019	62,085	372	-	-	62,457
Six months ended June 30, 2018					
Gross carrying amount as at January 01, 2018	111,034	370	-	-	111,404
New financial assets originated or purchased	22,284	-	-	-	22,284
Financial assets fully derecognised during the period	(26,358)	-	-	-	(26,358)
Write-offs	(1)	-	-	-	(1)
Changes in principle and interest	195	1	-	-	196
Foreign exchange adjustment	(1,398)	-	-	-	(1,398)
Gross carrying amount as at June 30, 2018	105,756	371	-	-	106,127

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15. CASH FLOWS

<u>Amounts in US \$000</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u> Restated
Adjustments for non-cash items, interest and dividends:		
Income from financial investments – IFRS9	(218,853)	(160,733)
Loss from disposal of interests in subsidiaries and associates	347	-
Net increase in actuarial liabilities	335,400	13,322
Gain on acquisition on insurance portfolio	-	(5,280)
Interest cost and finance cost	48,995	43,544
Credit impairment losses	(19)	57,827
Depreciation and amortisation	17,245	11,234
Increase in provision for unearned premiums	(2,790)	1,515
Other items	(19,116)	(30,188)
	<u>161,209</u>	<u>(68,759)</u>
Net decrease in investments and operating assets:		
Investment property	(59)	2,500
Debt securities	(264,757)	(171,004)
Equity securities	(32,940)	(49,864)
Mortgage loans	(5,914)	(1,621)
Policy loans	(1,616)	(3,134)
Finance loans and finance leases	(24,873)	(37,152)
Securities purchased for re-sale	4,397	(8,627)
Deposits	28,080	(7,284)
Other assets and receivables	(26,245)	23,057
	<u>(323,927)</u>	<u>(253,129)</u>

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15. CASH FLOWS (continued)

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

<u>Amounts in US \$000</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u> <u>Restated</u>
Investment property:		
Disbursements	(59)	-
Disposal proceeds	-	2,500
	<u>(59)</u>	<u>2,500</u>
Debt securities:		
Disbursements	(1,399,228)	(351,407)
Disposal proceeds	1,134,471	180,403
	<u>(264,757)</u>	<u>(171,004)</u>
Equity securities:		
Disbursements	(116,815)	(234,492)
Disposal proceeds	83,875	184,628
	<u>(32,940)</u>	<u>(49,864)</u>
Net (decrease)/increase in operating liabilities:		
Insurance liabilities	(2,447)	6,574
Investment contract liabilities	31,940	2,523
Other funding instruments	(72,329)	70,993
Deposits	46,946	113,472
Securities sold for re-purchase	72,233	9,379
Other liabilities and payables	(32,959)	22,324
	<u>43,384</u>	<u>225,265</u>

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SIX MONTHS ENDED JUNE 30, 2019

15. CASH FLOWS (continued)

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

<u>Amounts in US \$000</u>	June 30, 2019	June 30, 2018 Restated
Property, plant and equipment:		
Purchases	(4,350)	(6,826)
Disposal proceeds	100	1,777
	<u>(4,250)</u>	<u>(5,049)</u>
Financing activities		
Notes and loans payable:		
Proceeds	-	-
Repayments	(12,670)	(1,377)
	<u>(12,670)</u>	<u>(1,377)</u>
Cash and cash equivalents		
Cash resources	269,379	268,945
Call deposits and other liquid balances	80,924	90,704
Bank overdrafts	(11,265)	(619)
	<u>339,038</u>	<u>359,030</u>

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SIX MONTHS ENDED JUNE 30, 2019

16. LEASES

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019.

	2019
Operating lease commitments as at December 31, 2018	<u>20,565</u>
Discounted using the lessee's incremental borrowing rate of at the date of initial application	24,244
Add: finance lease liabilities recognised as at December 31, 2018	4,255
(Less): short-term leases recognised on a straight-line basis as expense	(325)
(Less): low-value leases recognised on a straight-line basis as expense	(33)
Add/(less): adjustments as a result of a different treatment of extension and termination options	(33)
Lease liability recognised as at January 1, 2019	<u>28,108</u>
Of which are:	
Current lease liabilities	7,844
Non-current lease liabilities	20,264
	<u>28,108</u>
Lease liability recognised at June 30, 2019	
Current lease liabilities ⁽¹⁾	4,959
Non-current lease liabilities	18,283
Total right-of-use assets	<u>23,242</u>

⁽¹⁾Included in accounts payable and accrued liabilities

Right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised on the balance sheet as at December 31, 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	<u>June 30, 2019</u>	<u>January 1, 2019</u>
Land & buildings	19,454	23,434
Office furnishing, equipment & vehicles	365	419
Total right-of-use assets⁽²⁾	<u>19,819</u>	<u>23,853</u>

⁽²⁾Included in property, plant and equipment

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SIX MONTHS ENDED JUNE 30, 2019

16. LEASES (continued)

The change in accounting policy affected the following items in the balance sheet on January 1, 2019:

	Increase/ (Decrease)
Property, plant and equipment	23,853
Current lease liabilities	5,365
Lease liabilities	18,488
The net impact on retained earnings on January 1, 2019	-

Impact on segment disclosures and earnings per share

Adjusted EBITDA, segment assets and segment liabilities for June 2019 all increased as a result of the change in accounting policy. Lease liabilities are now included in segment liabilities, whereas finance lease liabilities were previously excluded from segment liabilities. The following segments were affected by the change in policy:

	Adjusted EBITDA	Assets	Liabilities ⁽¹⁾
Individual Insurance - Individual Life	440	2,664	2,728
Individual Insurance - Individual Annuity	346	1,933	1,985
Group Insurance – Group Pensions	60	56	56
Property & Casualty	37	5,009	5,088
Banking	916	7,049	7,214
Financial services	69	174	183
Farming and other business lines	1,454	2,934	3,005
	3,322	19,819	20,259

Earnings per share decreased by 1.08¢ per share for the six months to June 30, 2019 as a result of the adoption of IFRS 16.

⁽¹⁾ The impact due to finance lease liabilities existing at December 31, 2018 was \$2,983.

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16. LEASES (continued)

The Group leases various office space, equipment and motor vehicles. Rental contracts are typically made for periods ranging from 1.5 year to 12 years and these may be fixed term or have the option to be renewed or extend, extension options are described in (i) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until December 31, 2018, leases of property, plant and equipment were classified as operating leases. Payments made under these operating leases were charged to the statement of income on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the lease term and the asset is assessed for impairment periodically.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the incremental borrowing rate which is the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received and any initial direct costs, and restoration costs.

Payments associated with short-term leases are recognised as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.