

A copy of this preliminary prospectus has been filed with the securities regulatory authority in each of the provinces and territories of Canada, other than Québec, but has not yet become final. Information contained in this preliminary prospectus may not be complete and may have to be amended. This prospectus does not constitute a public offering of securities. No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

PRELIMINARY PROSPECTUS

Non-Offering Prospectus

December 3, 2018

ALIGNVEST

ACQUISITION II CORPORATION

(to be renamed Sagicor Financial Company Ltd. in connection
with its qualifying acquisition with Sagicor Financial Corporation Limited)

No securities are being offered pursuant to this prospectus. This prospectus is being filed with the securities regulatory authorities in each of the provinces and territories of Canada, other than Québec, by Alignvest Acquisition II Corporation (“**Alignvest**”), which is a special purpose acquisition corporation incorporated under the laws of the Province of Ontario. Alignvest was organized for the purpose of effecting an acquisition of one or more businesses or assets by way of a merger, share exchange, asset acquisition, share purchase, reorganization or other similar business combination involving Alignvest that will qualify as its “qualifying acquisition”. Since no securities are being sold pursuant to this prospectus, no proceeds will be raised pursuant to this prospectus.

On November 27, 2018, Alignvest announced that it had entered into a definitive arrangement agreement (the “**Arrangement Agreement**”) with Sagicor Financial Corporation Limited (“**Sagicor**” or the “**Company**”) pursuant to which, among other things, Alignvest shall acquire all of the shares of Sagicor by way of a scheme arrangement pursuant to Section 99 of the BCA (the “**Sagicor Arrangement**”). The Sagicor Arrangement constitutes Alignvest’s proposed qualifying acquisition.

Sagicor is a leading provider of insurance products and related financial services in the Caribbean region, mainly in Barbados, Jamaica and Trinidad and Tobago. Sagicor also provides life insurance and annuity products in the United States, as well as banking services in certain Caribbean countries. Sagicor’s wide range of products and services include life and health insurance, annuities, pension investment and administration services, property and casualty insurance, asset management, commercial and retail banking, investment management and other financial services. Sagicor’s common shares are currently publicly listed on the Barbados Stock Exchange, the Trinidad and Tobago Stock Exchange and, via depositary interests, on the London Stock Exchange.

This prospectus is being filed in accordance with section 1028 of the Toronto Stock Exchange Company Manual in connection with the completion of Alignvest’s proposed qualifying acquisition. **Unless otherwise indicated, or unless the context otherwise requires, this prospectus has been prepared assuming that the transactions contemplated by the Arrangement Agreement, including the Sagicor Arrangement, have been completed.**

Existing shareholders of Alignvest will continue to hold an interest in Alignvest after giving effect to the Sagicor Arrangement (referred to herein as “**New Sagicor**”). In connection with the Sagicor Arrangement, Alignvest will, among other things, be renamed “Sagicor Financial Company Ltd.” and will discontinue as a corporation under the laws of Ontario and continue as an exempted company under the laws of Bermuda, where Sagicor is incorporated. New Sagicor will own 100% of Sagicor. See “*The Business of Sagicor*”.

Alignvest’s Class A restricted voting shares (“**Alignvest Class A Restricted Voting Shares**”) are currently listed for trading on the Toronto Stock Exchange (the “**TSX**”) under the symbol “**AQY.A**”. The closing price of the Alignvest Class A Restricted Voting Shares on the TSX on November 26, 2018, the last trading day before the Arrangement Agreement was announced, was C\$9.95. The closing price of the Alignvest Class A Restricted Voting

Shares on the TSX on •, 2018, was C\$•. The share purchase warrants of Alignvest (the “**Alignvest Warrants**”) are also currently listed for trading on the TSX under the symbol “AQY.WT”. The closing price of the Alignvest Warrants on November 26, 2018, the last trading day before the Arrangement Agreement was announced, was C\$0.40. The closing price of the Alignvest Warrants on •, 2018, was C\$•. The completion of the Sagicor Arrangement is conditional upon, among other things, approval by the TSX.

An investment in New Sagicor is subject to a number of risks that should be carefully considered by investors. In reviewing this prospectus, an investor should carefully consider the matters described under the heading “*Risk Factors*”.

As the Sagicor Arrangement constitutes Alignvest’s proposed qualifying acquisition, holders of Alignvest Class A Restricted Voting Shares can (conditional on closing) elect to redeem all or a portion of their Alignvest Class A Restricted Voting Shares, whether they vote for or against, or do not vote on, the Transaction, provided that they deposit their Alignvest Class A Restricted Voting Shares for redemption prior to the fifth business day before the meeting of Alignvest’s shareholders.

A redeeming Alignvest shareholder is entitled (conditional on closing) to receive an amount per Alignvest Class A Restricted Voting Share, payable in cash, equal to the pro-rata portion of: (A) the escrowed funds available in Alignvest’s escrow account at the Redemption Date, including interest and other amounts earned thereon; less (B) an amount equal to the total of (i) applicable taxes payable by Alignvest on such interest and other amounts earned in the escrow account, and (ii) actual and expected direct expenses related to the redemption, each as reasonably determined by Alignvest. This redemption amount is anticipated to be approximately C\$10.20 per Alignvest Class A Restricted Voting Share, assuming a late February, 2019 redemption date.

Original purchasers of Alignvest Class A Restricted Voting Shares and/or Alignvest Warrants from the underwriters in Alignvest’s initial public offering may, following closing in certain circumstances, have a contractual right of action for rescission or damages against New Sagicor and certain other persons. See “*Contractual Right of Action*”.

This prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities.

Shareholders should be aware that the acquisition, holding and disposition of the securities described in this prospectus may have tax consequences in Canada and elsewhere depending on each particular shareholder’s specific circumstances. Shareholders should consult their own tax advisors with respect to such tax considerations. See “*Certain Canadian Federal Income Tax Considerations*”.

No underwriters have been involved in the preparation of this prospectus or performed any review or independent due diligence of the contents of this prospectus.

This document is not, and under no circumstances is to be construed as, an advertisement or a public offering of securities in Barbados.

The sale and distribution of shares in Barbados is made without the filing of a prospectus. The distribution of securities in Barbados is made relying upon certain prospectus exemptions under the *Securities Act* Chapter 318A of the laws of Barbados (the “**Barbados Securities Act**”), and no prospectus will be filed in Barbados unless required by the Barbados Financial Services Commission (“**BFSC**”). The issuer shall cause notice of the distribution of shares to be made by filing a report with the BFSC under the Barbados Securities Act within 10 days of the completion of the distribution of shares. In the event that the BFSC does require a filing, it is not anticipated that it would contain any information which is materially different from what is contained in this prospectus.

None of the BFSC, the Barbados Stock Exchange or similar authority in Barbados has reviewed this document, or in any way evaluated or passed an opinion on the merits of the securities offered hereunder, and any representation to the contrary is an offence.

The permission of the Bermuda Monetary Authority is required, under the provisions of the Exchange Control Act 1972 and related regulations, for all issuances and transfers of shares (which includes the New Sagicor Common Shares) of Bermuda companies to or from a non-resident of Bermuda for exchange control purposes, other than in cases where the Bermuda Monetary Authority has granted a general permission. The Bermuda Monetary Authority,

in its notice to the public dated June 1, 2005, has granted a general permission for the issue and subsequent transfer of any securities of a Bermuda company from and/or to a non-resident of Bermuda for exchange control purposes for so long as any "Equity Securities" of the company (which would include the New Sagicor Common Shares) are listed on an "Appointed Stock Exchange" (which would include the TSX). In granting the general permission the Bermuda Monetary Authority accepts no responsibility for New Sagicor's financial soundness or the correctness of any of the statements made or opinions expressed in this prospectus. Certain issues and transfers of common shares involving persons deemed resident in Bermuda for exchange control purposes require the specific consent of the Bermuda Monetary Authority.

In addition, no New Sagicor Common Shares may be offered or sold in Bermuda unless in compliance with the provisions of the Investment Business Act 2003 of Bermuda (as amended). Additionally, non-Bermudian persons may not carry on or engage in any trade or business in Bermuda unless such persons are authorized to do so under applicable Bermuda legislation. Engaging in the activity of offering or marketing the securities being offered to persons in Bermuda may be deemed to be carrying on business in Bermuda.

Neither the Registrar of Companies in Bermuda nor the Bermuda Monetary Authority or any other relevant Bermuda authority or governmental body in Bermuda has approved or disapproved of this prospectus or passed upon the adequacy of this prospectus. Any representation to the contrary is a criminal offence.

The head and registered offices of Alignvest are located at 100 King Street West, 70th Floor, Suite 7050, Toronto, Ontario, Canada M5X 1C7. The head office of New Sagicor will be located at Cecil F De Caires Building, Wildey, St. Michael, Barbados.

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GLOSSARY OF TERMS

“**2.2 Jurisdictions**” means the list of jurisdictions which are required by the European Union to address concerns of the COCG relating to the demonstration of economic substance;

“**2022 Notes**” has the meaning ascribed to it under the heading “*Management’s Discussion and Analysis of Sagicor – Significant Transactions*”;

“**AA**” means Appointed Actuary;

“**Advance Notice Provisions**” has the meaning ascribed to it under the heading “*Description of Securities – Advance Notice Requirements for Director Nominations*”;

“**AIM**” means Alignvest Investment Management Corporation;

“**Alignvest**” means Alignvest Acquisition II Corporation;

“**Alignvest Arrangement**” means the arrangement of Alignvest under section 182 of the OBCA on the terms and subject to the conditions set forth in the Alignvest Plan of Arrangement, subject to any amendments or variations thereto made in accordance with the terms of the Arrangement Agreement or made at the discretion of the Ontario Court in the Final Order with the prior written consent of each of Alignvest and Sagicor, each acting reasonably;

“**Alignvest Arrangement Resolution**” means the special resolution of the Alignvest Shareholders approving the Alignvest Arrangement to be considered at the Alignvest Meeting;

“**Alignvest Audited Annual Financial Statements**” means the audited financial statements of Alignvest as of and for the year ended March 31, 2018, together with the notes thereto and the auditors’ report thereon, and attached to this prospectus as Appendix A;

“**Alignvest Articles of Arrangement**” means the articles of arrangement of Alignvest in respect of the Alignvest Arrangement required by the OBCA to be sent to the Director after the Final Order is made, which shall include the Alignvest Plan of Arrangement and otherwise be in a form and content satisfactory to Alignvest and Sagicor, each acting reasonably;

“**Alignvest Certificate of Arrangement**” means the certificate of arrangement to be issued by the Director pursuant to subsection 183(2) of the OBCA in respect of the Alignvest Articles of Arrangement;

“**Alignvest Class A Restricted Voting Shares**” means the Class A restricted voting shares in the capital of Alignvest, and each an “**Alignvest Class A Restricted Voting Share**”;

“**Alignvest Class A Restricted Voting Units**” means the Class A restricted voting units offered to the public under Alignvest’s initial public offering at an offering price of C\$10.00 per Alignvest Class A Restricted Voting Unit, each comprised of one Alignvest Class A Restricted Voting Share and one-half of an Alignvest Warrant;

“**Alignvest Class B Shares**” means the Class B shares in the capital of Alignvest, and each an “**Alignvest Class B Share**”;

“**Alignvest Common Shares**” means the common shares in the capital of Alignvest, and include where applicable common shares in the capital of Alignvest following the Alignvest Continuance;

“**Alignvest Continuance**” means the discontinuance of Alignvest as a corporation under the laws of Ontario and the continuance of Alignvest as an exempted company under the laws of Bermuda, as contemplated in the Alignvest Plan of Arrangement;

“**Alignvest Continuance Resolution**” means the special resolution of the Alignvest Shareholders approving the Alignvest Continuance to be considered at the Alignvest Meeting;

“**Alignvest directors**” has the meaning ascribed to it under the heading “*Contractual Right of Action*”;

“**Alignvest Effective Date**” means the date shown on the Alignvest Certificate of Arrangement giving effect to the Alignvest Arrangement;

“**Alignvest Effective Time**” means 12:01 a.m. (Toronto time) on the Alignvest Effective Date, or such other time as Alignvest and Sagicor agree to in writing before the Alignvest Effective Date;

“**Alignvest Expenses**” means all Alignvest expenses (other than expenses paid on or prior to November 27, 2018 and any expenses paid with Alignvest’s working capital (as at November 27, 2018) on or prior to the Effective Date), which include deferred underwriter fees and expenses related to the initial public offering of Alignvest, Alignvest’s ongoing affairs and the transactions contemplated under the Transaction, together with a reasonable reserve for future expenses; provided that all such Alignvest expenses, in the aggregate, shall not exceed US\$20 million;

“**Alignvest Forward Purchase Agreements**” means the subscription agreements between Alignvest, on the one hand, and each of the Alignvest Forward Purchasers, on the other hand, together with any other subscription for Alignvest Class B Shares (plus, if applicable, Alignvest Warrants) entered into prior to the Alignvest Effective Time;

“**Alignvest Forward Purchase Unit**” means one New Sagicor Common Share and one-third of an Alignvest Warrant to be purchased by Alignvest Forward Purchasers under the Alignvest Forward Purchase Agreements, excluding the Alignvest Class B Shares already issued;

“**Alignvest Forward Purchasers**” means the investors that are a party to the Alignvest Forward Purchase Agreements with Alignvest;

“**Alignvest Forward Purchases**” means the subscriptions by the Alignvest Forward Purchasers for, and the issuance by Alignvest to the Alignvest Forward Purchasers of an aggregate of 11,300,000 New Sagicor Common Shares and 3,766,659 Alignvest Warrants, together with certain Alignvest Class B Shares already issued and any other subscription for Alignvest Class B Shares (plus, if applicable, Alignvest Warrants) entered into prior to the Alignvest Effective Time, for an aggregate purchase price of C\$10 per Alignvest Forward Purchase Unit and/or Alignvest Class B Share (plus, if applicable, Alignvest Warrants), and otherwise on the terms set out in the Alignvest Forward Purchase Agreements contemporaneously with or prior to the Alignvest Effective Time, as set out in the Alignvest Forward Purchase Agreements;

“**Alignvest Founders**” means, collectively, Alignvest II, Vince Hemmer, Azim Jamal, Anthony Lacavera, Lee Lau, Nadir Mohamed, Joe Natale, Helmut Swarovski, and Donald Walker;

“**Alignvest II**” means Alignvest II LP;

“**Alignvest Meeting**” means the special meeting of Alignvest Shareholders, including any adjournment or postponement of such special meeting in accordance with the terms of the Arrangement Agreement, called and held in accordance with the Interim Order to consider, among other things, the Alignvest Arrangement Resolution, the Alignvest Continuance Resolution and for any other purpose as may be set out in the management information circular to be sent out to Alignvest Shareholders in connection therewith;

“**Alignvest Partners**” means Alignvest Partners Master Fund LP;

“**Alignvest Plan of Arrangement**” means the plan of arrangement in respect of Alignvest being carried out pursuant to the Arrangement Agreement, subject to any amendments or variations to such plan made in accordance

with the terms thereof or made at the direction of the Ontario Court proposed under Section 182 of the OBCA with the prior written consent of Alignvest and Sagicor, each acting reasonably;

“**Alignvest Resolutions**” means the resolutions of the Alignvest Shareholders to be considered at the Alignvest Meeting, including the resolutions approving the Alignvest Arrangement Resolution and the Alignvest Continuance Resolution, together with resolutions to consider such other matters as may be contemplated by the Arrangement Agreement or required by the TSX and/or the Alignvest Securities Authorities;

“**Alignvest Securities Authorities**” means, collectively, the Alberta Securities Commission, British Columbia Securities Commission, Manitoba Securities Commission, Financial and Consumer Services Commission of New Brunswick, Office of the Superintendent of Securities Service Newfoundland and Labrador, Office of the Superintendent of Securities of Northwest Territories, Nova Scotia Securities Commission, Nunavut Securities Office, Ontario Securities Commission, Office of the Superintendent of Securities of Prince Edward Island, Financial and Consumer Affairs Authority of Saskatchewan and the Office of the Yukon Superintendent of Securities;

“**Alignvest Securities Laws**” means the Securities Act (Ontario) and all the securities laws of each province and territory of Canada, except Quebec, and the rules, regulations and policies of the TSX;

“**Alignvest Shareholder Approval**” means the approval by the Alignvest Shareholders of the Alignvest Arrangement Resolution and the Alignvest Continuance Resolution by special resolution (in each case, with holders of both classes of Alignvest Shares voting as if they were a single class), and/or such other approval as may be required by the Ontario Court with respect to the Alignvest Arrangement Resolution, by the TSX or by the Alignvest Securities Authorities;

“**Alignvest Shareholders**” means (a) prior to the Effective Time, the registered or beneficial holders of the Alignvest Shares, as the context requires, and (b) at and after the completion of the transactions contemplated herein, the registered and/or beneficial holders of the Alignvest Common Shares;

“**Alignvest Shares**” means the Alignvest Class A Restricted Voting Shares and the Alignvest Class B Shares;

“**Alignvest Warrants**” means the share purchase warrants to acquire New Sagicor Common Shares commencing 30 days after the completion of Alignvest’s qualifying acquisition, at an exercise price of CDN\$11.50 per share;

“**allowable capital loss**” has the meaning ascribed to it under the heading “*Certain Canadian Federal Income Tax Considerations – Disposition of Securities*”;

“**ALM**” means asset and liability management;

“**A.M. Best**” means A.M. Best Company;

“**AMC**” means Alignvest Management Corporation;

“**Arrangement Agreement**” means the arrangement agreement dated November 27, 2018, between Alignvest and Sagicor relating to, among other things, the Sagicor Arrangement, as it may be amended, supplemented or otherwise modified from time to time;

“**Audit Committee**” has the meaning ascribed to it under the heading “*Audit Committee*”;

“**Barbados Securities Act**” means the *Securities Act* Chapter 318A of the laws of Barbados;

“**BSE**” means the Barbados Stock Exchange;

“**BCA**” means the *Companies Act 1981 of Bermuda*;

“**Bermuda Court**” means the Supreme Court of Bermuda;

“**Bermuda Court Order**” means the order of the Bermuda Court sanctioning the Sagicor Arrangement pursuant to Section 99 of the BCA;

“**BFSC**” means the Barbados Financial Services Commission;

“**BNS**” means The Bank of Nova Scotia;

“**BNS Caribbean**” means Scotiabank Caribbean Holdings Limited;

“**BNS Jamaica**” means The Bank of Nova Scotia Jamaica Limited;

“**BNS TT**” means Scotiabank Trinidad & Tobago Limited;

“**Board Appointment Letter Agreement**” has the meaning ascribed to it under the heading “*Material Contracts*”;

“**Book Value**” means the aggregate total shareholders’ equity of New Sagicor, as at the last day of any calendar quarter on or after Book Value Baseline Date and determined in accordance with IFRS as in effect as at the Book Value Baseline Date;

“**Book Value Baseline**” means the aggregate total shareholders’ equity of New Sagicor as at the Book Value Baseline Date;

“**Book Value Baseline Date**” means the date that is the last day of the calendar quarter ending immediately after the Effective Time;

“**C&HR Committee**” means the Compensation and Human Resources Committee of New Sagicor;

“**CAGR**” means compound annual growth rate;

“**CALM**” means the Canadian Asset Liability Method, and in certain cases as described in this prospectus, PPM has been used as an approximation for CALM;

“**Cash Consideration**” means the cash consideration in the amount of US\$1.75 per Scheme Share made available to each Scheme Shareholder as at the Election Record Date in respect of each Scheme Share up to the Specified Number of Scheme Shares held by each such Scheme Shareholder as at the Election Record Date (provided that each such Scheme Share up to the Specified Number of Scheme Shares continues to be held by such Scheme Shareholder at the Effective Time) in exchange for the transfer of each such Scheme Share to Alignvest at the Effective Time pursuant to the Sagicor Arrangement;

“**Cash Qualifying Scheme Shareholder**” means a Scheme Shareholder as at the Election Record Date which has validly elected to receive the Cash Consideration in respect of each Scheme Share up to the Specified Number of Scheme Shares held by such Scheme Shareholder as at the Election Record Date (provided that each such Scheme Share up to the Specified Number of Scheme Shares continues to be held by such Scheme Shareholder at the Effective Time), such election having been made by such Scheme Shareholder and received by Sagicor on or prior to the election deadline;

“**Central Banks**” means the central banks of the jurisdictions where Sagicor carries on business, including the Federal Reserve Bank, the Central Bank of Bahamas, the Cayman Islands Monetary Authority, the Eastern Caribbean Central Bank, the Bank of Jamaica and the Central Bank of Barbados;

“**CFATF**” means Caribbean Financial Action Task Force;

“**CG&E Committee**” means the Corporate Governance and Ethics Committee of New Sagicor;

“**CGUs**” means cash generating units;

“**CIA**” means Canadian Institute of Actuaries;

“**Closing Exchange Rate**” means the CAD/USD exchange rate as of 5:00PM (Toronto Time) on the date which is one (1) Business Day prior to the Closing Date (or such earlier date as is required by a Governmental Authority or mutually agreed by Sagicor and Alignvest) using the mid-rate from the “BFIX” screen of Bloomberg (and if such rate or screen is not available, a replacement data source to be mutually agreed upon by Alignvest and Sagicor, each acting reasonably);

“**Co-lead Underwriters**” has the meaning ascribed to it under the heading “*Securities Subject to Contractual Restriction on Transfer – Founders’ Shares*”;

“**COCG**” means the Code of Conduct Group (Business Taxation);

“**Code of Ethics**” has the meaning ascribed to it under the heading “*Corporate Governance – Ethical Business Conduct*”;

“**Company**” means Sagicor Financial Corporation Limited;

“**Criterion 2.1**” has the meaning ascribed to it under the heading “*Risk Factors*”;

“**Director**” means the Director appointed pursuant to Section 278 of the OBCA;

“**Effective Date**” means the date on which the Effective Time occurs;

“**Effective Time**” means the date and time at which an office copy of the Bermuda Court Order shall have been filed with the Registrar of Companies in Bermuda for registration;

“**Election Record Date**” means 5:00 p.m. (Toronto time) on December 6, 2018, or such other date as is required by a Governmental Authority;

“**Escrow Agreement**” means the escrow agreement among Alignvest, TSX Trust Company, and its successors and permitted assigns, and Scotia Capital Inc., dated May 25, 2017;

“**Exchange Ratio**” means the number which is the quotient of (i) 1.75 divided by (ii) the product of 10.00 and the Closing Exchange Rate;

“**Extraordinary Dividends**” means any dividend paid by New Sagicor, together with all other dividends payable by New Sagicor in the same calendar year, that has an aggregate absolute dollar value which is greater than C\$0.25 per share, with the adjustment to the applicable price (as the context may require) being a reduction equal to the amount of the excess;

“**Final Order**” means the final order of the Ontario Court pursuant to Section 182(5)(f) of the OBCA in a form acceptable to Alignvest and Sagicor, each acting reasonably, approving the Alignvest Arrangement, as such order may be amended by the Ontario Court (with the consent of both Alignvest and Sagicor, each acting reasonably) or, if appealed, then, unless such appeal is withdrawn or denied, as affirmed or as amended (provided that any such amendment is acceptable to both Alignvest and Sagicor, each acting reasonably) on appeal;

“**Finsac**” has the meaning ascribed to it under the heading “*Legal Proceedings and Regulatory Actions*”;

“**First Share Consideration**” means the share consideration with an agreed value of US\$1.75 per Scheme Share made available to each Sagicor shareholder as at the Election Record Date and payable in the form of Alignvest shares equal to the product of the Exchange Ratio multiplied by the number of Scheme Shares up to the Specified Number held by such Scheme Shareholder as at the Election Record Date (provided that each such Scheme Share up

to the Specified Number continues to be held by such Scheme Shareholder at the Effective Time) in exchange for the transfer of such Scheme Share at the Effective Time to Alignvest pursuant to this Scheme, rounded down for each applicable Scheme Shareholder to the next whole number of New Sagicor Common Shares;

“**Fitch**” means Fitch Ratings, Ltd.;

“**forward looking information**” has the meaning ascribed to it under the heading “*Management’s Discussion and Analysis of Sagicor – Caution Regarding Forward-Looking Statements*”;

“**forward looking statement**” has the meaning ascribed to it under the heading “*Caution Regarding Forward-Looking Statements*”;

“**Forward Purchase Warrants**” means the 3,766,659 Alignvest Warrants to be purchased by the Forward Purchasers pursuant to the Forward Purchase Agreements;

“**FSCJ**” means Financial Services Commission of Jamaica;

“**FVTPL**” means fair value through profit or loss;

“**FVOCI**” means fair value through other comprehensive income;

“**GoB**” means the Government of Barbados;

“**Governmental Authority**” means any: (a) country, nation, state, commonwealth, province, territory, county, municipality, district or other jurisdiction of any nature; (b) federal, state, provincial, local, municipal, foreign or other government; (c) governmental authority of any nature (including any governmental division, department, agency, commission, instrumentality, organization, body or entity and any court or other tribunal), including, for greater certainty, a Securities Authority; (d) any quasi-governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the foregoing; (e) applicable stock exchanges; (f) applicable Central Banks; or (g) applicable self-regulatory organizations, including, if applicable, the Investment Industry Regulatory Organization of Canada and the Financial Industry Regulatory Authority;

“**Group**” means Sagicor and each of its subsidiaries;

“**Guarantors**” means Sagicor and Sagicor Life Inc.;

“**Guardian**” means Guardian General Insurance Co. Ltd;

“**Guidelines**” has the meaning ascribed to it under the heading “*Corporate Governance – Statement of Corporate Governance Practices*”;

“**Holder**” has the meaning ascribed to it under the heading “*Certain Canadian Federal Income Tax Considerations*”;

“**HSR Act**” means the U.S. Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the regulations promulgated thereunder;

“**IBNR**” means a claim under an insurance policy that is incurred but not reported;

“**IESBA Code**” means International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants;

“**IFC**” means the International Finance Corporation;

“**IFRS**” means International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Board (IASB), together with its pronouncements thereon from time to time, and applied on a consistent basis;

“**IFRS 2**” means IFRS 2 - Share-based Payments;

“**IFRS 3**” means IFRS 3 - Business Combinations;

“**IFRS 9**” means IFRS 9 – Financial Instruments;

“**IMF**” means the International Monetary Fund;

“**Indemnity Agreement**” has the meaning ascribed to it under the heading “*Legal Proceedings and Regulatory Actions*”;

“**Initial Forward Purchase Agreements**” means the Forward Purchase Agreements entered into concurrently with the closing of Alignvest’s initial public offering;

“**Investment Assets**” has the meaning ascribed to it under the heading “*Certain Canadian Federal Income Tax Considerations – Offshore Investment Fund Property*”;

“**IT**” means information technology;

“**Interim Order**” means the interim order of the Ontario Court pursuant to Section 182(5) of the OBCA in a form acceptable to Alignvest and Sagicor, each acting reasonably, providing for, among other things, the calling and holding of the Alignvest Meeting to consider the Alignvest Arrangement, as such order may be amended by the Ontario Court with the consent of each of Alignvest and Sagicor, each acting reasonably;

“**IRI**” means the Insurance Retirement Institute;

“**Law**” means any federal, state, local, municipal, provincial, foreign or other law, statute, constitution, principle of common law, resolution, ordinance, code, edict, consent order, consent decree, decree, order, judgment, rule, regulation, ruling, directive, regulatory guidance, agreement or requirement issued, enacted, adopted, promulgated, implemented or otherwise put into effect by or with or under the authority of any Governmental Authority;

“**LIMRA**” means the Life Insurance Marketing and Research Association;

“**Lock-Up Agreement**” has the meaning ascribed to it under the heading “*Securities Subject to Contractual Restriction on Transfer – Lock-Up Agreements*”;

“**Lock-Up Restrictions**” has the meaning ascribed to it under the heading “*Securities Subject to Contractual Restriction on Transfer – Lock-Up Agreements*”;

“**Locked-Up Shareholder**” means each of Dodridge D. Miller, Ravi C. Rambarran, Anthony O. Chandler, Althea C. Hazzard, Ronald B. Blitstein, J. Andrew Gallagher, Bart F. Catmull, J. Edward Clarke, Keston D. Howell, Robert J. L. Trestrail, Sir Hilary Beckles, Peter Clarke, Monish Dutt and Stephen McNamara;

“**LOMA**” means Life Office Management Association;

“**MGA**” means managing general agents;

“**MPA Agreement**” means the proposed agreement between each of the Vendors or such of their affiliates as may be appropriate and Sagicor relating to the establishment of a strategic relationship with regard to Scotiabank’s distribution of insurance credit and non-credit insurance policies underwritten by the Sagicor Provider to Scotiabank customers in Jamaica and Trinidad and Tobago;

“**MCCSR**” means, at a particular time, the Guideline A – Minimum Continuing Capital and Surplus Requirements, as promulgated by OSFI, in force at such time or, at any time after January 1, 2018, as in force at December 31, 2017;

“**Moody’s**” means Moody’s Investors Services, Inc.;

“**NAIC**” means National Association of Insurance Commissioners;

“**NEO**” means named executive officer;

“**New Sagicor**” means Alignvest, the corporation to be discontinued from Ontario under the OBCA and continued to Bermuda under the BCA after giving effect to the transactions contemplated by the Alignvest Arrangement;

“**New Sagicor Board**” means the board of directors of New Sagicor;

“**New Sagicor Common Shares**” means the common shares in the capital of Alignvest, and includes, where applicable, common shares in the capital of New Sagicor following the Alignvest Continuance;

“**New Sagicor Extraordinary Dividend**” means any dividend or distribution (whether payable in cash or in specie) on any New Sagicor Common Share, together with all other dividends and distributions (whether payable in cash or in specie) payable in the same calendar year, that has an aggregate dollar value which is greater than US\$0.25 per share, treating the value of any reinvestment of dividends under any dividend reinvestment plan as the cash amount of the related dividend or distribution, in which case the value of the New Sagicor Extraordinary Dividend shall be the amount in excess of such US\$0.25 amount (but any such excess amount related to any reinvestment of dividends under any dividend reinvestment plan shall be excluded therefrom);

“**New Sagicor Pro Forma Financial Statements**” means the unaudited pro forma financial statements of Alignvest, after giving effect to the Transaction, and, separately, the acquisitions of SJLIC and SLTT thereafter, for the year ended December 31, 2017 and as of and for the nine months ended September 30, 2018, together with the notes and assumptions thereto, and attached to this prospectus as Appendix G-1;

“**New Sagicor Shareholders**” means the holders of New Sagicor Common Shares registered in the register of members of New Sagicor as such at the applicable time;

“**NI 52-110**” means National Instrument 52-110 – *Audit Committees*;

“**NI 58-101**” means National Instrument 58-101 – *Disclosure of Corporate Governance Practices*;

“**NP 58-201**” means National Policy 58-201 – *Corporate Governance Guidelines*;

“**Nominating Shareholder**” has the meaning ascribed to it under the heading “*Description of Securities – Advance Notice Requirements for Director Nominations*”;

“**Note Trustee**” means Republic Bank Limited – Trust and Asset Management Division or any other trustee or trustees under the Trust Deed and includes the successors and assigns of the Note Trustee whether immediate or derivative;

“**Notice Date**” has the meaning ascribed to it under the heading “*Description of Securities – Advance Notice Requirements for Director Nominations*”;

“**OBCA**” means the *Business Corporations Act* (Ontario), as it may be amended from time to time;

“**OECD**” means the Organization for Economic Cooperation and Development;

“**Ontario Court**” means the Ontario Superior Ontario Court of Justice (Commercial List) or other court as applicable;

“**Order**” means any order, writ, assessment, decision, injunction, decree, judgment, ruling, award, settlement or stipulation issued, promulgated or entered into by or with any Governmental Authority;

“**OSFI**” means the Office of the Superintendent of Financial Institutions (Canada);

“**Other Share Consideration**” means the share consideration with an agreed value of US\$1.75 per Scheme Share made available to each Scheme Shareholder as at the Election Record Date and payable in the form of New Sagicor Common Shares equal to the product of the Exchange Ratio multiplied by the number of Scheme Shares held by such Scheme Shareholder as at the Effective Time (other than the Scheme Shares held by such Scheme Shareholder being exchanged for Cash Consideration or First Share Consideration) in exchange for the transfer of each such Scheme Share to Alignvest at the Effective Time pursuant to the Sagicor Scheme, rounded down for each applicable Scheme Shareholder to the next whole number of New Sagicor Common Shares;

“**Outside Date**” means April 30, 2019, which may be extended to May 31, 2019 pursuant to the Arrangement Agreement, or such other date as Sagicor and Alignvest mutually agree;

“**P&C**” means property and casualty;

“**PALIG**” means Pan-American Life Insurance Group;

“**Participating Alignvest Shareholder**” means an Alignvest Shareholder, other than a Redeeming Alignvest Shareholder;

“**Parties**” means, together, Alignvest and Sagicor, and each, a “**Party**”;

“**PCFS**” means Pan Caribbean Financial Services;

“**PEMCO**” means PEMCO Mutual Insurance Company;

“**PfAD**” means provision for adverse deviation, which is an insurance concept;

“**PPM**” means Policy Premium Method;

“**Products and Services**” means the products and services, including creditor life and health, creditor home and auto and non-creditor insurance products and services under the MPA Agreement;

“**Programs and Policies**” has the meaning ascribed to it under the heading “*Notice to Readers*”;

“**RBC Jamaica**” means, collectively, RBC Royal Bank (Jamaica) Limited and RBTT Securities Jamaica Limited;

“**Redeeming Alignvest Shareholder**” means an Alignvest Class A Restricted Voting Share shareholder who has validly elected to redeem his, her or its Alignvest Class A Restricted Voting Shares in accordance with the redemption rights provided in the constating documents of Alignvest, and who has not withdrawn such election;

“**Redemption Date**” means the date that is five business days after the Redemption Deadline;

“**Redemption Deadline**” means the date and time fixed by Alignvest on which holders of Alignvest Class A Restricted Voting Shares must deposit their Alignvest Class A Restricted Voting Shares for (conditional on closing of the Sagicor Arrangement) redemption by Alignvest in accordance with Alignvest’s constating documents and the Arrangement Agreement;

“**Register of Members**” means the register of members of Sagicor (including the branch registers);

“**Regulations**” has the meaning ascribed to it under the heading “*Certain Canadian Federal Income Tax Considerations*”;

“**Replacement Option**” has the meaning ascribed to it under the heading “*Corporate Structure – Principal Steps of the Alignvest Arrangement*”;

“**Required Minimum Book Value Increase**” means US\$125 million, except that such amount shall be (a) increased by the amount of any additional share capital raised, and (b) reduced by the amount of any share capital reductions and/or by the aggregate amount payable on all then issued and outstanding New Sagicor Common Shares of any New Sagicor Extraordinary Dividends, in each case of clauses (a) and (b), after the Book Value Baseline Date;

“**RDSP**” has the meaning ascribed to it under the heading “*Certain Canadian Federal Income Tax Considerations – Eligibility for Investment*”;

“**RESP**” has the meaning ascribed to it under the heading “*Certain Canadian Federal Income Tax Considerations – Eligibility for Investment*”;

“**Restricted Parties**” has the meaning ascribed to it under the heading “*Securities Subject to Contractual Restriction on Transfer – Founders’ Shares*”;

“**ROE**” means return on equity;

“**RRIF**” has the meaning ascribed to it under the heading “*Certain Canadian Federal Income Tax Considerations – Eligibility for Investment*”;

“**RRSP**” has the meaning ascribed to it under the heading “*Certain Canadian Federal Income Tax Considerations – Eligibility for Investment*”;

“**RSU**” means restricted share unit;

“**RSU Plan**” means the RSU plan that New Sagicor expects to adopt following the Transaction, subject to receipt of all required regulatory approvals (including approval by the TSX);

“**S&P**” means Standard & Poor’s Rating Service, a division of The McGraw Hill Companies, Inc.;

“**Sagicor**” means Sagicor Financial Corporation Limited;

“**Sagicor Arrangement**” means the scheme of arrangement pursuant to Section 99 of the BCA on the terms and subject to the conditions set forth in the Scheme of Arrangement, subject to any amendments or variations thereto made in accordance with the terms of the Arrangement Agreement or made at the direction of the Bermuda Court in the Bermuda Court Order with the prior written consent of each of Alignvest and Sagicor, each acting reasonably;

“**Sagicor Audited Annual Financial Statements**” means (a) the audited consolidated financial statements of Sagicor as of and for the years ended December 31, 2017 and 2016 together with the notes thereto and the auditor’s report dated April 4, 2018 thereon, and (b) the audited consolidated financial statements of Sagicor as of and for the years ended December 31, 2016 and 2015, together with the notes thereto and the auditor’s report dated March 31, 2017 thereon, attached to this prospectus as Appendix E;

“**Sagicor Bank**” means Sagicor Bank Jamaica Limited;

“**Sagicor Common Shares**” means common shares in the capital of Sagicor, and each a “**Sagicor Common Share**”;

“**Sagicor General**” means Sagicor General Insurance Inc.;

“Sagicor Interim Financial Statements” means the unaudited condensed consolidated interim financial statements of Sagicor as of and for the nine months ended September 30, 2018 and 2017, together with the notes thereto, and attached to this prospectus as Appendix F;

“Sagicor Investments” means Sagicor Investments Jamaica Limited;

“Sagicor Group” means Sagicor and each of its subsidiaries;

“Sagicor Jamaica” means Sagicor Group Jamaica Limited;

“Sagicor Life” means Sagicor Life Inc.;

“Sagicor Life USA” means Sagicor Life Insurance Company;

“Sagicor Meeting” means the meeting of Sagicor shareholders to be convened at the direction of the Bermuda Court for the purposes of considering and, if thought fit, approving the Scheme of Arrangement and other mutually agreed matters;

“Sagicor Option” has the meaning ascribed to it under the heading *“Corporate Structure – Principal Steps of the Alignvest Arrangement”*;

“Sagicor Provider” has the meaning ascribed to it under the heading *“Proposed Acquisitions – Proposed Acquisitions of SJLIC and SLTT - Master Program Agreement Term Sheet”*;

“Sagicor Resolution” means the resolutions of Sagicor shareholders approving the Sagicor Arrangement to be considered at the Sagicor Meeting;

“Sagicor Securities Laws” means all the securities laws of each of Barbados, Trinidad and Tobago, and the United Kingdom, and the rules, regulations and policies of the Barbados Stock Exchange, the London Stock Exchange and the Trinidad and Tobago Stock Exchange.

“Sagicor Share Plans” means: (i) that certain executive long-term incentive plan of Sagicor, effective as of December 31, 2005; and (ii) that certain share ownership plan of Sagicor for employees and advisors, effective as of December 31, 2005;

“Sagicor Shareholder Approval” means the affirmative vote of a majority in number of certain Sagicor shareholders representing at least three-fourths of the Sagicor Common Shares held by the Sagicor shareholders present and voting in person or by proxy at the Sagicor Meeting;

“Sagicor USA” means Sagicor USA, Inc.;

“Scheme of Arrangement” means the scheme of arrangement document substantially in the form exhibited to the Arrangement Agreement, subject to any amendments or variations to such document made in accordance with the terms thereof or made at the direction of the Bermuda Court in the Bermuda Court Order with the prior written consent of each of Alignvest and Sagicor, each acting reasonably;

“Scheme Consideration” means the consideration payable to Scheme Shareholders as at the Effective Time in exchange for the transfer of the Scheme Shares to Alignvest in accordance with the Sagicor Scheme, comprising (1) for eligible Persons, the option of the Cash Consideration, the First Share Consideration, or a combination of both, for up to the Specified Number held by each eligible Scheme Shareholder, and (2) in all other cases, the Other Share Consideration;

“Scheme Shares” means all of the Sagicor Common Shares in issue as at the applicable time;

“**Scheme Shareholders**” means the holders of Scheme Shares appearing on the Register of Members as at the applicable time;

“**SCI**” means Scotia Capital Inc., a wholly-owned subsidiary of BNS;

“**Scoping Paper**” has the meaning ascribed to it under the heading “*Risk Factors*”;

“**Scotia Agreements**” means the purchase agreements between Sagicor and each of the Vendors, dated November 27, 2018, and each a “**Scotia Agreement**”;

“**Scotia Audited Financial Statements**” means the audited financial statements of SLTT and SJLIC as of and for the years ended October 31, 2018 and 2017, and December 31, 2017 and 2016, respectively, together with the notes thereto and the auditors’ reports thereon, and attached to this prospectus as Appendix H;

“**Scotia Interim Financial Statements**” means the unaudited condensed interim financial statements of SJLIC as of and for the nine months ended September 30, 2018, together with the notes thereto, and attached to this prospectus as Appendix H;

“**Securities**” has the meaning ascribed to it under the heading “*Certain Canadian Federal Income Tax Considerations*”;

“**Securities Authority**” means the Governmental Authority having jurisdiction to enforce Alignvest Securities Laws or Sagicor Securities Laws, as applicable;

“**SEL**” means Sagicor Europe Limited;

“**SGJL**” means Scotia Group Jamaica Limited;

“**Share Qualifying Scheme Shareholders**” means the Scheme Shareholders as at the Effective Time (1) who or which are eligible to and have validly elected to receive the First Share Consideration; and (2) in all other cases, who or which are entitled to receive the Other Share Consideration;

“**Short Term Notes**” means the registered notes of Sagicor issued on March 21, 2016 in the aggregate principal amount of US\$75,000,000 comprising US Dollar Fixed Rate Short Term Notes 2019 constituted by the Trust Deed;

“**SJLIC**” means Scotia Jamaica Life Insurance Company Limited;

“**SLTT**” means ScotiaLife Trinidad and Tobago Limited;

“**Specified Number**” means 10,000 Sagicor Common Shares;

“**Specified Securities**” has the meaning ascribed to it under the heading “*Securities Subject to Contractual Restrictions on Transfer – Lock-Up Agreements*”;

“**Sponsor**” means Alignvest II;

“**Tax Act**” has the meaning ascribed to it under the heading “*Certain Canadian Federal Income Tax Considerations*”;

“**Tax Proposals**” has the meaning ascribed to it under the heading “*Certain Canadian Federal Income Tax Considerations*”;

“**taxable capital gain**” has the meaning ascribed to it under the heading “*Certain Canadian Federal Income Tax Considerations – Taxation of Capital Gains and Capital Losses*”;

“**TCI**” means total comprehensive income;

“**TFSA**” has the meaning ascribed to it under the heading “*Certain Canadian Federal Income Tax Considerations – Eligibility for Investment*”;

“**Transaction**” means the transactions contemplated by the Arrangement Agreement, including the Alignvest Arrangement, Sagicor Arrangement, and Alignvest Continuance;

“**Transaction Costs**” means transaction costs and listing expenses determined in accordance with reverse asset acquisition accounting (which include the impact of the Alignvest Class B Shares issued and outstanding prior to closing) and the estimated value of common shares issuable on closing of the Transaction to key Sagicor executives, as described in notes 3(e) and 3(q) of the New Sagicor Pro Forma Financial Statements attached hereto as Appendix G;

“**Transfer Restrictions Agreement and Undertaking**” has the meaning ascribed to it under the heading “*Securities Subject to Contractual Restriction on Transfer – Founders’ Shares*”;

“**Trinidad and Tobago**” means the Republic of Trinidad and Tobago;

“**Trust Deed**” means the Amended and Restated Trust Deed dated December 20, 2016 between Sagicor and the Note Trustee, and any Schedules thereto relating to the Short Term Notes;

“**TSX**” means the Toronto Stock Exchange;

“**Vendors**” means BNS Jamaica and BNS TT, and each a “**Vendor**”; and

“**Warrant Agreement**” means the warrant agency agreement between Alignvest and TSX Trust Company, as warrant agent, dated May 25, 2017, as it may be amended from time to time.

PROSPECTUS SUMMARY

The following is a summary of this prospectus and should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus.

Alignvest and AMC

Alignvest is a special purpose acquisition corporation incorporated under the laws of the Province of Ontario for the purpose of effecting an acquisition of one or more businesses or assets, by way of a merger, share exchange, asset acquisition, share purchase, reorganization, or any other similar business combination involving Alignvest, which is referred to throughout this prospectus as Alignvest's proposed "qualifying acquisition".

On November 27, 2018, Alignvest announced that it had entered into the Arrangement Agreement with Sagicor pursuant to which, among other things, Alignvest shall acquire all of the shares of Sagicor by way of a scheme of arrangement under the laws of Bermuda, where Sagicor is incorporated. The Sagicor Arrangement constitutes Alignvest's proposed qualifying acquisition.

This proposed qualifying acquisition is entirely consistent with the approach and the objectives outlined at the time of Alignvest's initial public offering, notably:

- We are partnering with a strong, experienced, well-aligned management team, who want to continue to build their business;
- Sagicor operates in an industry in which Alignvest has expertise and can be a value-added partner;
- There is a clear and demonstrated opportunity to execute accretive follow-on acquisitions; and
- Sagicor presents an opportunity to generate attractive risk-adjusted returns on invested capital.

AMC, the parent of the Sponsor of Alignvest, is a leading alternative investment management firm that seeks to deliver superior risk-adjusted returns for its clients, which include pension plans, foundations, and ultra-high net worth family offices, by identifying and exploiting market discontinuities, and by attracting the very best talent to build industry-leading investment platforms. The partners of the firm have a strong combination of investment and operational expertise, having created and managed numerous successful operating businesses, and having built and led large, highly profitable businesses within global financial and consulting firms.

AMC was formed in 2011 and has raised equity and investment capital from a number of private family offices and institutions. AMC's founding partners have committed to invest over C\$230 million of their personal capital into funds managed by AMC, on a fully discretionary basis, with the capital subject to full recyclability (including all gains). AMC believes that this long term, discretionary, and aligned pool of capital provides the firm with a strong and differentiated foundation. AMC is currently parent to five investment platforms: Alignvest Private Capital, which makes direct private investments; Alignvest Student Housing Real Estate Investment Trust, a Real Estate Investment Trust focused on consolidating the Canadian purpose-built student accommodation sector; Alignvest Investment Management, which provides institutional portfolio management services; Alignvest Capital Management, which executes public market investment strategies; and Alignvest Acquisition II Corporation, our second TSX-listed special purpose acquisition corporation.

AMC is headquartered in Toronto, Ontario, with an additional office in London, United Kingdom.

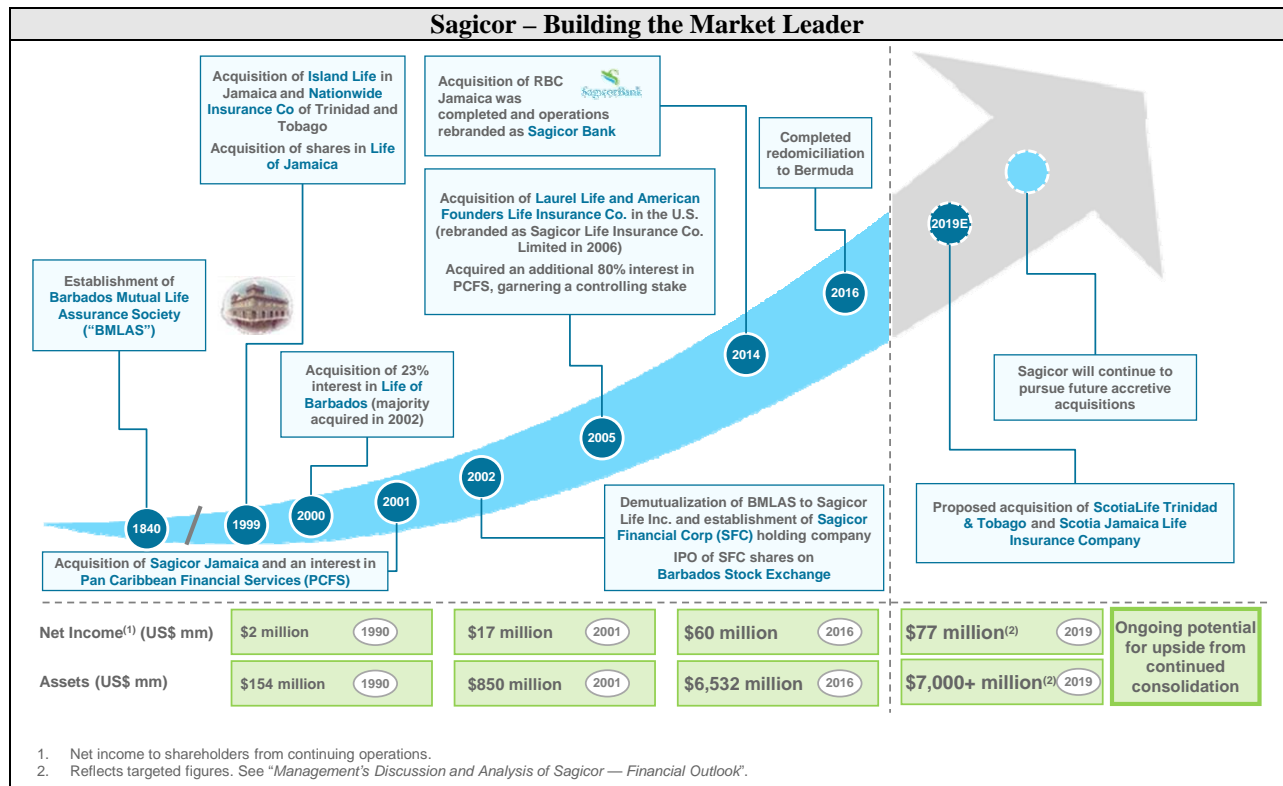
Sagicor

Overview

Sagicor is a market-leading provider of insurance products and related financial services in the Caribbean region, notably in Jamaica, Barbados, and Trinidad and Tobago, and has a growing presence as a provider of life insurance products in the United States. Sagicor has an over 175-year history of operations in the region and is the second oldest insurer in the Americas. With its over 2,800 employees and over 1,200 agents, Sagicor has a presence in 22 countries, operates in four different languages, and manages eleven different currencies.

Originally established in 1840 as The Barbados Mutual Life Assurance Society, Sagicor is one of the oldest insurers in the Americas. Sagicor's business grew organically with little change in product lines until 1969, when Sagicor introduced two unit trusts, a bond fund and an equity fund, to manage corporate pension funds, and in the 1970s, when Sagicor introduced group life insurance and health insurance products. Sagicor expanded its business through acquisitions in the 1980s and 1990s, transforming from a domestic to a regional and international company and from having a single line product to multi-line products. Because Sagicor's structure as a mutual company limited its growth, Sagicor demutualized in November 2002 and listed its shares on the Barbados Stock Exchange, subsequently listing on the Trinidad and Tobago Stock Exchange and, via depositary interests, the London Stock Exchange.

Sagicor has been transforming itself into a financial services leader over the last 30 years, growing its net income of approximately US\$2 million in 1990 to over US\$77 million targeted in 2019.¹ As a result of its purposeful strategy, local market experience, comprehensive and innovative products and distribution strategy, Sagicor holds an important competitive position across numerous business lines and is targeting growing its assets from US\$154 million to over US\$7 billion in just under three decades.



¹ Excluding one-time Transaction Costs.

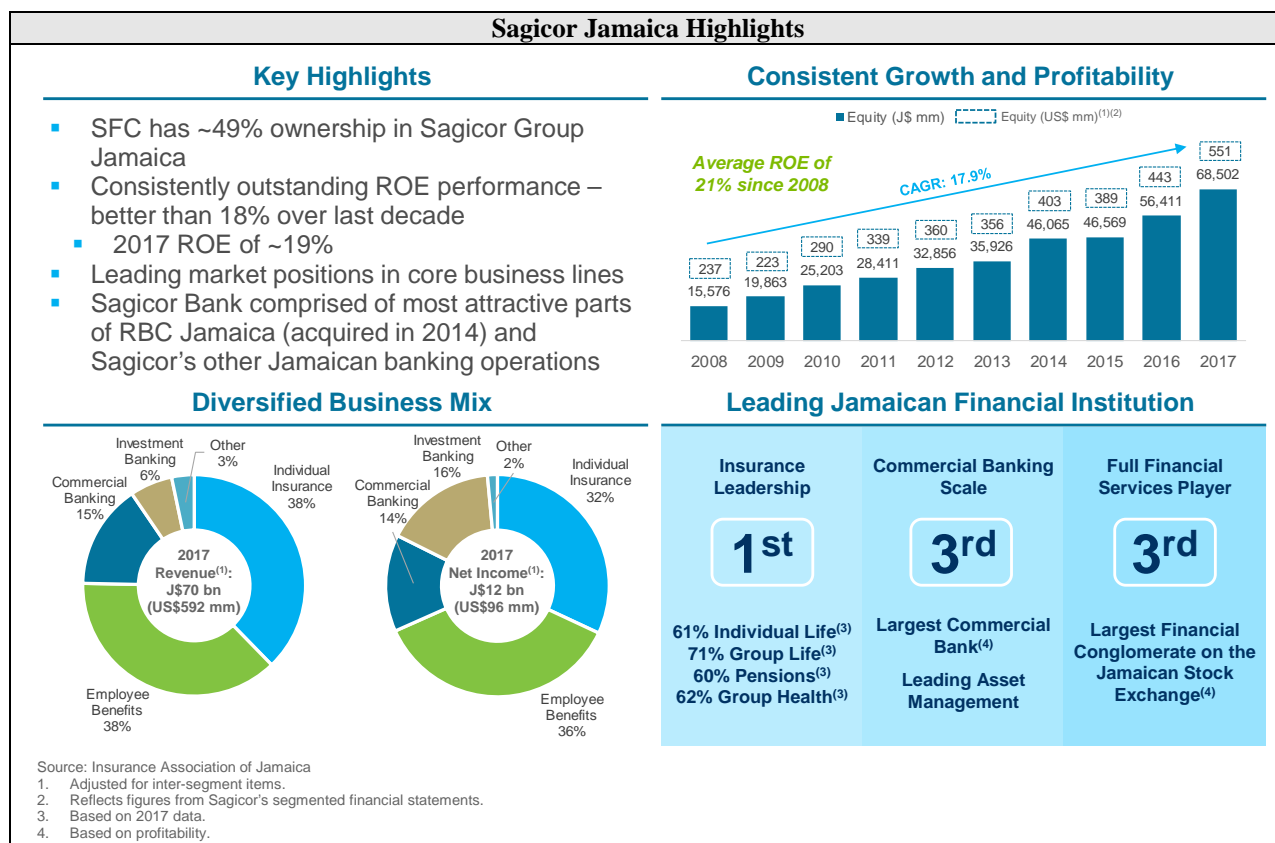
Sagicor's core products and services include life and health insurance, annuities, pension investment and administration, property and casualty insurance, and a suite of ancillary non-insurance financial products and services, including banking and investment management, which it provides to two client segments: individuals and groups. Where Sagicor distributes these products, it utilizes a captive distribution network in the Caribbean and a network of independent insurance brokers in the United States.

Sagicor is among the most recognizable and well-regarded financial services brands in the Caribbean and has increasing product recognition via its growing United States operations. Driven by its proven management team with long standing local market experience, its diversified assets, comprehensive and innovative product offerings, and extensive distribution platform, Sagicor holds an important competitive position across numerous business lines.

Sagicor operates through its three main business segments: Sagicor Jamaica, Sagicor Life and Sagicor USA.

Sagicor Jamaica

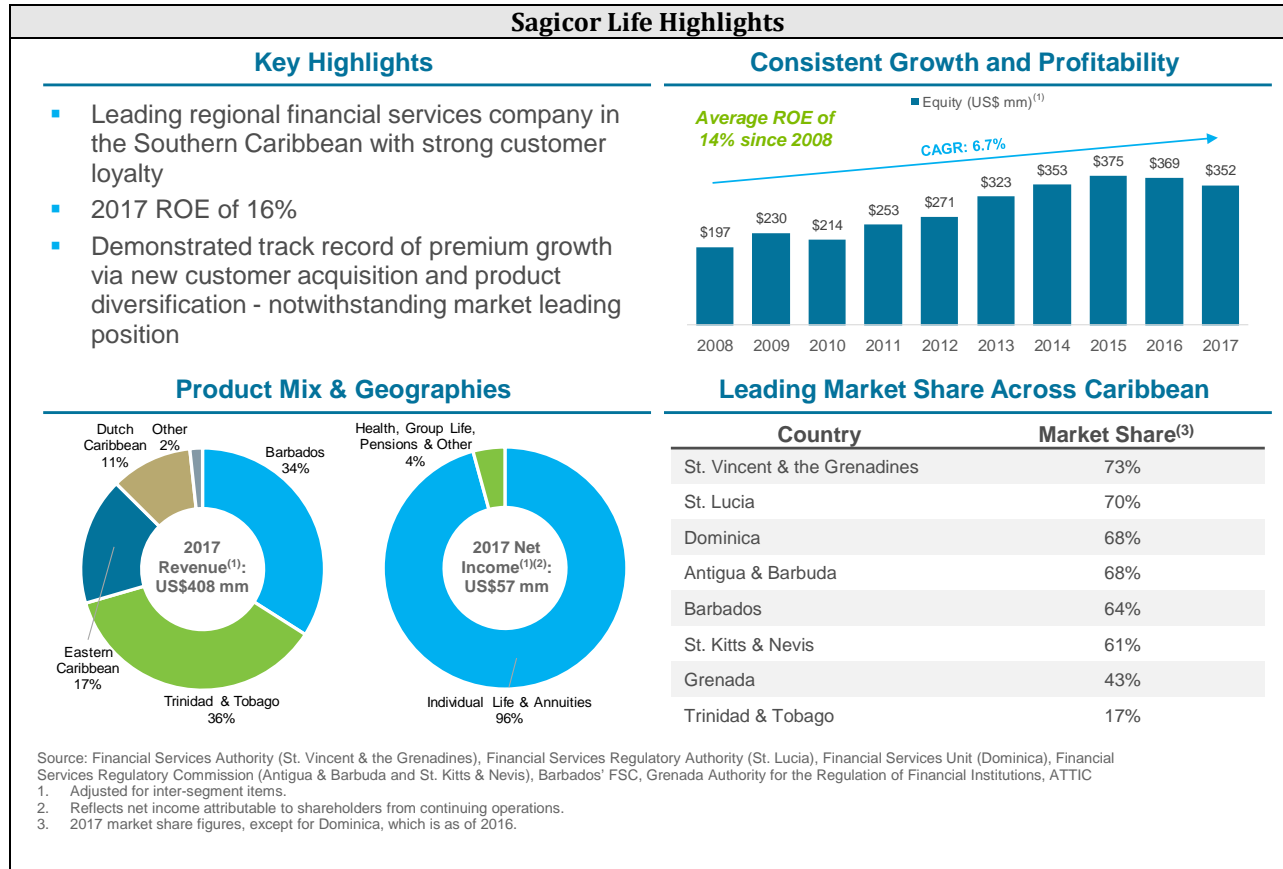
Sagicor operates in Jamaica through its controlled subsidiary, Sagicor Jamaica. Sagicor Jamaica is a full-service financial institution offering a wide range of insurance and non-insurance solutions. Sagicor Jamaica's primary insurance products are individual life insurance and employee benefits, which is comprised of both group health and group pension. Sagicor Jamaica's non-insurance solutions include banking and investment management products and services. Sagicor Jamaica's strong brand, together with Sagicor's wide range of products and skilled sales force, has allowed it to maintain a leading position in Jamaica's life insurance market, and has allowed the company to expand into new areas as opportunities arise, while maintaining consistent growth over time.



Sagicor Life

Sagicor operates in the Caribbean primarily through its subsidiary, Sagicor Life. Sagicor Life operates in the Southern Caribbean in Trinidad and Tobago as well as Barbados. Sagicor's operations in the Eastern Caribbean are

conducted in seven territories (Antigua, Anguilla, the Commonwealth of Dominica, St. Lucia, Grenada, St. Kitts and Nevis, and St. Vincent) through three branches (Antigua, Grenada, and St. Lucia) and three agencies (Dominica, St. Kitts and Nevis and St. Vincent). Sagicor no longer writes new business in Anguilla. Sagicor also operates in the Dutch and North Caribbean. It is the leading insurance player in its various markets. Sagicor Life provides life, health, annuity insurance business, pension administration services and asset management.



Sagicor USA

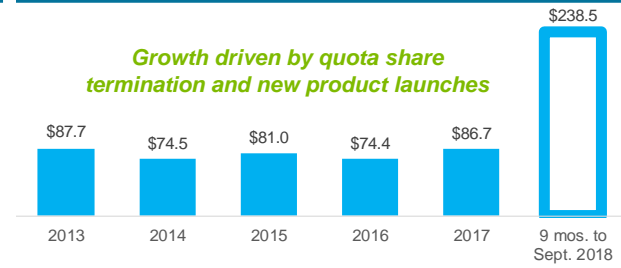
Sagicor USA is part of the Company's strategy to expand into markets with significant growth potential and markets where the Company can develop global best practices that it can then introduce into its core geographies. It continues to look for opportunities to grow its policy and premium base by acquiring strategic blocks of life insurance business or policies, or other life insurance companies. Sagicor USA currently offers life insurance and annuities.

Sagicor USA Highlights

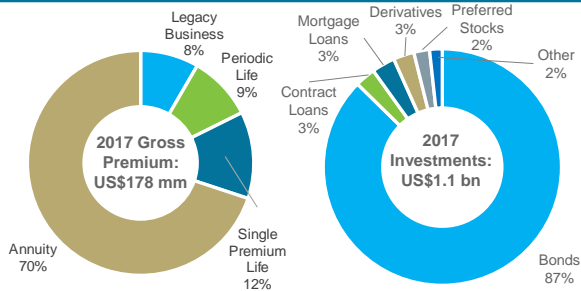
Key Highlights

- Simple and “easy-to-buy” Life and Annuity products targeting a familiar customer profile
- State-of-the-art and scalable IT platform to be leveraged across the Caribbean
- Excellent product recognition – fixed annuity products with guaranteed rates ranked top two by Barron’s (2018)
- Strong distribution relationships supported by A- (Excellent) financial strength rating

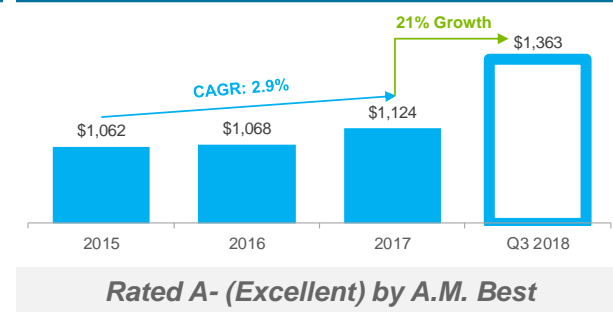
Net Premiums Earned (US\$ mm)



Strong Annuity Revenues & Conservative Investments



Financial Asset Growth (US\$ mm)

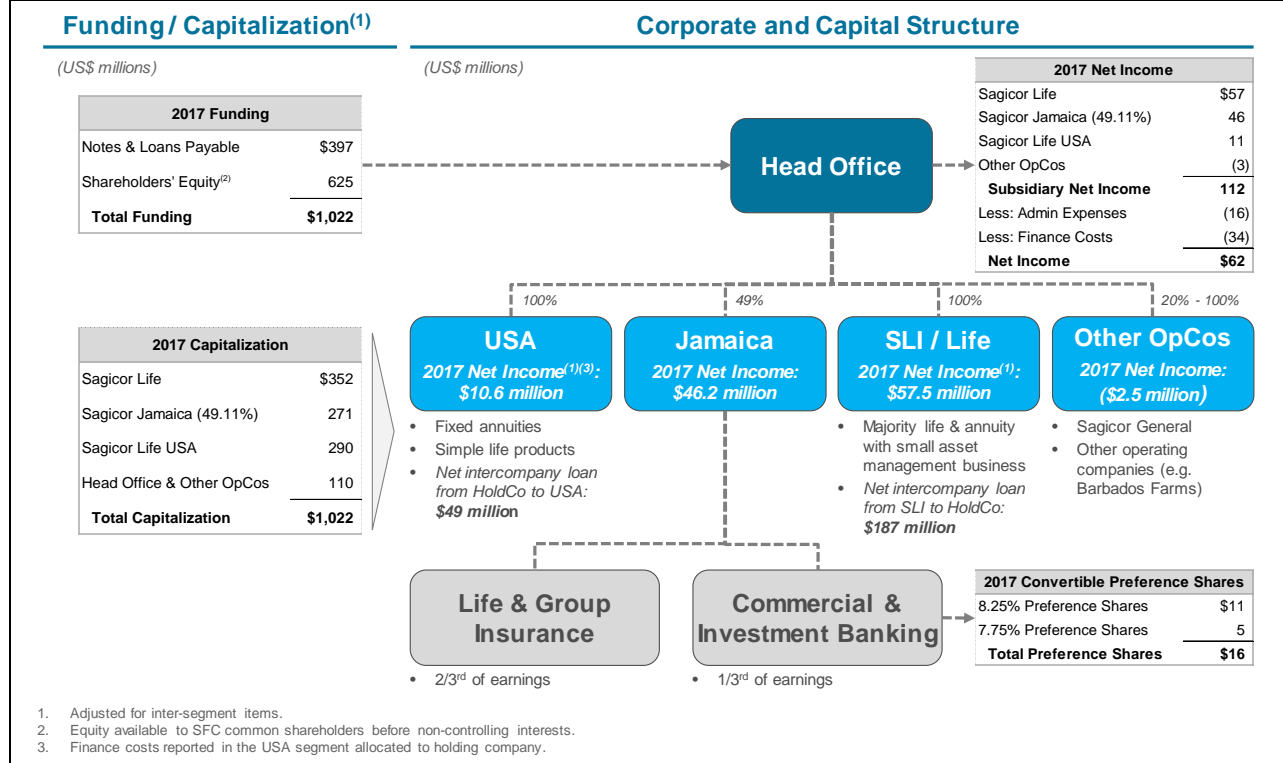


Source: SNL Financial

Financial Overview of Sagicor

The following table provides a financial overview of Sagicor as it relates to the Company’s corporate and capital structure.

Overview of Sagcor – Corporate and Capital Structure



As discussed above, Sagcor is an amalgamation of several businesses with varying profitability. As illustrated in the table below Sagcor, on a consolidated basis, reported ROE of 10.7% for the fiscal year ended December 31, 2017. Adjusting for Sagcor USA, whose ROE is expected by Sagcor to increase as the segment continues to benefit from operational scale and increased asset leverage, the remaining Caribbean operations of Sagcor would have reported a 16.8% ROE for fiscal year ended December 31, 2017. Focusing solely on Sagcor's core Caribbean segments comprised of Sagcor Life and Sagcor Jamaica (and removing certain administrative and non-core expenses), each generated ROE of 15.9% and 19.0%, respectively, for the fiscal year ended December 31, 2017.

Sagcor ROE Breakdown (2017)								
ROE Breakdown – 2017A ⁽¹⁾								
(US\$ millions)	2017 Consolidated	Less: Sagcor USA	Caribbean RemainCo	Less: HoldCo	Less: Other OpCos	Core Carib. Segments	Of Which: SLI Jamaica	
Sagcor Life	57.5	--	57.5	--	--	57.5	57.5	--
Sagcor Jamaica	46.2	--	46.2	--	--	46.2	--	46.2
Sagcor USA	10.6	(10.6)	--	--	--	--	--	--
Other	(2.5)	--	(2.5)	--	2.5	--	--	--
Total Income from Continuing Operations	\$111.8	(\$10.6)	\$101.2	--	\$2.5	\$103.7	\$57.5	\$46.2
Less: Admin Expenses	(16.0)	--	(16.0)	16.0	--	--	--	--
Less: Finance Costs	(33.7)	--	(33.7)	33.7	--	--	--	--
Net Income to Shareholders	\$62.1	(\$10.6)	\$51.5	\$49.7	\$2.5	\$103.7	\$57.5	\$46.2
Add: Min. Interests / Particip. Policies	43.0	--	43.0	--	3.8	46.9	(1.0)	47.9
Reported Income from Continuing Operations	\$105.2	(\$10.6)	\$94.6	\$49.7	\$6.4	\$150.6	\$56.4	\$94.1
2016A Net Assets	537.1	(259.5)	277.6	397.3	(88.4)	586.4	369.1	217.4
2017A Net Assets	624.6	(289.8)	334.8	396.7	(109.1)	622.4	351.9	270.5
Average Net Assets	\$580.8	(\$274.6)	\$306.2	\$397.0	(\$98.8)	\$604.4	\$360.5	\$244.0
Implied ROE⁽²⁾	10.7%	3.9%	16.8%	n.a.	n.a.	17.2%	15.9%	19.0%

1. Figures are adjusted for inter-segment items, except for Sagcor Jamaica's income.
 2. Calculated as net income to shareholders from continuing operations divided by average net assets.

Alignvest's Investment Rationale

Sagicor and Alignvest believe that the Transaction will unlock significant value for both Sagicor shareholders and Alignvest Shareholders.

For Sagicor, Alignvest's listing on the TSX is expected to provide the Company with access to a liquid market and sophisticated institutional investors. Company management expects that the willingness and ability of those investors to actively evaluate the merits of the business will help secure an appropriate valuation. Additionally, New Sagicor is anticipated to benefit from a primary injection of Alignvest's equity, which is expected to enable New Sagicor to realize its organic and inorganic growth strategies. Finally, the proposed capital structure and Alignvest's TSX listing are expected to enable New Sagicor to materially lower its cost of capital, which is expected to both increase New Sagicor's profitability and further enhance its ability to execute on its strategic initiatives, both organic and inorganic.

Since Alignvest began evaluating potential investment targets in May 2017, none of them have presented as compelling an investment opportunity as Sagicor.

- **The transaction is being offered at a valuation Alignvest believes is highly attractive.** Based on the purchase price, Sagicor is valued at 1.0x book value, 7.9x targeted 2019 net income, and 6.5x targeted 2020 net income, taking into account the proposed SLTT and SJLIC acquisitions – a substantial discount to the median price / book and price / earnings ratios of Canadian and Caribbean financial institutions, and to Alignvest's estimate of the Company's intrinsic value. See "*Management's Discussion and Analysis of Sagicor — Financial Outlook*".²
- **Best-in-class management team with extensive insurance and local-market experience.** Sagicor's senior management team has been with the Company for an average of 14 years and has significant experience managing businesses across multiple jurisdictions and markets.
- **Sagicor has an outstanding core business.** Sagicor has significant market share in numerous growing business lines including individual life insurance and annuities, group life and benefits administration, and banking and investment management. The Company also has leading market positions and brand name recognition in its key insurance markets of Jamaica, Trinidad and Tobago, Barbados, and the Eastern Caribbean.
- **Substantial opportunity for accretive consolidation.** As evidenced by the proposed acquisitions of SLTT and SJLIC, Sagicor believes that there is opportunity for further consolidation within the insurance industry in the Caribbean. Additionally, management has the ability to successfully grow outside of Sagicor's core business and markets through strategic acquisitions, as evidenced by Sagicor's 2005 acquisition of Sagicor Life USA and Sagicor's 2014 acquisition of RBC's Jamaican banking operations. The proposed SLTT and SJLIC transactions will not be completed until after the Sagicor Arrangement and are subject to various conditions, and as a result, do not form part of Alignvest's qualifying transaction.
- **Comprehensive and innovative product offering.** Sagicor has a highly diversified insurance product mix including individual and group life, health, annuity and pension, personal disability, and property and casualty insurance that allows the Company to serve its customers' needs at each step of their financial life cycle, resulting in high customer retention rates and cross-selling opportunities. Importantly, Sagicor has no exposure to either long-term care or variable annuity products.
- **Extensive distribution platform.** Sagicor has unparalleled access to its customer base in the Caribbean through its extensive distribution network of dedicated advisors and brokers. The Company operates the largest network of exclusive advisors in the Caribbean region – one of Sagicor's core competitive advantages.

² 2019 target excludes one-time Transaction Costs.

- **Significant “scale-up” opportunity in U.S. market.** Sagicor has built a strong technology and distribution platform in the U.S., targeting customers similar to those it has a demonstrated ability to serve in the Caribbean. Sagicor’s U.S. platform is profitable, has an attractive investment spread relative to its peers and, as Sagicor continues to execute on its growth plan, is expected by Sagicor to benefit from operational scale and increased asset leverage.
- **Strong operating and underwriting record, with proven resiliency across cycles.** Sagicor has managed to sustain a strong operating track record through economic cycles as demonstrated by the Company’s consistent net income growth, dividend growth, and book value per share growth.
- **Prudently managed and well-diversified balance sheet.** Sagicor manages its balance sheet using best-in-class risk management tools. For example, the Company voluntarily adopted the Canadian MCCSR standards following its demutualization, and has maintained MCCSR ratios in excess of 220% in every year since 2004. Sagicor’s prudent capital management policies and conservative reserving complement its stable and diversified product mix.
- **Opportunity for Alignvest to add significant value.** Alignvest is delivering significant value to Sagicor as part of this transaction. First, AIM will leverage its team’s extensive experience managing global portfolios to optimize Sagicor’s investment portfolio, consider additional investment strategies, lower third party advisor costs, and further enhance risk-management practices. Second, Alignvest has recruited highly experienced directors to the board. Third, Andre Mousseau, Alignvest’s Chief Operating Officer and Partner of Alignvest Private Capital, will be joining Sagicor as Group Chief Financial Officer. And finally, Alignvest has been responsible for sourcing and executing the proposed acquisitions of SLTT and SJLIC.

As a result of the above, Alignvest and Sagicor see a clear path to substantial equity value creation for all New Sagicor Shareholders. We believe that we have an opportunity to grow Sagicor’s net income from US\$62 million, for the year ended December 31, 2017, to a target of US\$115 million in 2020, based on the following:

- Sagicor estimates that net income from continuing operations to shareholders for the twelve months ended September 30, 2018, excluding a \$43 million net loss due to the restructuring of the Government of Barbados debt, would have been \$87 million, and that net of both the \$43 million loss and certain positive one-time net income figures, sustainable net income from continuing operations to shareholders for 2018 would be approximately \$70 million;
- Organic revenue growth has been assumed as 6% per annum for Sagicor’s continuing operations in 2019 and 5% in 2020; and
- Alignvest and Sagicor expect that the acquisition of SLTT and SJLIC will contribute annual run-rate net income of approximately US\$30 million following the anticipated closing in 2020, subject to regulatory approval. The completion of these transactions is not cross-conditional on each other, but both are conditional on the close of the Sagicor Arrangement, and they may close at different times. See “*Proposed Acquisitions – Proposed Acquisitions of SJLIC and SLTT*”.

Subject to, among other things, the precise timing of when these initiatives take effect, Sagicor is targeting 2019 net income of approximately US\$77 million.³

Importantly, Alignvest and Sagicor believe that Sagicor trades at an unwarranted discount to its Canadian and Caribbean peers in large part due to the Company’s disaggregated shareholder base and muted price discovery on its current stock exchanges. Alignvest and Sagicor expect that the discount at which the Company currently trades on the Barbados and Trinidad and Tobago stock exchanges compared to Canadian peers should be reduced or eliminated over time as a result of Alignvest’s listing on the TSX.

³ Excluding one-time Transaction Costs.

See “*Management’s Discussion and Analysis of Sagicor — Financial Outlook*” for the assumptions on which the foregoing financial outlook is based.

The purpose of disclosing our financial outlook is to provide investors with more information concerning the financial impact that Alignvest and Sagicor currently believe is achievable based on Sagicor’s growth strategies described above and elsewhere in this prospectus. The foregoing description of our potential growth opportunities is forward-looking information for purposes of applicable securities laws in Canada and readers are therefore cautioned that actual results may vary from those described above. See “*Caution Regarding Forward-Looking Statements*” and “*Risk Factors*” elsewhere in this prospectus for a description of the assumptions underlying the forward-looking information and of the risks and uncertainties that impact our business and that could cause actual results to vary.

Alignvest and Sagicor approved this outlook on November 26, 2018.

NOTICE TO READERS

This prospectus is being filed by Alignvest Acquisition II Corporation (“**Alignvest**”), which is a special purpose acquisition corporation incorporated under the laws of the Province of Ontario. Alignvest was organized for the purpose of effecting an acquisition of one or more businesses or assets by way of a merger, share exchange, asset acquisition, share purchase, reorganization or other similar business combination involving Alignvest that will qualify as its “qualifying acquisition”.

On November 27, 2018, Alignvest announced that it had entered into the Arrangement Agreement with Sagicor pursuant to which, among other things, Alignvest shall acquire, directly or indirectly, all of the shares of Sagicor by way of a scheme of arrangement. Existing shareholders of Alignvest (who, in the case of holders of Alignvest Class A Restricted Voting Shares (as defined below), do not choose to redeem their shares) will continue to hold an interest in Alignvest after giving effect to the Sagicor Arrangement (referred to herein as “**New Sagicor**”). In connection with the Sagicor Arrangement, Alignvest is seeking to be renamed “Sagicor Financial Company Ltd.”. New Sagicor will own 100% of Sagicor. See “*The Business of Sagicor*”.

Alignvest’s Class A restricted voting shares (“**Alignvest Class A Restricted Voting Shares**”) are currently listed for trading on the Toronto Stock Exchange (the “**TSX**”) under the symbol “AQY.A”. The closing price of the Alignvest Class A Restricted Voting Shares on the TSX on November 26, 2018, the last trading day before the Arrangement Agreement was announced, was C\$9.95. The closing price of the Alignvest Class A Restricted Voting Shares on the TSX on •, 2018, was C\$•. The share purchase warrants of Alignvest (the “**Alignvest Warrants**”) are also currently listed for trading on the TSX under the symbol “AQY.WT”. The closing price of the Alignvest Warrants on November 26, 2018, the last trading day before the Arrangement Agreement was announced, was C\$0.40. The closing price of the Alignvest Warrants on •, 2018, was C\$•. The completion of the Sagicor Arrangement is conditional upon, among other things, approval by the TSX. The Sagicor Arrangement constitutes Alignvest’s proposed qualifying acquisition.

Sagicor is a company that was formed under the laws of Barbados and continued as an exempted company under the laws of Bermuda on July 20, 2016. Sagicor is a leading provider of insurance products and related financial services in the Caribbean region, mainly in Barbados, Jamaica and Trinidad and Tobago. Sagicor also provides life insurance and annuity products in the United States, as well as banking services in certain Caribbean countries. Sagicor’s wide range of products and services include life and health insurance, annuities, pension investment and administration, property and casualty insurance, asset management, commercial and retail banking, investment management and other financial services. Sagicor Common Shares are currently publicly listed on the Barbados Stock Exchange, the Trinidad and Tobago Stock Exchange and, via depositary interests, the London Stock Exchange.

This prospectus is being filed in accordance with section 1028 of the Toronto Stock Exchange Company Manual in connection with the completion of Alignvest’s qualifying acquisition. **Unless otherwise indicated, or unless the context otherwise requires, the disclosure in this prospectus has been prepared assuming that the transactions contemplated by the Arrangement Agreement, including the Sagicor Arrangement, have become effective (the “Transaction”).** References to “New Sagicor” in this prospectus are to Alignvest after giving effect to the Transaction. Following the Transaction, New Sagicor will own 100% of Sagicor. See “*The Business of Sagicor*” and “*Risk Factors*”.

The information provided herein concerning New Sagicor following the completion of the Transaction is provided as of the date of this prospectus. Accordingly, the information provided herein is subject to change prior or subsequent to the Effective Date. See “*Caution Regarding Forward-Looking Statements*”.

Unless otherwise indicated, references herein to the programs, policies, procedures, practices, guidelines, mandates and plans (collectively, the “**Programs and Policies**”) of New Sagicor refer, in each case, to the Programs and Policies of New Sagicor, which are expected to be formally ratified and adopted by New Sagicor Board subsequent to the closing of the Transaction. Unless otherwise indicated, the disclosure in respect of the Programs and Policies contained in this prospectus is presented on the assumption that the Programs and Policies have been formally ratified by the New Sagicor Board in such form and have been instituted at New Sagicor. Notwithstanding the foregoing, prior to the formal ratification and adoption of each of the Programs and Policies, it is expected that the New Sagicor Board will review and adjust such Programs and Policies to the extent necessary to seek to ensure that

the specific requirements of New Sagicor and its operations are met. Accordingly, the disclosure contained in this prospectus in respect of such Programs and Policies remains subject to revision prior or subsequent to the Effective Date.

Unless otherwise specified, all dollar amounts are expressed in United States dollars and all references to “\$” or “US\$” are to United States dollars. References to “C\$” are to Canadian dollars, “BBD” are to Barbadian dollars, “J\$” are to Jamaican dollars, and “TTD” are to Trinidad and Tobago dollars.

The following table sets forth, for the periods indicated, the average and period-end rates of exchange for one U.S. dollar during the respective periods.

	Nine months ended		Year ended	
	September 2018		December 2017	
	Closing Rate	Average Rate	Closing Rate	Average Rate
Bahamas dollar.....	1.0000	1.0000	1.0000	1.0000
Barbadian dollar.....	2.0000	2.0000	2.0000	2.0000
Belize dollar.....	2.0000	2.0000	2.0000	2.0000
Canadian dollar.....	1.29680	1.27820	1.25280	1.29640
Cayman Islands dollar....	0.8350	0.8350	0.8350	0.8350
Eastern Caribbean dollar.....	2.7000	2.7000	2.7000	2.7000
Jamaica dollar.....	134.5434	128.1390	124.5754	128.0938
Netherlands Antillean guilder.....	1.8000	1.8000	1.8000	1.8000
Trinidad and Tobago dollar.....	6.7522	6.7442	6.7628	6.7428
United States dollar.....	1.0000	1.0000	1.0000	1.0000

Source: Central banks of the relevant countries and the 2017 Sagicor Audited Annual Financial Statements.

Unless otherwise stated, for the purposes of values presented in this prospectus involving a US dollar to Canadian dollar exchange rate, a US dollar to Canadian dollar exchange rate of approximately 1:1.33 is assumed.

The exchange rates above are provided solely for information and convenience. No representation is made that the US dollar could have been, or could be, converted into Canadian dollars, or any other represented currency, at all or at the exchange rates stated. The exchange rates set forth above demonstrate trends in exchange rates, but the actual exchange rates used throughout this prospectus may vary.

The New Sagicor Pro Forma Financial Statements included in Appendix G to this prospectus assume the completion of the Transaction as well, subsequent thereto, of the proposed acquisitions of SJLIC and SLTT. The New Sagicor Pro Forma Financial Statements should be read in conjunction with the Alignvest Audited Annual Financial Statements, the Sagicor Audited Annual Financial Statements, the Sagicor Interim Financial Statements, and the Scotia Interim Financial Statements and Scotia Audited Financial Statements, included in Appendix A, Appendix E, Appendix F, and Appendix H to this prospectus, respectively. The US dollar to Canadian dollar exchange rates used for the purposes of the New Sagicor Pro Forma Financial Statements are described in note 2 therein.

The prospective financial information included in this prospectus has been prepared by the Company's management as of November 26, 2018. Such information is the sole responsibility of Company's management. PricewaterhouseCoopers SRL has neither audited, reviewed, examined, compiled, nor applied agreed-upon procedures to the accompanying prospective financial information for the purpose of its inclusion herein, and, accordingly, PricewaterhouseCoopers SRL does not provide any form of assurance with respect thereto for the purpose of this offering document. The PricewaterhouseCoopers SRL report included in this offering document

relates solely to the Company's historical financial information. PricewaterhouseCoopers SRL reports do not cover any other information in this offering document and should not be read to do so.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this prospectus are prospective in nature that constitute forward-looking information and/or forward-looking statements within the meaning of applicable securities laws (collectively, “**forward-looking statements**”). Forward-looking statements include, but are not limited to: statements concerning the completion and proposed terms of, and matters relating to, the Transaction and the expected timing related thereto; the likelihood of the Transaction being completed; the redemption amount in respect of the Alignvest Class A Restricted Voting Shares; the members of the New Sagicor Board and the executive officers of New Sagicor following the Transaction; the expected operations, financial results and condition of New Sagicor following the Transaction; general economic trends; statements based on the New Sagicor Pro Forma Financial Statements; New Sagicor's Programs and Policies; New Sagicor's future objectives and strategies to achieve those objectives; the listing or continued listing of the New Sagicor Common Shares and the Alignvest Warrants on the TSX; any market created for New Sagicor's securities; the estimated cash flow, capitalization and adequacy thereof for New Sagicor following the Transaction; the expected benefits of the Transaction to, and resulting treatment of, holders of Alignvest Class A Restricted Voting Shares, Alignvest Class B Shares and the Alignvest Warrants; the amount and frequency of any dividend paid on the New Sagicor Common Shares; the anticipated effects of the Transaction; provisions in New Sagicor's bye-laws; the number of New Sagicor Common Shares outstanding following the Transaction; New Sagicor's compensation of its directors and executive officers; the likelihood of the Transaction being completed; principal steps to the Sagicor Arrangement and Alignvest Arrangement; the satisfaction of the conditions to consummate the transactions contemplated by the Arrangement Agreement; as well as other statements with respect to management's beliefs, plans, estimates and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Forward-looking statements generally can be identified by the use of forward-looking terminology such as “outlook”, “objective”, “may”, “will”, “expect”, “intend”, “estimate”, “anticipate”, “believes”, “should”, “plans” or “continue”, or similar expressions suggesting future outcomes or events.

Forward-looking statements reflect management's current beliefs, expectations and assumptions and are based on information currently available to management, management's historical experience, perception of trends and current business conditions, expected future developments and other factors which management considers appropriate. With respect to the forward-looking statements included in this prospectus, Alignvest and Sagicor have made certain assumptions with respect to, among other things: the anticipated approval of the Sagicor Arrangement by the Sagicor shareholders and the Bermuda Court; the anticipated approval of the Alignvest Arrangement by the Alignvest Shareholders and the Ontario Court; the anticipated approval of the Alignvest Continuance by the Alignvest Shareholders; the anticipated receipt of any required regulatory approvals and consents (including the approval of the TSX); the expectation that each of Alignvest and Sagicor will comply with the terms and conditions of the Arrangement Agreement; the expectation that no event, change or other circumstance will occur that could give rise to the termination of the Arrangement Agreement; the expectation that the acquisitions of SJLIC and SLTT will be completed and integrated into New Sagicor; that no unforeseen changes in the legislative and operating frameworks for New Sagicor will occur; that New Sagicor will meet its future objectives and priorities; that New Sagicor will have access to adequate capital to fund its future projects and plans; that New Sagicor's future projects and plans will proceed as anticipated; taxes payable; customer growth, pricing, usage and churn rates; technology deployment; data based on good faith estimates that are derived from management's knowledge of the industry and other independent sources; as well as assumptions concerning general economic and industry growth rates, commodity prices, currency exchange and interest rates and competitive intensity.

Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the future circumstances, outcomes or results anticipated or implied by such forward-looking statements will occur or that plans, intentions or expectations upon which the forward-looking statements are based will occur. By their nature, forward-looking statements involve known and unknown risks and uncertainties and other factors that could cause actual results to differ materially from those contemplated by such statements. Factors that could cause such differences include, but are not limited to: fluctuations in the fixed income markets may adversely affect New Sagicor's profitability and financial condition; the success of New Sagicor's operations in the United States depends on New Sagicor's ability to grow its business; New Sagicor's financial targets may prove materially inaccurate or

incorrect; New Sagicor's exposure to the credit risk of its counterparties could adversely affect its profitability; differences between actual claims experience and estimated claims at the time the product was priced may result in increased losses, and so New Sagicor's reserves may be insufficient to cover actual policy benefits; New Sagicor could be forced to sell investments at a loss to cover policyholder withdrawals; New Sagicor's risk management policies and procedures could leave New Sagicor exposed to unidentified or unanticipated risk, which could negatively affect New Sagicor's business or result in losses; illiquidity of certain investment assets may prevent New Sagicor from selling investments at fair prices in a timely manner; New Sagicor's fiduciary relationship with certain counterparties could adversely affect its profitability; a prolonged labour dispute could hurt New Sagicor's business; a failure to successfully integrate New Sagicor's acquisitions could adversely affect New Sagicor's operations and profitability; a high level of redemptions of Alignvest Class A Restricted Voting Shares may necessitate sourcing of additional debt or equity to fund the proposed SJLIC and SLTT acquisitions; a failure to successfully execute current and future strategic acquisitions could adversely affect New Sagicor's profitability; if the conditions to the Transaction are not met, the Transaction may not occur; New Sagicor may be required to make an offer to purchase all of the 2022 Notes and Short Term Notes, but may not be financially able to repurchase the notes upon a change of control; New Sagicor's business is highly regulated and subject to numerous laws and regulations; litigation and regulatory proceedings outcomes could adversely affect New Sagicor's business; companies in the financial services industry are sometimes the target of law enforcement investigations and the focus of increased regulatory scrutiny; there may be adverse consequences if the status of New Sagicor's independent contractors is successfully challenged; failures to implement or comply with legally required anti-money laundering practices could subject New Sagicor to sanctions and/or criminal and civil penalties; the amount of statutory capital that New Sagicor's insurance subsidiaries have and the amount of statutory capital that they must hold to maintain their financial strength and credit ratings and meet other requirements can vary significantly from time to time and are sensitive to a number of factors outside of New Sagicor's control; a failure to maintain adequate levels of surplus capital may result in increased regulatory scrutiny or a downgrade by the private rating agencies; New Sagicor's financial condition may be adversely affected by geopolitical events; a change of control of New Sagicor may be difficult to effect under applicable laws; New Sagicor operates in a highly competitive industry; New Sagicor faces significant competition mainly from national and regional insurance companies and from self-insurance, and New Sagicor also faces competition from global companies – this competition could limit New Sagicor's ability to gain or maintain its position in the industry and could materially adversely affect its business, financial condition and results of operations; brokers that sell New Sagicor's products may sell insurance products of New Sagicor's competitors and such brokers may choose not to sell New Sagicor's products; computer viruses, network security breaches, disasters or other unanticipated events could affect New Sagicor's data processing systems or those of its business partners and could damage New Sagicor's business and adversely affect its financial condition and results of operations; a financial strength downgrade in New Sagicor's A.M. Best ratings or any other negative action by a rating agency may increase policy surrenders and withdrawals, adversely affect relationships with advisors and negatively affect New Sagicor's financial condition and results of operations; the unpredictable nature of the property and casualty insurance industry, or the impact of IFRS on the cashless exercise feature of Alignvest Warrants (unless removed), may cause fluctuations in New Sagicor's results; New Sagicor may be unable to reinsure risks on terms that are commercially reasonable or satisfactory to New Sagicor, or New Sagicor's reinsurers may fail to meet assumed obligations, increase rates, or be subject to adverse developments, negatively affecting New Sagicor's business, financial condition and result of operations; New Sagicor's business model depends on the performance of various third parties including actuarial consultants and other service providers; negative publicity in the insurance industry could adversely affect New Sagicor; New Sagicor depends on key personnel, and if they were to leave New Sagicor, New Sagicor might have an insufficient number of qualified employees; New Sagicor is highly dependent upon economic, political and other conditions and developments in Barbados, Jamaica, Trinidad and Tobago, the United States and the other jurisdictions in which it operates; New Sagicor's financial condition and operating results may be adversely affected by foreign exchange fluctuations; foreign exchange controls may restrict New Sagicor's ability to receive distributions from its subsidiaries and any such distributions may be subject to foreign withholding taxes; catastrophes and weather-related events, such as hurricanes, may adversely affect New Sagicor; the performance of New Sagicor's group life insurance may be adversely affected by the characteristics of the employees insured or through unexpected catastrophic events such as natural disasters; New Sagicor's credit ratings may be reduced, which may adversely affect New Sagicor; New Sagicor may be subject to Bermuda tax; Bermuda's compliance with the Organization for Economic Cooperation and Development international tax standards could subject New Sagicor to additional taxes; tax on corporate emigration under the Income Tax Act (Canada) could adversely affect New Sagicor; if New Sagicor were subject to Canadian federal income taxation, New Sagicor's after-tax returns and the value of New Sagicor Common Shares

could be materially reduced; any additional taxes resulting from changes to tax regulations or the interpretation thereof in countries in which it does business could negatively impact New Sagicor's financial condition; New Sagicor is a Bermuda company and it may be difficult to enforce judgments against New Sagicor or its directors and executive officers; Bermuda law differs from the laws in effect in Canada and may afford less protection to shareholders; New Sagicor may not pay dividends; potentially adverse tax consequences may result from the receipt of dividends on New Sagicor Common Shares; New Sagicor is a holding company that has no material assets other than its interest in Sagicor and, accordingly, it is dependent upon distributions from Sagicor to pay taxes and other expenses; the market price of the New Sagicor Common Shares may be highly volatile; redemptions of a significant number of Alignvest Class A Restricted Voting Shares could adversely affect New Sagicor; sales of a substantial number of New Sagicor Common Shares may cause the price of New Sagicor Common Shares to decline; further equity financing may dilute the interests of shareholders of New Sagicor and depress the price of New Sagicor Common Shares; the trading market for New Sagicor Common Shares is influenced by securities industry analyst research reports; if New Sagicor is unable to implement and maintain effective internal control over financial reporting, New Sagicor might not be able to report financial results accurately and on a timely basis or prevent fraud, and/or investors may lose confidence in the accuracy and completeness of New Sagicor's financial reports and the market price of New Sagicor Common Shares may be negatively affected.

All forward-looking statements included in and incorporated into this prospectus are qualified by these cautionary statements. Unless otherwise indicated, the forward-looking statements contained herein are made as of the date of this prospectus and, except as expressly required by applicable law, Alignvest undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Readers are cautioned that the actual results achieved will vary from the information provided herein and that such variations may be material. Consequently, there are no representations by Alignvest that actual results achieved will be the same in whole or in part as those set out in the forward-looking statements.

MARKET AND INDUSTRY DATA

This prospectus relies on and refers to information regarding various companies and certain market and industry data. Alignvest and Sagicor have obtained this information and market and industry data from independent market research reports and information made publicly available by such companies. Such reports generally state that the information contained therein has been obtained from sources believed to be reliable, but the accuracy or completeness of such information is not guaranteed. Although Alignvest and Sagicor believe the market research and publicly available information is reliable, Alignvest and Sagicor have not independently verified and cannot guarantee the accuracy or completeness of that information and investors should use caution in placing reliance on such information.

TRADEMARKS AND TRADENAMES

This prospectus and the information incorporated herein by reference include certain trademarks and trade names, such as Sagicor, Sagicor International, SagicorNOW and Accelewriting, which are protected under applicable intellectual property laws and are the property of Sagicor or its subsidiaries. Solely for convenience, Sagicor's or its subsidiaries' trademarks and tradenames referred to in this prospectus may appear without the ® or ™ symbol, but such references are not intended to indicate, in any way, that Sagicor and/or its subsidiaries will not assert, to the fullest extent under applicable law, its right to these trademarks and tradenames. All other trademarks used in this prospectus are the property of their respective owners, whether they appear with or without a ® or ™ symbol.

CORPORATE STRUCTURE

Alignvest Acquisition II Corporation

Name, Address and Incorporation

Alignvest was incorporated under the OBCA on February 8, 2017. Its head office and registered office are located at 100 King Street West, 70th Floor, Suite 7050, Toronto, Ontario, Canada M5X 1C7. On May 1, 2017, Alignvest amended its Articles to increase the authorized capital to create an unlimited number of Class A Restricted Voting Shares and an unlimited number of common shares. On May 18, 2017, Alignvest amended its Articles to replace the definition of “IPO” and the definition of “Sponsor”.

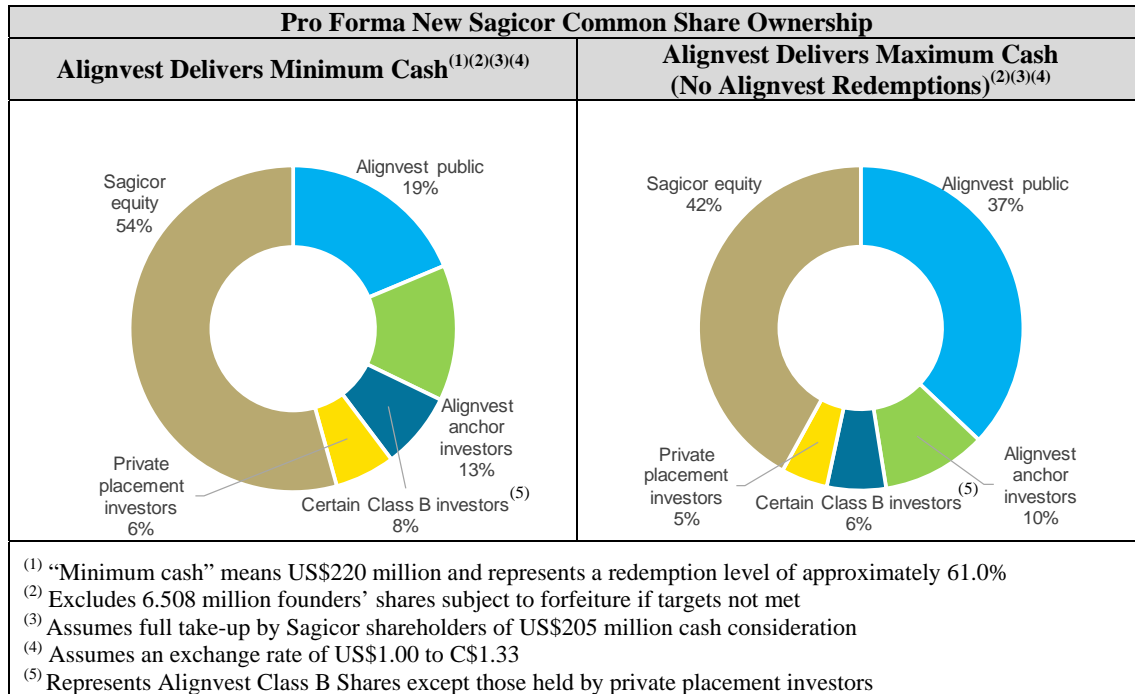
Transaction

As of the date of this prospectus, Alignvest is a special purpose acquisition corporation incorporated under the laws of the Province of Ontario for the purpose of effecting an acquisition of one or more businesses or assets, by way of a merger, share exchange, asset acquisition, share purchase, reorganization, or any other similar business combination involving Alignvest, which is referred to throughout this prospectus as Alignvest’s “qualifying acquisition”.

Alignvest’s sponsor, Alignvest II LP (“**Alignvest II**”), is a limited partnership of which Alignvest II Corporation is the general partner, and which is indirectly controlled by AMC. AMC is a leading international alternative investment management firm that seeks to deliver exceptional risk adjusted returns for its clients. AMC manages investment capital on behalf of private family offices and institutions. AMC’s founding partners have committed to invest over C\$230 million of their personal capital into Alignvest Partners, which is managed by AMC. AMC is the parent company of five investment platforms: Alignvest Capital Management Inc., which invests in public market strategies; Alignvest Private Capital, which makes direct private investments; Alignvest Student Housing Real Estate Investment Trust, a Real Estate Investment Trust focused on consolidating the Canadian purpose-built student accommodation sector; Alignvest Investment Management Corporation, which provides institutional portfolio management services; and Alignvest Acquisition II Corporation, a special purpose acquisition corporation. AMC has offices in Toronto, Ontario, Canada, and London, United Kingdom.

On November 27, 2018, Alignvest announced that it had entered into a definitive arrangement agreement (the “**Arrangement Agreement**”) with Sagicor Financial Corporation Limited (“**Sagicor**” or the “**Company**”) pursuant to which, among other things, Alignvest shall acquire all of the shares of Sagicor by way of a scheme of arrangement under the laws of Bermuda, where Sagicor is incorporated (the “**Sagicor Arrangement**”). The Sagicor Arrangement constitutes Alignvest’s proposed qualifying acquisition.

Assuming Sagicor shareholders elect to sell the maximum number of shares for cash, which management believes is a likely outcome, the pro forma share ownership is shown in the table below under different Alignvest redemption scenarios.



In the event that the Alignvest redemption level is 25%, Alignvest public, Alignvest anchor investors, certain class B investors, private placement investors, and Sagicor equity investors would own 31%, 11%, 6%, 5%, and 46% of New Sagicor on a pro forma basis, respectively.

Pursuant to subscription agreements entered into on or prior to the date of the Arrangement Agreement, certain third party investors have agreed to subscribe for Alignvest Class B Shares at a price of C\$10 per Alignvest Class B Share, which are expected to provide additional cash proceeds to Alignvest of C\$50 million.

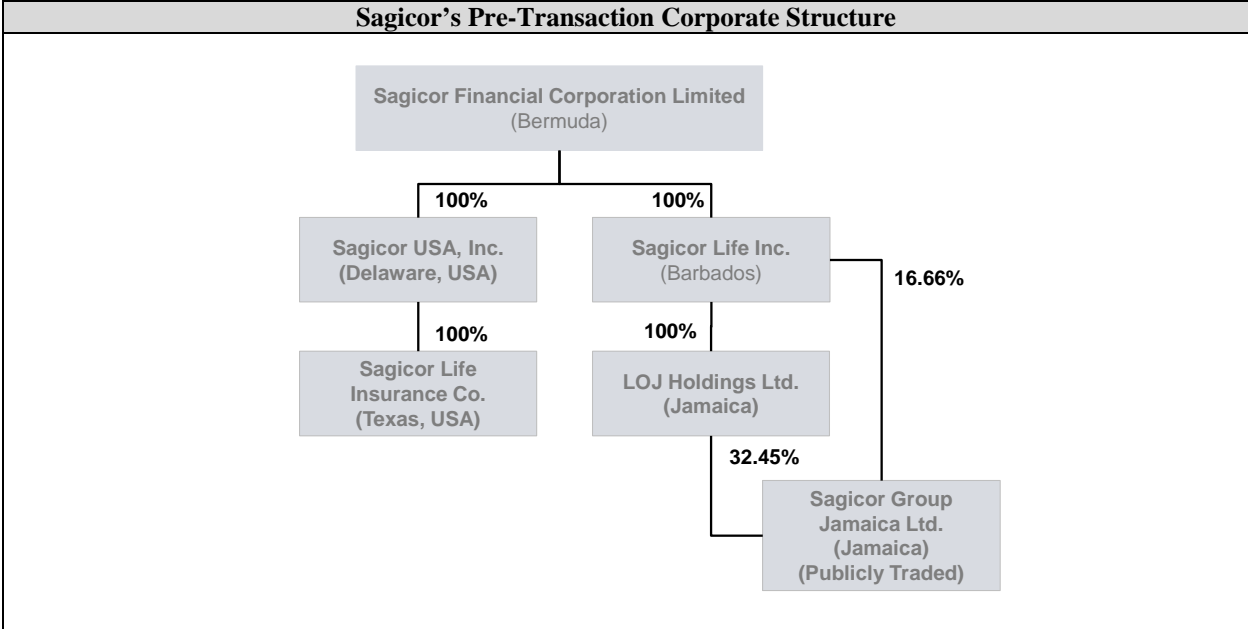
Corporate Structure and Organization

Organizational Structure

Sagicor has a legacy organizational structure with several layers of stacked subsidiaries, arising from its origins as a mono-line, domestic mutual insurance entity and its subsequent evolution into an international, publicly-listed entity with multiple lines of insurance and related financial businesses.

Sagicor has operations in 22 countries, operates in four different languages, and manages eleven different currencies.

The following chart outlines Sagicor’s main subsidiaries.



Shareholder Structure

Sagicor demutualized in 2002, using the Canadian demutualization model, transforming its policyholders into shareholders. Today, Sagicor is a widely held company, with the single largest shareholder being the National Insurance Board of Barbados at 6%.

As at December 31, 2017, Sagicor had 36,019 holders of Sagicor Common Shares with 43.0% in Trinidad and Tobago, 32.8% in Barbados, 19.7% in the Eastern Caribbean, 0.7% in other Caribbean countries and territories, and 3.8% in other countries outside of the Caribbean.

As illustrated in the table below, approximately 90% of Sagicor’s shareholder base has fewer than 10,000 shares.

Sagicor Shareholder Base Summary				
Shareholders' Size of Holding	Shareholders		Shares Held	
	#	%	#	%
1 - 10,000	32,332	89.8%	80,662,984	26.3%
10,001 & Above	3,687	10.2%	225,892,660	73.7%
Total	36,019	100.0%	306,555,644	100.0%

As part of this transaction, each of Sagicor’s eligible existing shareholders (excluding the Company’s senior management team and continuing directors, all of whom have elected to roll 100% of their equity into this transaction) will have the option of tendering up to 10,000 shares for US\$1.75 of cash, up to a maximum aggregate cash amount of US\$205 million, as per the Scheme of Arrangement and Arrangement Agreement, provided that such maximum aggregate cash amount may be adjusted per the terms of the Arrangement Agreement. Each share of Sagicor not purchased for cash will be exchanged for a number of New Sagicor Common Shares determined based on the Exchange Ratio which Sagicor and Alignvest have agreed has a value of US\$1.75 per Sagicor Common Share. The purpose of offering cash to Sagicor shareholders is to provide liquidity to those who desire it, especially smaller shareholders, while giving all Sagicor shareholders the ability to remain invested in the company and to participate in the growth of the company going forward.

Sagicor's management team believes that by consolidating the Company's shareholder base and that by introducing a balanced mix of individual and institutional shareholders, drawn from the Caribbean and Canada, the Company's shareholders will have greater appetite to support Sagicor's growth strategies and the creation of long-term value.

Arrangement Agreement

The description of the Arrangement Agreement, both below and elsewhere in this prospectus, is a summary only, is not exhaustive and is qualified in its entirety by reference to the terms of the Arrangement Agreement, which can be found on Alignvest's profile on SEDAR at www.sedar.com as of the date of this prospectus.

Representations and Warranties

The Arrangement Agreement contains customary representations and warranties made by Alignvest to Sagicor and Sagicor to Alignvest, including representations and warranties related to due organization and qualification, capitalization and authorization to enter into the Arrangement Agreement and carry out their respective obligations thereunder. In addition, Sagicor made certain customary representations and warranties particular to the conduct of its business, the ownership and sufficiency of its assets, the accuracy of its books and records and financial statements, certain employee matters and the lack of any claims, actions or proceedings that may cause a material adverse effect. Sagicor also made certain representations and warranties with respect to the nature and conduct of its insurance operations. The representations and warranties were made solely for the purposes of the Arrangement Agreement and may be subject to important qualifications, limitations and exceptions agreed to by the Parties.

The representations and warranties of Sagicor and Alignvest contained in the Arrangement Agreement shall not survive the Effective Time and shall expire and be terminated on the earlier of the Effective Time and the date on which the Arrangement Agreement is terminated in accordance with its terms.

Mutual Conditions to Closing

Under the terms of the Arrangement Agreement, Alignvest and Sagicor agreed that their respective obligations to complete the Sagicor Arrangement are subject to fulfillment, at or prior to the Effective Time, of, among others, each of the following mutual conditions precedent, each of which may only be waived by the Party entitled to the benefit thereof, to the extent permitted by applicable law:

- (i) The Alignvest Resolutions have been approved and adopted by the Alignvest Shareholder Approval at the Alignvest Meeting.
- (ii) The Sagicor Resolution has been approved and adopted by the Sagicor Shareholder Approval at the Sagicor Meeting.
- (iii) Each of the Interim Order, the Final Order and the Bermuda Court Order has been obtained on terms consistent with the Arrangement Agreement, and have not been set aside or modified in a manner unacceptable to either Alignvest or Sagicor, each acting reasonably, on appeal or otherwise.
- (iv) Approval from the TSX shall have been obtained by Alignvest to enable the Sagicor Arrangement to qualify as Alignvest's "qualifying acquisition" within the meaning of Part X of the TSX Company Manual and for the listing of the common shares of New Sagicor on the TSX after the Effective Time.
- (v) The issuance of a final receipt for the prospectus by the Alignvest Securities Authorities.
- (vi) The Sagicor Insurance and Banking Approvals and Alignvest Insurance and Banking Approvals (each as defined in the Arrangement Agreement) shall have been received or concluded on terms satisfactory to Sagicor and Alignvest and without undue burden on either of them, acting reasonably, and in each case without the imposition of any Restraint (as defined in the Arrangement Agreement).

- (vii) Any waiting period (and extensions thereof) applicable to the transactions contemplated by the Arrangement Agreement (including the Sagicor Arrangement) under the HSR Act shall have expired or early termination thereof shall have been granted and (2) the clearances, approvals and consents required to be obtained under applicable non-U.S. Antitrust Laws (as defined in the Arrangement Agreement) to permit Sagicor and Alignvest to consummate the Transaction shall have been obtained.
- (viii) The approval of the Exchange Control Authority of the Central Bank of Barbados shall have been obtained for the transfer of the Sagicor Common Shares by the Barbados resident Sagicor shareholders pursuant to applicable exchange controls and foreign currency laws and regulations under the laws of Barbados.
- (ix) All regulatory approvals set forth in Section 7.01(i) of the Sagicor disclosure schedule delivered by Sagicor to Alignvest on the date of the Arrangement Agreement shall have been received or concluded on terms satisfactory to Alignvest and Sagicor and without undue burden on either of them, each acting reasonably, and in each case without the imposition of any Restraint (as defined in the Arrangement Agreement) that would reasonably be expected to have a Sagicor Material Adverse Effect or an Alignvest Material Adverse Effect (each as defined in the Arrangement Agreement), as applicable.
- (x) No Law or Order of a competent Governmental Authority (as defined in the Arrangement Agreement) shall have been enacted, issued, promulgated, enforced or entered and shall continue to be in effect, in each case, that makes illegal, enjoins or otherwise prohibits the consummation of the Sagicor Arrangement.
- (xi) The Investment Management Agreement (as defined in the Arrangement Agreement) shall have been entered into and shall remain in full force and effect.
- (xii) Dissent Rights (as defined in the Arrangement Agreement) have not been validly exercised and not withdrawn with respect to more than 10% of the issued and outstanding Alignvest Class A Restricted Voting Shares as of November 27, 2018.
- (xiii) (i) Alignvest shall have adopted a restricted share unit plan, dividend reinvestment plan and employee share purchase plan on terms mutually acceptable to Alignvest and Sagicor, each acting reasonably and (ii) Alignvest and Sagicor shall have entered into an assignment and assumption agreement, pursuant to which the rights and obligations of Sagicor under the Sagicor Share Plans shall be assigned to, and assumed by, Alignvest, in each case, at the Effective Time, and such agreement shall remain in full force and effect.
- (xiv) The following registrations, approvals, consents, receipts and/or relief shall have been obtained:
 - a. (A) registration of Alignvest as a reporting issuer with the Trinidad and Tobago Securities Exchange Commission or (B) confirmation from the Trinidad and Tobago Securities Exchange Commission that such registration is not required;
 - b. (A) publishing a prospectus and all related filings and approvals in Barbados under the Barbados Securities Act or (B) confirmation from the Financial Services Commission of Barbados that the transactions contemplated in the Arrangement Agreement do not require the filing of a prospectus or similar disclosure document with the Financial Services Commission;
 - c. (A) publishing a prospectus and all related filings and approvals with the Financial Conduct Authority of the United Kingdom or (B) confirmation from the Financial Conduct Authority of the United Kingdom that the transactions contemplated in the Arrangement Agreement do not require the filing of a prospectus or similar disclosure document with the Financial Conduct Authority and do not require any Party to obtain a listing in the United Kingdom;

- d. receipt for Alignvest’s final Prospectus from the Alignvest Securities Authorities;
 - e. consent from the OSC regarding the Alignvest Continuance;
 - f. consent from the Ontario Minister of Finance regarding the Alignvest Continuance;
 - g. consent from the Bermuda Monetary Authority pursuant to the Exchange Control Act 1972 for (A) the New Sagicor Shareholders to hold the New Sagicor Common Shares; and (B) the issue and transfer of the New Sagicor Common Shares and other equity securities of New Sagicor from and/or to persons non-resident of Bermuda for exchange control purposes for so long as any equity securities of the New Sagicor are listed on an “Appointed Stock Exchange” (as such term is defined in the BCA and including the TSX), without the approval of the Bermuda Monetary Authority, in each case following the Alignvest Continuance;
 - h. confirmation from the Barbados Revenue Authority that Alignvest will, following the Alignvest Continuance, be deemed a company resident in Barbados for the purpose of the Barbados Income Tax Act and the CARICOM Treaty; and
- (xv) approval by the TSX of the listing application for the New Sagicor Common Shares.

Alignvest Conditions to Closing

Under the terms of the Arrangement Agreement, Alignvest and Sagicor agreed that the obligations of Alignvest to complete the Sagicor Arrangement are subject to fulfillment, at or prior to the Effective Time, of, among others, each of the following conditions precedent, each of which may only be waived by Alignvest, to the extent permitted by applicable law:

- (i) The representations and warranties of Sagicor contained in the Arrangement Agreement (without giving effect to any “materiality” or “Sagicor Material Adverse Effect” (as defined in the Arrangement Agreement) qualifiers) shall be true and correct in all respects as of the Effective Time with the same effect as of made as of the Effective Time (other than such representations and warranties that are made as of a specified date, which representations and warranties shall be true and correct as of such specified date), except where the failure of any such representations and warranties to be so true and correct has not had a Sagicor Material Adverse Effect.
- (ii) Sagicor shall have performed or complied in all material respects with all of its obligations and covenants required to be performed or complied with by it under the Arrangement Agreement at or prior to the Effective Time.
- (iii) Alignvest shall have received a certificate executed by the chief executive officer or chief financial officer of Sagicor, dated as of the Closing Date, certifying to the effect that the conditions set forth in the foregoing clauses (i) and (ii) have been duly satisfied.
- (iv) Each of the Lock-up Agreements shall have been entered into and shall remain in full force and effect.
- (v) Alignvest shall have received a certificate of Sagicor’s transfer agent as to the number of Sagicor Preference Shares (as defined in the Arrangement Agreement) and Sagicor Common Shares that are issued and outstanding as of the Effective Time.

Sagicor Conditions to Closing

Under the terms of the Arrangement Agreement, Alignvest and Sagicor agreed that the obligations of Sagicor to complete the Sagicor Arrangement are subject to fulfillment, at or prior to the Effective Time, of, among others, each of the following conditions precedent, each of which may only be waived by Sagicor, to the extent permitted by applicable law:

- (i) The representations and warranties of Alignvest contained in the Arrangement Agreement (without giving effect to any “materiality” or “Alignvest Material Adverse Effect” (as defined in the Arrangement Agreement) qualifiers) shall be true and correct in all respects as of the Effective Time with the same effect as of made as of the Effective Time (other than such representations and warranties that are made as of a specified date, which representations and warranties shall be true and correct as of such specified date), except where the failure of any such representations and warranties to be so true and correct has not had an Alignvest Material Adverse Effect.
- (ii) Alignvest shall have performed or complied in all material respects with all its obligations and covenants required to be performed or complied with by it under the Arrangement Agreement at or prior to the Effective Time. If the Alignvest Arrangement and the Alignvest Continuance have both been approved, Alignvest shall be in a position to implement them as soon as practicable following the Effective Time; provided that the Bermuda Law Bye-laws to be adopted by Alignvest in connection with the Alignvest Continuance shall be in a form acceptable to Alignvest and Sagicor, each acting reasonably.
- (iii) Sagicor shall have received a certificate executed by the chief executive officer or chief financial officer of Alignvest, dated as of the Closing Date, certifying to the effect that the conditions set forth in the foregoing clauses (i) and (ii) have been duly satisfied.
- (iv) Alignvest shall have entered into each of the Employment Agreements (as defined in the Arrangement Agreement) and (assuming the employee party thereto has entered into such Employment Agreement) each such Employment Agreement shall, conditional on the occurrence of the Effective Time, be in full force and effect.
- (v) Alignvest shall have available immediately prior to the Effective Time a minimum cash amount (net of (i) Alignvest Expenses, (ii) amounts payable in respect of Alignvest Class A Restricted Voting Shares for which notices of redemption have been provided and not withdrawn, (iii) the amount equal to the number of Alignvest Class A Restricted Voting Shares for which Dissent Rights (as defined in the Arrangement Agreement) have been validly exercised and not withdrawn multiplied by the redemption amount per Alignvest Class A Restricted Voting Share to which redeeming Alignvest Shareholders are entitled, (iv) 50% of any broker fees or stock exchange fees payable in connection with the block trade over the Barbados Stock Exchange contemplated in the Sagicor Arrangement (with Scheme Shareholders at the Effective Time being responsible for the other 50%, as provided in the Sagicor Arrangement), and (v) any documentary, stamp, property transfer, transfer or other taxes (as set forth in Section 7.03(e) of the Alignvest Disclosure Schedule (as defined in the Arrangement Agreement) that may be payable by Alignvest pursuant to applicable Law in respect of its purchase of Scheme Shares) of at least US\$220 million, consisting of: (i) money in Alignvest’s escrow account; (ii) the amount received by Alignvest from the Forward Purchase Agreements; and (iii) any amounts that Sagicor elects to provide to Alignvest, in Sagicor’s sole and absolute discretion, to enable Alignvest to satisfy this requirement; which will be available for the sole purposes of (A) paying the Cash Consideration payable to the Cash Qualifying Scheme Shareholders pursuant to Section 2.12 of the Arrangement Agreement and the Scheme of Arrangement and (B) capitalizing Sagicor or its Subsidiaries upon the occurrence of the Effective Time; provided, however, that in the event that this minimum cash requirement is not met due to excessive redemptions of Alignvest Class A Restricted Voting Shares, (A) Alignvest shall use reasonable commercial efforts to seek to obtain additional debt or equity or other financing sufficient to restore Alignvest’s cash level to meet this minimum cash requirement, or make other appropriate arrangements to seek to complete the Sagicor Arrangement and (B) Sagicor shall use reasonable commercial efforts to cooperate with Alignvest’s efforts to seek to obtain such financing.
- (vi) Subject to Section 6.06(c) of the Arrangement Agreement, each founder as at November 27, 2018 shall have entered into an agreement pursuant to which Alignvest shall have the automatic right to repurchase certain of such founder’s Alignvest Class B Shares (which will become New Sagicor Common Shares following completion of the Alignvest Arrangement) in accordance with the

terms and conditions set out in Section 6.06 of the Arrangement Agreement. Alignvest shall have caused each party to the initial Forward Purchase Agreements (either directly or via the power of attorney granted to Alignvest in the initial Forward Purchase Agreements) to agree to Alignvest exercising the automatic right of repurchase of their Alignvest Class B Shares (which will become New Sagicor Common Shares following completion of the Alignvest Arrangement) on the terms and conditions set out in Section 6.06 of the Arrangement Agreement.

- (vii) In the event the transactions contemplated under the Arrangement Agreement constitute a Change of Control (as defined in the Note Indenture), Sagicor shall have received a waiver from the Holders (as defined in the Note Indenture) of a majority in principal amount of the Notes then outstanding of the obligation of Sagicor Finance (2015) Limited to make the Change of Control Offer (as defined in the Note Indenture) pursuant to Section 4.07 of the Note Indenture.

A more complete summary of the covenants contained in the Arrangement Agreement can be found in the management information circular to be mailed to Alignvest Shareholders in connection with the Alignvest Meeting. In addition, the full Arrangement Agreement can be found on Alignvest's profile on SEDAR at www.sedar.com.

Termination of the Arrangement Agreement

The Arrangement Agreement may be terminated prior to the Effective Time by:

- (i) the mutual written agreement of Alignvest and Sagicor;
- (ii) either Alignvest or Sagicor if:
 - a. the Effective Time shall not have occurred on or before the Outside Date; provided that, if on the Outside Date certain of the mutual conditions contained in the Arrangement Agreement, as set forth in the "Mutual Conditions to Closing" section above in paragraphs (iv), (vi), (vii), (viii), (ix), and (x) (to the extent relating to the matters set forth above in paragraphs (vi), (vii), (viii), or (ix)), shall not have been satisfied but all other conditions precedent shall have been satisfied or waived (other than those conditions that by their terms are to be satisfied at the Effective Time, but provided that such conditions shall then be capable of being satisfied if the Effective Time were to occur on the Outside Date), then the Outside Date may be extended by either Party by delivery of written notice to the other Party to May 31, 2019 and such date shall become the Outside Date for purposes of the Arrangement Agreement; and provided, further that, the right to terminate the Arrangement Agreement pursuant to this section shall not be available to any Party if the failure of the Effective Time to occur on or before the Outside Date is caused by a failure of such Party to perform any of its obligations under the Arrangement Agreement required to be performed at or prior to the Effective Time and such action or failure to perform constitutes a breach in any material respect of the Arrangement Agreement; or
 - b. a Governmental Authority of a competent jurisdiction shall have issued a final and non-appealable Order having the effect of permanently restraining, enjoining or otherwise prohibiting the consummation of the Sagicor Arrangement; provided that the right to terminate the Arrangement Agreement pursuant to this section shall not be available to a Party if the issuance of such final, non-appealable Order is caused by a failure of such Party to perform or comply with any of its obligations or covenants under the Arrangement Agreement; and provided, further that the Party seeking to terminate the Arrangement Agreement pursuant to this section shall have complied with its obligations under Section 6.02 of the Arrangement Agreement to prevent, oppose or remove such Order;
- (iii) Alignvest if:
 - a. a breach of any representation or warranty or failure to perform any covenant or agreement on the part of Sagicor under the Arrangement Agreement occurs that would cause any closing

condition to the obligation of Alignvest to effect the Sagicor Arrangement not to be satisfied, and such breach or failure is incapable of being cured by the Outside Date, and Alignvest is not then in breach of the Arrangement Agreement so as to cause any closing condition to the obligation of Sagicor to effect the Sagicor Arrangement not to be satisfied, or any closing condition to the obligation of Alignvest to effect the Sagicor Arrangement is otherwise not able to be satisfied; or

- b. Sagicor's board of directors fails to unanimously recommend or withdraws, amends or modifies the Sagicor Board Recommendation (as defined in the Arrangement Agreement) or publicly proposes or states its intention to do so;
- (iv) Sagicor if:
- a. if the board of directors of Sagicor authorizes Sagicor to enter into a written agreement (other than an Acceptable Sagicor Confidentiality Agreement (as defined in the Arrangement Agreement)) with respect to a Superior Sagicor Proposal, provided that Sagicor is then in compliance with Section 5.06 and Section 5.09 of the Arrangement Agreement and that prior to or concurrent with such termination Sagicor acknowledges its obligation to pay the Termination Fee (as defined in the Arrangement Agreement) in accordance with Section 8.04 of the Arrangement Agreement;
 - b. a breach of any representation or warranty or failure to perform any covenant or agreement on the part of Alignvest under the Arrangement Agreement occurs that would cause any closing condition to the obligation of Sagicor to effect the Sagicor Arrangement not to be satisfied, and such breach or failure is incapable of being cured by the Outside Date, and Sagicor is not then in breach of the Arrangement Agreement so as to cause any closing condition to the obligation of Alignvest to effect the Sagicor Arrangement not to be satisfied, or any closing condition to Sagicor's obligation is otherwise not able to be satisfied; or
 - c. the board of directors of Alignvest fails to recommend or withdraws, amends or modifies the Alignvest Board Recommendation (as defined in the Arrangement Agreement) or publicly proposes or states its intention to do so.

Principal Steps of the Alignvest Arrangement

Under the Alignvest Plan of Arrangement, commencing at the Effective Time (as defined in the Plan of Arrangement), the following principal steps, among other things, shall occur in the following order:

- (i) any Alignvest Class A Restricted Voting Shares held by a Redeeming Alignvest Shareholder who duly exercised his, her or its redemption rights in accordance with the constating documents of Alignvest shall be redeemed and cancelled and such Alignvest Class A Restricted Voting Shares shall cease to be outstanding, and each such Redeeming Alignvest Shareholder shall cease to have any rights as an Alignvest Shareholder other than the right to be paid the redemption amount for their Alignvest Class A Restricted Voting Shares in accordance with the constating documents of Alignvest and the Escrow Agreement;
- (ii) the Alignvest Forward Purchases shall become effective, as shall any agreements with any other persons who agree with Alignvest after the date of the Arrangement Agreement and at or before the Alignvest Effective Time to purchase securities of Alignvest;
- (iii) consistent with the articles of Alignvest, each non-redeemed Alignvest Class A Restricted Voting Share and each Alignvest Class B Share that is outstanding at the Alignvest Effective Time that is legally and/or beneficially held by a Participating Alignvest Shareholder shall be converted into one New Sagicor Common Share;

- (iv) the terms of the Alignvest Warrants shall be deemed to be amended to be share purchase warrants to acquire New Sagicor Common Shares 30 days following the Alignvest Effective Date, at an exercise price of C\$11.50 per share, but otherwise unamended;
- (v) at the Effective Time, the Sagicor Arrangement will become effective;
- (vi) each unvested common share of Sagicor under the Sagicor Share Plans that is outstanding at the Effective Time will, in accordance with its terms, be exchanged for or become a right, subject to the applicable vesting conditions being satisfied, to receive from New Sagicor the number of New Sagicor Common Shares equal to the product of the Exchange Ratio multiplied by the number of such common shares of Sagicor, rounded down to the nearest whole number of New Sagicor Common Shares, and subject to the foregoing, the term of expiry, vesting conditions, and all other terms and conditions of the right to receive such New Sagicor Common Shares will be the same as the terms and conditions of such grant under such Sagicor Share Plan, and any document or agreement previously evidencing such grant under such Sagicor Share Plan shall thereafter evidence and be deemed to evidence such right to receive New Sagicor Common Shares;
- (vii) each option to acquire common shares of Sagicor under a Sagicor Share Plan (a “**Sagicor Option**”) to acquire common shares of Sagicor that is outstanding at the Alignvest Effective Time (and that is not exercised for common shares of Sagicor prior to the Alignvest Effective Time) and will, in accordance with its terms, be exchanged for or become an option (a “**Replacement Option**”) to purchase New Sagicor Common Shares equal to the product of the Exchange Ratio multiplied by the number of common shares of Sagicor that may be purchased as if such Sagicor Option were exercisable and exercised immediately prior to the Alignvest Effective Time. Such Replacement Option shall provide for an exercise price per New Sagicor Common Share equal to the exercise price per common share of Sagicor of such Sagicor Option immediately prior to the Alignvest Effective Time divided by the Exchange Ratio. If the foregoing calculation results in a Replacement Option being exercisable for a fraction of an New Sagicor Common Share, then the number of New Sagicor Common Shares subject to such Replacement Option shall be rounded down to the next whole number of New Sagicor Common Shares and the total exercise price for the Replacement Option will be reduced by the exercise price of the fractional New Sagicor Common Shares. Subject to the foregoing, the term to expiry, conditions to and manner of exercising, vesting schedule, and all other terms and conditions of such Replacement Option will be the same as the terms and conditions of such Sagicor Option, and any document or agreement previously evidencing such Sagicor Option shall thereafter evidence and be deemed to evidence such Replacement Option;
- (viii) all of the directors of Alignvest shall be removed as directors of Alignvest; and
 - a. if, immediately prior to the Alignvest Effective Time, Alignvest shall have available a cash amount (excluding or prior to Alignvest Expenses, but net of the amount payable in respect of Alignvest Class A Restricted Voting Shares for which notices of redemption have been provided and not withdrawn) of C\$500 million or more in accordance with Section 5.03 of the Arrangement Agreement, the following persons shall be appointed as directors of Alignvest: Timothy Hodgson (as the Chairman); Reza Satchu; Alister Campbell; Rik Parkhill; Dodridge Miller; four directors designated by the chairman of the board of directors of Sagicor which will be chosen from the directors serving on the board of Sagicor or Sagicor Jamaica, in each case, prior to the Effective Time; and three directors designated by mutual agreement of Alignvest and Sagicor from a pool of candidates mutually agreed by Alignvest and Sagicor, subject to each such person being qualified to be appointed under applicable law, and consenting to act, as a director of Alignvest. If any of the foregoing individuals are not willing or able to act as a director of Alignvest, then Alignvest and Sagicor, each acting reasonably, shall appoint a replacement, in each case subject to each such person being qualified to be appointed under applicable law, and consenting to act, as a director of Alignvest; or
 - b. if, immediately prior to the Alignvest Effective Time, Alignvest shall have available a cash

amount (excluding or prior to Expenses, but net of the amount payable in respect of Alignvest Class A Restricted Voting Shares for which notices of redemption have been provided and not withdrawn) of less than C\$500 million in accordance with Section 5.03 of the Arrangement Agreement, the following persons shall be appointed as directors of Alignvest: Timothy Hodgson (as the Chairman); Reza Satchu; Alister Campbell; Rik Parkhill; Mahmood Khimji; Dodridge Miller; and six directors designated by the chairman of the board of directors of Sagicor which will be chosen from the directors serving on the board of directors of Sagicor or the board of directors of Sagicor Jamaica, in each case, prior to the Effective Time, subject to each such person being qualified to be appointed under applicable law, and consenting to act, as a director of Alignvest. If any of the foregoing individuals are not willing or able to act as a director of Alignvest, then Alignvest and Sagicor, each acting reasonably, shall appoint a replacement, in each case subject to each such person being qualified to be appointed under applicable law, and consenting to act, as a director of Alignvest;

- (ix) Alignvest shall be authorized to apply to the Director to continue from the laws of Ontario to the laws of Bermuda; and
- (x) at the time that a certificate of continuance for Alignvest is issued by the Registrar of Companies in Bermuda under the BCA Alignvest shall be continued in Bermuda as an exempted company.

Principal Steps of the Sagicor Arrangement

- (i) At the Effective Time, in consideration of the rights of the Scheme Shareholders under the Sagicor Arrangement and in exchange for each Scheme Share issued and outstanding immediately prior to the Effective Time and notwithstanding any term of any relevant document, the following shall occur:
 - a. all the Scheme Shares shall be transferred to Alignvest, together with all rights and entitlements attaching to them as at the Effective Time without the need for any further act by any Scheme Shareholder, and free and clear of all liens, claims and encumbrances;
 - b. each holder of Scheme Shares at the Effective Time shall cease to be the holder of such Scheme Shares and shall cease to have any rights as a holder of such Scheme Shares and each such holder's name will be removed from the Register of Members and New Sagicor will be recorded as the registered holder of all of the Scheme Shares in the Register of Members and will be deemed to be the legal and beneficial owner of such Scheme Shares, free and clear of all liens, claims and encumbrances;
 - c. in exchange for the Scheme Shares the Company shall procure that New Sagicor shall issue and allot or pay (as applicable) the Scheme Consideration to the Scheme Shareholders as follows:
 - i. in respect of the Cash Consideration, to those eligible shareholders, cheques for payment of the Cash Consideration will be made to each Cash Qualifying Scheme Shareholder as soon as possible but in any event within 30 business days following this Scheme becoming effective;
 - ii. in respect of the First Share Consideration, New Sagicor shall, as at the Effective Time, allot and issue, credited as fully paid, free and clear of all liens, claims and encumbrances, the relevant Share Consideration to each Share Qualifying Scheme Shareholder that elected to receive First Share Consideration or that did not make a valid election by the Election Deadline (as defined in the Sagicor Arrangement), whereupon such Share Qualifying Scheme Shareholder shall become a registered holder of New Sagicor Common Shares; and

- iii. in respect of the Other Share Consideration, New Sagicor shall, as at the Effective Time, allot and issue, credited as fully paid, free and clear of all liens, claims and encumbrances, the relevant Share Consideration to such Share Qualifying Scheme Shareholder whereupon such Share Qualifying Scheme Shareholder shall become a registered holder of New Sagicor Common Shares.
- (ii) The Specified Number has been determined based on the number of Scheme Shares issued to the Scheme Shareholders existing at or about the time of execution of the Arrangement Agreement and assuming that (i) all of such Scheme Shareholders were entitled to and fully elected to receive the Cash Consideration in respect of up to their first 10,000 Scheme Shares; and (ii) that such number of Scheme Shares continued to be held by the Scheme Shareholders at the Election Record Date and at the Effective Time. In the event that the aggregate amount of Cash Consideration elected by Cash Qualifying Scheme Shareholders is, together with any amount payable under clause 3 below and under Section 7.03(e) of the Arrangement Agreement, greater than US\$205 million (or such other amount as Alignvest and Sagicor mutually agree, with a potential floor as Alignvest and Sagicor may mutually agree), then the Specified Number shall be adjusted in accordance with Section 2.12(b) of the Arrangement Agreement.
- (iii) In the event that it would be contrary to applicable Laws to offer or pay the First Share Consideration or the Other Share Consideration in respect of Scheme Shares held by a Person located in any jurisdiction, both Alignvest and Sagicor may take such action as either may deem necessary to comply with such Laws, and in addition or in the alternative Alignvest may in its discretion pay US\$1.75 per each such Scheme Share if it determines that compliance with such Laws would be excessively costly or impractical, acting reasonably.

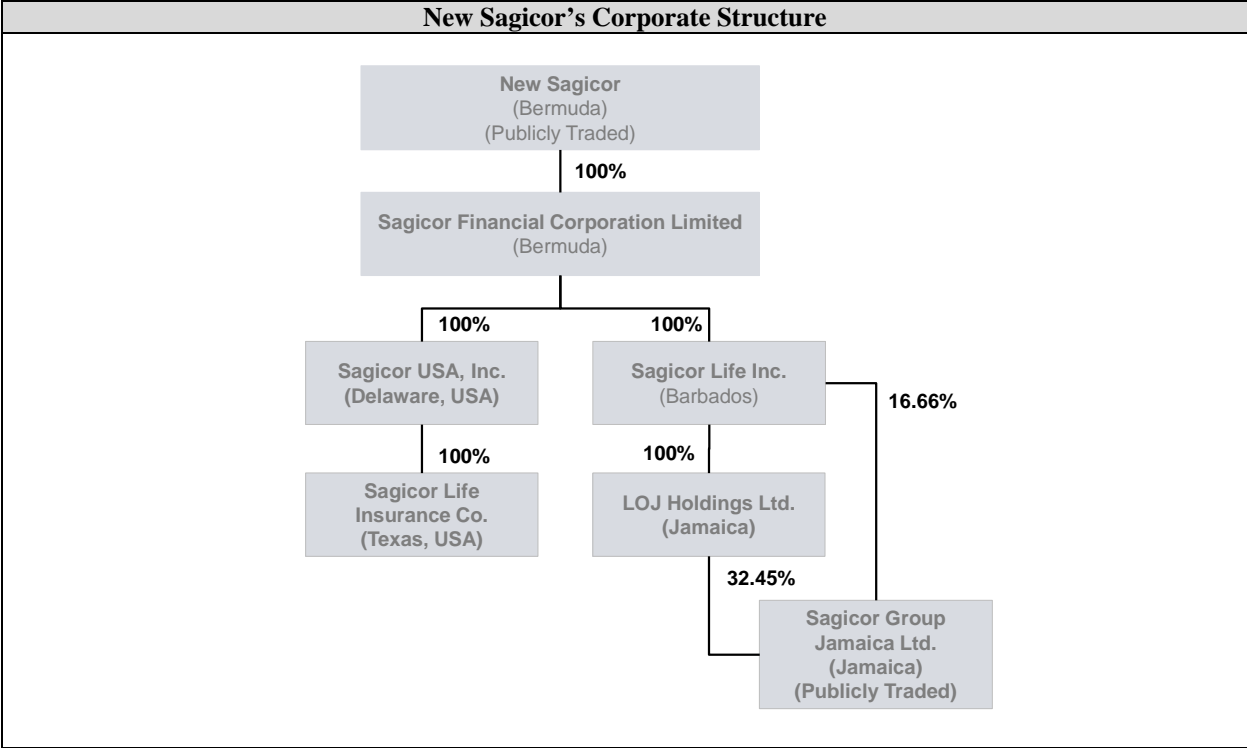
New Sagicor

New Sagicor will own 100% of Sagicor. Sagicor is a leading provider of insurance products and related financial services in the Caribbean region, mainly in Barbados, Jamaica and Trinidad and Tobago. Sagicor also provides life insurance and annuity products in the United States, as well as banking services in certain Caribbean countries. Sagicor's wide range of products and services include life and health insurance, annuities, pension investment and administration, property and casualty insurance, asset management, commercial and retail banking, investment management and other financial services. The Sagicor Common Shares are currently publicly listed on the Barbados Stock Exchange, the Trinidad and Tobago Stock Exchange and, via depositary interests, the London Stock Exchange. The Sagicor Common Shares are expected to be delisted on such exchanges upon completion of the Sagicor Arrangement. See "*The Business of Sagicor*" and "*Risk Factors*".

In connection with the Transaction, New Sagicor will continue out of the jurisdiction of Ontario under the OBCA and into the jurisdiction of Bermuda under the BCA. The head office of New Sagicor will be located at Cecil F De Caires Building, Wildey, St. Michael, Barbados. New Sagicor will be a reporting issuer in all of the provinces and territories of Canada other than Québec, as well as in certain Caribbean jurisdictions.

Inter-corporate Relationships

The organizational chart below indicates the proposed inter-corporate relationships of New Sagicor and its material subsidiaries, including their jurisdiction of incorporation in parentheses, after giving effect to the Transaction.



Expected Accounting Treatment

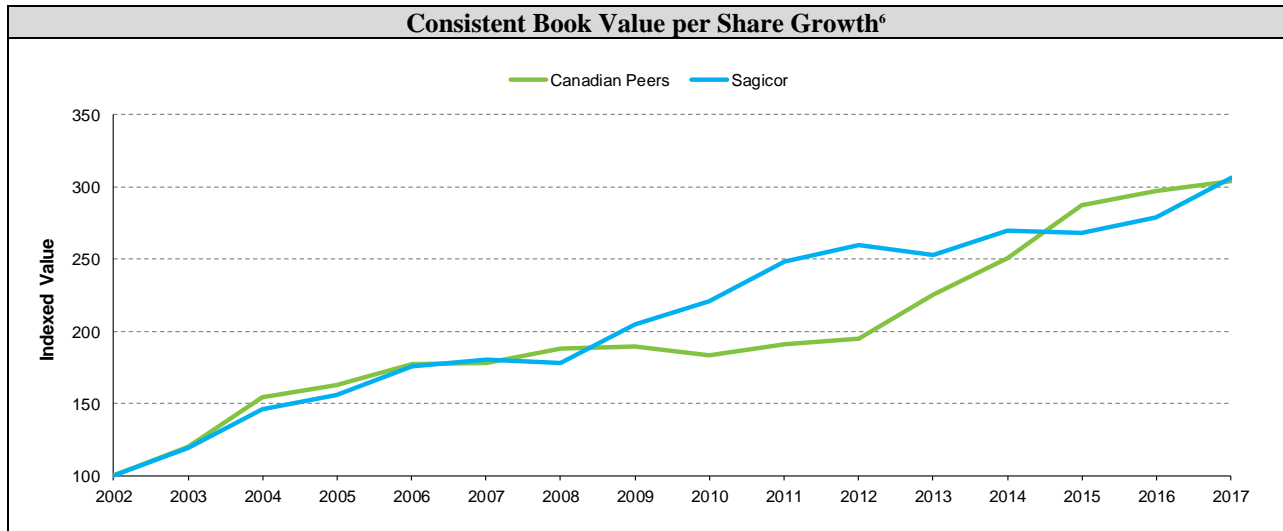
While Alignvest is the legal acquirer of Sagicor, Sagicor has been identified as the acquirer for accounting purposes. As Alignvest does not meet the definition of a business as defined in IFRS 3 - Business Combinations (“**IFRS 3**”), the acquisition is not within the scope of IFRS 3 and is accounted for as a share-based payment transaction in accordance with IFRS 2 – Share-based Payments (“**IFRS 2**”). The transaction will be accounted for as the continuance of Sagicor with recognition of the identifiable assets acquired and the liabilities assumed of Alignvest at fair value. Under IFRS 2, the transaction is measured at fair value of the common shares deemed to have been issued by Sagicor in order for the ownership interest in New Sagicor to be the same as if the transaction had taken the legal form of Sagicor acquiring 100% of Alignvest. Any difference in the fair value of the common shares deemed to have been issued by Sagicor and the fair value of Alignvest’s identifiable net assets acquired and liabilities assumed represents a listing expense.

INDUSTRY OVERVIEW

Sagicor is a provider of life insurance and ancillary financial products. The Company’s largest markets include Jamaica, the Southern & Eastern Caribbean, and the United States, which represented 46%, 28%, and 13% of Sagicor’s 2017 revenues, respectively.

The life-insurance industry constitutes a significant part of the global economy and the financial services industry. Notably, the life insurance market is global in nature and many large life insurers domiciled in either Canada or in the United States have well-established subsidiaries outside of their home country that generate a significant proportion of their revenue and earnings from abroad. For example, based on market research, in the second quarter of 2018, Manulife Financial Corporation, Great-West Lifeco Inc., and Sun Life Financial Inc., three of Canada’s largest life insurance companies, generated ~55% to ~80% of their normalized earnings from outside of Canada. Based on market research, in the United States, approximately one-third of the business mix of 13 leading life insurance companies⁴ is comprised of international operations.

Life insurance companies have a unique business model relative to other financial service companies. Because the vast majority of a life insurer’s assets are invested conservatively in longer-term fixed income investments, to appropriately match the long-dated tenor of their liabilities, life insurers are generally insulated from shorter-term market volatility. The effect of this insulation is particularly evident during severe market turbulence, such as the 2008 financial crisis. During this time, many financial services companies, including investment banks, depositories, and thrifts, faced significant liquidity pressures as institutional and retail clients withdrew their account balances and deposits, and in doing so severely constricted the core funding sources of those businesses. However, because the majority of life insurers do not rely on short-term funding sources, most of them were not nearly as negatively affected by the situation. To illustrate, the SNL U.S. Insurance Life and Health Index outperformed the S&P Financials index by 7% during the 2008 economic crisis⁵. Importantly, Alignvest and Sagicor believe that this differentiated business model, and the corresponding reduction in short-term volatility, is one of the factors that allows life insurance companies to grow book value per share consistently over time, as illustrated in the table below.



⁴ Includes Aflac Incorporated, Ameriprise Financial Inc., Athene Holdings Ltd., Brighthouse Financial Inc., CNO Financial Group Inc., Lincoln National Corporation, MetLife Inc., Principal Financial Group Inc., Prudential Financial Inc., Reinsurance Group of America Inc., Torchmark Corporation, Unum Group, and Voya Financial Inc. Based on 2018E business mix.

⁵ Calculated using price performance from 1/1/2008 to 12/31/2008.

⁶ Sagicor calculation based on change in book value per share adjusted for discontinued operations. Canadian peers include: Great-West Lifeco Inc., Sun Life Financial Inc., Industrial Alliance Insurance and Financial Services Inc., and Manulife Financial Corporation.

In addition to the structural advantages of the life insurance business model, there are meaningful industry tailwinds that Alignvest and Sagicor expect will have a positive influence on both the industry, broadly, and on the Company's specific markets, each of which is discussed in greater detail below:

- the aging of the global population is increasing the need for income generation and capital protection products, which life insurers are well-positioned to provide;
- high government debt levels are likely to result in reduced government sponsored healthcare and retirement benefits, which will create an opportunity for individual and group health insurance products as well as life insurance savings products to meet these needs; and
- corporate defined benefit plans are likely to be restructured over time. For example, the Employee Benefit Research Institute estimates that in the U.S. participation in an employment-based defined benefit plan among private sector workers declined from 38% in 1979 to 13% in 2013. Sagicor's U.S. life insurance industry should benefit from this through its group benefits businesses, which provide pension de-risking options for defined benefit plans.

The following is a brief industry overview of each of the markets in which Sagicor operates.

Jamaica

Jamaica is a former British colony that gained independence in 1962. After achieving independence, Jamaica established a political and legal system which closely resembles that of the United Kingdom. The insurance industry in Jamaica is regulated by FSCJ under the Financial Services Act.

The Jamaican economy is heavily dependent on services, which account for almost 70% of GDP. Per Moody's, in 2017, the GDP per capita was approximately US\$5,193.

According to the Life Insurance Company Association of Jamaica, the Jamaican insurance market is one of the largest in the English-speaking Caribbean, based on life insurance premiums written. Per BMI Research, the life insurance segment constitutes the largest part of the overall Jamaican insurance market, accounting for roughly 57% of total written insurance premiums in 2017. Per BMI Research, estimated life insurance premiums in 2017 reached US\$412 million following a year over year rise of 7.3% on a constant currency basis. The life insurance segment is expected to benefit from Jamaica's improving economic environment, as improvements in the disposable incomes of households may transfer to an increase in demand for life and non-life insurance products.

In Jamaica, Sagicor provides life insurance, critical illness and health insurance, annuities, pension administration, investment management, securities dealing, and commercial banking products and services.

Southern & Eastern Caribbean

Sagicor's Southern Caribbean operations include Trinidad and Tobago and Barbados. The Company's operations in the Eastern Caribbean are conducted in seven territories: Antigua, Anguilla, the Commonwealth of Dominica, St. Lucia, Grenada, St. Kitts and Nevis, and St. Vincent. Of these operations, Trinidad and Tobago and Barbados are the largest. Sagicor no longer writes new business in Anguilla.

Trinidad and Tobago is a former British colony that gained independence in 1962. In 1976, the country became a republic with a parliamentary democracy. The insurance industry in Trinidad and Tobago is regulated by the Central Bank of Trinidad and Tobago.

Trinidad and Tobago relies on its energy sector for much of its economic activity. Oil and related downstream industries are the country's main economic drivers. Per Moody's, GDP per capita was approximately US\$16,110 in 2017.

By regional Caribbean standards, the Trinidadian insurance sector is well developed. Positive economic and demographic trends are likely to underpin steady growth across the majority of major insurance product lines in the near future in addition to the continued emergence of smaller insurance product lines, such as health and personal accident insurance.

Barbados is a former British colony that gained independence in 1966. Its government is a parliamentary democracy under a constitutional monarchy. As is the case in Jamaica, the Barbados Financial Services Commission regulates non-bank financial institutions (including insurance companies) and the securities industry under the Financial Services Commission Act.

Barbados is one of the most developed countries in the region with a GDP per capita of approximately US\$17,858 in 2017, per Moody's. Tourism is the main economic driver in Barbados and indirectly drives activity in construction, distribution and business and general services sectors. Foreign direct investment also drives economic activity in Barbados particularly in the construction and business and general services sectors.

The insurance industry in Barbados benefits from a high-quality financial infrastructure and absence of taxes on offshore businesses. Per BMI Research, the estimated 2017 life insurance premiums written were US\$126 million following a year over year rise of 3.2% on a constant currency basis. Evolving demographic factors and growing trends towards private healthcare spending and savings and investment activity are expected to create further opportunities for insurers in the health and personal accident and life insurance segments.

In Trinidad and Tobago and Barbados, Sagicor provides life, critical illness and health insurance, annuities, pension investment, and pension administration services.

The United States

The United States is the world's largest economy and center of global trade and finance, supported by flexible markets and highly developed financial infrastructure. The U.S. economy continues to expand at a robust pace driven by increasing private consumption and business fixed investment, supported in part by fiscal stimulus from the US\$1.5 trillion tax cut package approved in December 2017. Continued strength in the economy has resulted in the U.S. unemployment rate declining to 3.7% (lowest level since 1969) with an annualized Q3 2018 GDP growth rate of 3.5% for the nine months ended September 30, 2018, per the U.S. Bureau of Labor Statistics and the U.S. Bureau of Economic Analysis.

The United States represents the largest individual insurance market in the world. The U.S. life insurance market has US\$2.75 trillion in total assets in annuities and approximately US\$12.0 trillion of individual life insurance in-force. Alignvest and Sagicor believe that the shift away from defined benefit plans and the concern over government social safety net programs, occurring at a time of significant demographic change in the aging of the population in the United States, present an opportunity to assist individuals in planning for their long-term financial security. According to IRI, each day 10,000 Americans reach the age of 65 and this is expected to continue through at least 2030. Furthermore, an estimated fifty percent of households have no retirement savings in a defined contribution plan, and Social Security is expected to replace only 40% of an individual's pre-retirement earnings. Alignvest and Sagicor believe that the Company's retirement-focused asset accumulation business will likely benefit from this trend.

In the US, Sagicor markets life insurance and annuity products to individuals.

SAGICOR INVESTMENT RATIONALE

Sagicor and Alignvest believe that the Transaction will unlock significant value for both Sagicor shareholders and Alignvest Shareholders.

For Sagicor, Alignvest's listing on the TSX is expected to provide the Company with access to a liquid market and sophisticated institutional investors. Company management expects that the willingness and ability of those investors to actively evaluate the merits of the business will help secure an appropriate valuation. Additionally, assuming a limited number of redemptions by Alignvest shareholders, New Sagicor is anticipated to benefit from a primary injection of Alignvest's equity, which is expected to enable New Sagicor to realize its organic and inorganic growth strategies. Finally, the proposed capital structure and Alignvest's TSX listing are expected to enable New Sagicor to materially lower its cost of capital, which is expected to both increase New Sagicor's profitability and further enhance its ability to execute on its strategic initiatives, both organic and inorganic.

Since Alignvest began evaluating potential investment targets in May 2017, none of them have presented as compelling an investment opportunity as Sagicor.

Highlights of Alignvest's investment thesis are discussed below.

- **The transaction is being offered at a valuation Alignvest believes is highly attractive.** Based on the purchase price, Sagicor is valued at 1.0x book value, 7.9x targeted 2019 net income, and 6.5x targeted 2020 net income, taking into account the proposed SLTT and SJLIC acquisitions – a substantial discount to the median price / book and price / earnings ratios of Canadian and Caribbean financial institutions, and to Alignvest's estimate of the Company's intrinsic value. See "*Management's Discussion and Analysis of Sagicor — Financial Outlook*".⁷
- **Best-in-class management team with extensive insurance and local-market experience.** Sagicor's senior management team has been with the Company for an average of 14 years and has significant experience managing businesses across multiple jurisdictions and markets
- **Sagicor has an outstanding core business.** Sagicor has significant market share in numerous growing business lines including individual life insurance and annuities, group life and benefits administration, and banking and investment management. The Company also has leading market positions and brand name recognition in its key insurance markets of Jamaica, Trinidad and Tobago, Barbados, and the Eastern Caribbean.
- **Substantial opportunity for accretive consolidation.** As evidenced by the proposed acquisitions of SLTT and SJLIC, Sagicor believes that there is opportunity for further consolidation within the insurance industry in the Caribbean. Additionally, management has the ability to successfully grow outside of Sagicor's core business and markets through strategic acquisitions, as evidenced by Sagicor's 2005 acquisition of Sagicor Life USA and Sagicor's 2014 acquisition of RBC's Jamaican banking operations. The proposed SLTT and SJLIC transactions will not be completed until after the Sagicor Arrangement and are subject to various conditions, and as a result, do not form part of Alignvest's qualifying transaction.
- **Comprehensive and innovative product offering.** Sagicor has a highly diversified insurance product mix including individual and group life, health, annuity and pension, personal disability, and property and casualty insurance that allows the Company to serve its customers' needs at each step of their financial life cycle, resulting in high customer retention rates and cross-selling opportunities. Importantly, Sagicor has no exposure to either long-term care or variable annuity products.
- **Extensive distribution platform.** Sagicor has unparalleled access to its customer base in the Caribbean through its extensive distribution network of dedicated advisors and brokers. The Company operates the

⁷ 2019 target excludes one-time Transaction Costs.

largest network of exclusive advisors in the Caribbean region – one of Sagicor’s core competitive advantages.

- **Significant “scale-up” opportunity in U.S. market.** Sagicor has built a strong technology and distribution platform in the U.S., targeting customers similar to those it has a demonstrated ability to serve in the Caribbean. Sagicor’s U.S. platform is profitable, has an attractive investment spread relative to its peers and, as Sagicor continues to execute on its growth plan, is expected by Sagicor to benefit from operational scale and increased asset leverage.
- **Strong operating and underwriting record, with proven resiliency across cycles.** Sagicor has managed to sustain a strong operating track record through economic cycles as demonstrated by the Company’s consistent net income growth, dividend growth, and book value per share growth.
- **Prudently managed and well-diversified balance sheet.** Sagicor manages its balance sheet using best-in-class risk management tools. For example, the Company voluntarily adopted the Canadian MCCSR standards following its demutualization, and has maintained MCCSR ratios in excess of 220% in every year since 2004. Sagicor’s prudent capital management policies and conservative reserving complement its stable and diversified product mix.
- **Opportunity for Alignvest to add significant value.** Alignvest is delivering significant value to Sagicor as part of this transaction. First, AIM will leverage its team’s extensive experience managing global portfolios to optimize Sagicor’s investment portfolio, consider additional investment strategies, lower third party advisor costs, and further enhance risk-management practices. Second, Alignvest has recruited highly experienced directors to the board. Third, Andre Mousseau, Alignvest’s Chief Operating Officer and Partner of Alignvest Private Capital, will be joining Sagicor as Group Chief Financial Officer. And finally, Alignvest has been responsible for sourcing and executing the proposed acquisitions of SLTT and SJLIC.

As a result of the above, Alignvest and Sagicor see a clear path to substantial equity value creation for all New Sagicor Shareholders. We believe that we have an opportunity to grow Sagicor’s net income from US\$62 million, for the year ended December 31, 2017, to a target of US\$115 million in 2020, based on the following:

- Sagicor estimates that net income from continuing operations to shareholders for the twelve months ended September 30, 2018, excluding a \$43 million net loss due to the restructuring of the Government of Barbados debt, would have been \$87 million, and that net of both the \$43 million loss and certain positive one-time net income figures, sustainable net income from continuing operations to shareholders for 2018 would be approximately \$70 million;
- Organic revenue growth has been assumed as 6% per annum for Sagicor’s continuing operations in 2019 and 5% in 2020; and
- Alignvest and Sagicor expect that the acquisition of SLTT and SJLIC will contribute annual run-rate net income of approximately US\$30 million following the anticipated closing in 2020, subject to regulatory approval. The completion of these transactions is not cross-conditional on each other, but both are conditional on the close of the Sagicor Arrangement, and they may close at different times. See “*Proposed Acquisitions – Proposed Acquisitions of SJLIC and SLTT*”.

Subject to, among other things, the precise timing of when these initiatives take effect, Sagicor is targeting 2019 net income of approximately US\$77 million.⁸

Importantly, Alignvest and Sagicor believe that Sagicor trades at an unwarranted discount to its Canadian and Caribbean peers in large part due to the Company’s disaggregated shareholder base and muted price discovery on its current stock exchanges. Alignvest and Sagicor expect that the discount at which the Company currently trades on

⁸ Excluding one-time Transaction Costs.

the Barbados and Trinidad and Tobago stock exchanges compared to Canadian peers should be reduced or eliminated over time as a result of Alignvest's listing on the TSX.

See "*Management's Discussion and Analysis of Sagicor — Financial Outlook*" for the assumptions on which the foregoing financial outlook is based.

The purpose of disclosing our financial outlook is to provide investors with more information concerning the financial impact that Alignvest and Sagicor currently believe is achievable based on Sagicor growth strategies described above and elsewhere in this prospectus. The foregoing description of our potential growth opportunities is forward-looking information for purposes of applicable securities laws in Canada and readers are therefore cautioned that actual results may vary from those described above. See "*Caution Regarding Forward-Looking Statements*" and "*Risk Factors*" elsewhere in this prospectus for a description of the assumptions underlying the forward-looking information and of the risks and uncertainties that impact our business and that could cause actual results to vary.

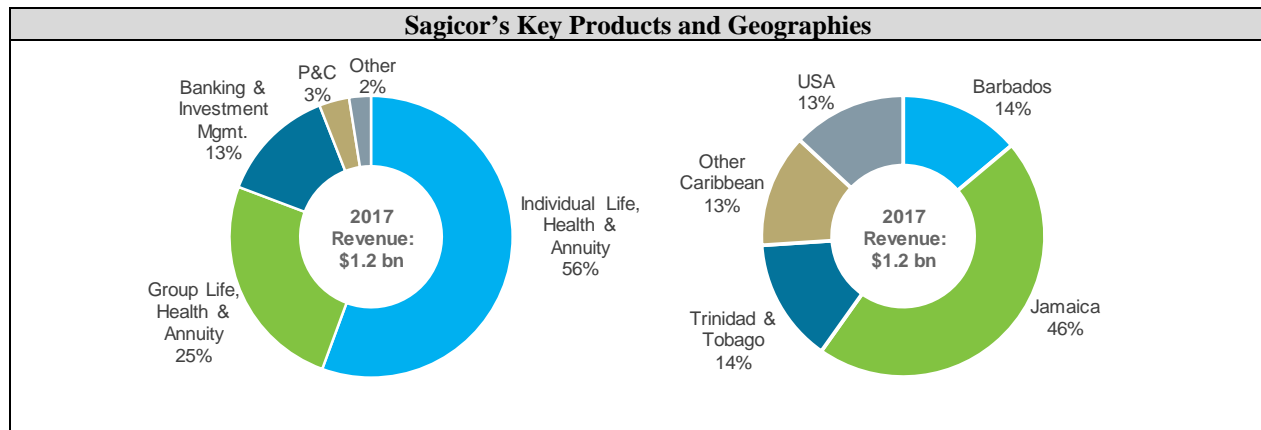
Alignvest and Sagicor approved this outlook on November 26, 2018.

THE BUSINESS OF SAGICOR





Overview

Sagicor is a market-leading provider of insurance products and related financial services in the Caribbean region, notably in Jamaica, Barbados, and Trinidad and Tobago, and has a growing presence as a provider of life insurance products in the United States. Sagicor has an over 175-year history of operations in the region and is the second oldest insurer in the Americas. With its over 2,800 employees and over 1,200 agents, Sagicor has operations in 22 countries, operates in four different languages, and manages eleven different currencies.

Sagicor’s core products and services include life and health insurance, annuities, pension investment and administration, property and casualty insurance, and a suite of ancillary non-insurance financial products and services, including banking and investment management, which it provides to two client segments: individuals and groups. Where Sagicor distributes these products, it utilizes a captive distribution network in the Caribbean and a network of independent insurance brokers in the United States. Sagicor’s business by product and by geography is shown below.



Sagicor is among the most recognizable and well-regarded financial services brands in the Caribbean and has increasing product recognition via its growing United States operations. Driven by its proven management team with long standing local market experience, its diversified assets, comprehensive and innovative product offerings, and extensive distribution platform, Sagicor holds an important competitive position across numerous business lines as highlighted in the table below.

Sagicor’s Leading Market Positioning			
	Rank	Market Share	
 Jamaica	1st	<ul style="list-style-type: none"> ▪ 61% Individual Life⁽¹⁾ ▪ 71% Group Life⁽¹⁾ ▪ 60% Pensions⁽¹⁾ ▪ 62% Group Health⁽¹⁾ 	 Barbados
 Trinidad & Tobago	2nd	<ul style="list-style-type: none"> ▪ 17% Ordinary Life ▪ 8% Group Life ▪ 17% Pensions ▪ 22% Group Health ▪ 22% Individual Health 	 Other Caribbean Life
			<ul style="list-style-type: none"> ▪ 64% Life, Health and Annuities⁽²⁾ <p>▪ Countries include: St. Vincent, Antigua, St. Lucia, Dominica, and Grenada</p>
<small>Source: Insurance Association of Jamaica, Association of Trinidad and Tobago Insurance Companies, Barbados’ Financial Services Commission</small>			
<small>⁽¹⁾ Based on 2017 data.</small>			
<small>⁽²⁾ Based on preliminary 2017 data.</small>			

Sagicor operates through its three main business segments: Sagicor Jamaica, Sagicor Life and Sagicor USA.

Sagicor Jamaica

Sagicor operates in Jamaica through its controlled subsidiary, Sagicor Jamaica. Sagicor Jamaica is a full-service financial institution offering a wide range of insurance and non-insurance solutions. Sagicor Jamaica's primary insurance products are individual life insurance and employee benefits, which is comprised of both group health and group pension. Sagicor Jamaica's non-insurance solutions include banking and investment management products and services. Sagicor Jamaica's strong brand, together with Sagicor's wide range of products and skilled sales force, has allowed it to maintain a leading position in Jamaica's life insurance market, and has allowed the company to expand into new areas as opportunities arise, while maintaining consistent growth over time.

Sagicor Life

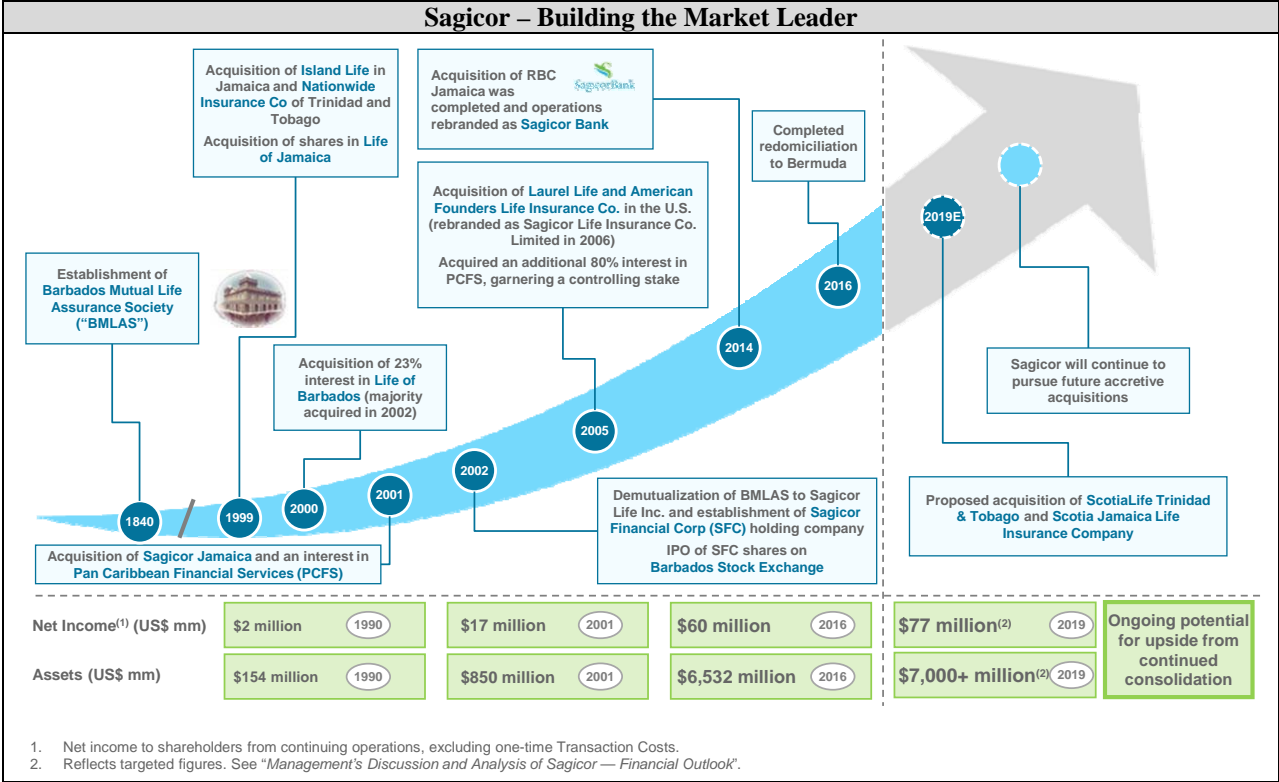
Sagicor operates in the Caribbean primarily through its subsidiary, Sagicor Life. Sagicor Life operates in the Southern Caribbean in Trinidad and Tobago as well as Barbados. Sagicor's operations in the Eastern Caribbean are conducted in seven territories (Antigua, Anguilla, the Commonwealth of Dominica, St. Lucia, Grenada, St. Kitts and Nevis, and St. Vincent) through three branches (Antigua, Grenada, and St. Lucia) and three agencies (Dominica, St. Kitts and Nevis and St. Vincent). Sagicor no longer writes new business in Anguilla. Sagicor also operates in the Dutch and North Caribbean. It is the leading insurance player in its various markets. Sagicor Life provides life, health, annuity insurance business, pension administration services and asset management.

Sagicor USA

Sagicor USA is part of the Company's strategy to expand into markets with significant growth potential and markets where the Company can develop global best practices that it can then introduce into its core geographies. It continues to look for opportunities to grow its policy and premium base by acquiring strategic blocks of life insurance business or policies, or other life insurance companies. Sagicor USA currently offers life insurance and annuities.

History and Transformation of Sagicor

Originally established in 1840 as The Barbados Mutual Life Assurance Society, Sagicor is one of the oldest insurers in the Americas. Sagicor's business grew organically with little change in product lines until 1969, when Sagicor introduced two unit trusts, a bond fund and an equity fund, to manage corporate pension funds, and in the 1970s, when Sagicor introduced group life insurance and health insurance products. Sagicor expanded its business through acquisitions in the 1980s and 1990s, transforming from a domestic to a regional and international company and from having a single line product to multi-line products. Because Sagicor's structure as a mutual company limited its growth, Sagicor demutualized in November 2002 and listed its shares on the Barbados Stock Exchange, subsequently listing on the Trinidad and Tobago Stock Exchange and, via depositary interests, the London Stock Exchange.



Sagikor has been transforming itself into a financial services leader over the last 30 years, growing its net income of approximately US\$2 million in 1990 to over US\$77 million targeted in 2019.⁹ As a result of its purposeful strategy, local market experience, comprehensive and innovative products and distribution strategy, Sagikor holds an important competitive position across numerous business lines and is targeting growing its assets from US\$154 million to over US\$7 billion in just under three decades.

Key acquisitions contributing to Sagikor’s transformation include:

Sagikor Jamaica

- 1999: Sagikor acquired Island Life Insurance Company Limited and shares in Life of Jamaica Limited.
- 2001: Sagikor acquired Sagikor Jamaica and an interest in Pan Caribbean Financial Services (“PCFS”). PCFS offers securities dealing, merchant banking, foreign exchange dealing, corporate trust services and mutual fund management.
- 2005: Sagikor acquired a controlling interest in PCFS through a series of acquisitions.
- 2008: Sagikor Jamaica acquired the insurance business of Blue Cross Jamaica Limited, comprised of approximately 7,000 group health insurance contracts.
- 2014: Sagikor Jamaica acquired a Canadian chartered bank’s Jamaican banking operations, and rebranded the business together with PCFS as Sagikor Bank. The net assets acquired had a fair value of US\$113.4 million for purchase consideration of US\$84.4 million.

⁹ Excluding one-time Transaction Costs.

Sagicor Life

- 1987: Acquisition of Travelers portfolio and re-branding of Aruba, Bahamas, Cayman Islands, Curacao, St. Maarten and Haiti to Capital Life.
- 1999: Sagicor Life acquired Nationwide Insurance Co. of Trinidad and Tobago.
- 2000: Acquired a 23% interest in Life of Barbados Limited, and went on to acquire a majority in 2002.
- 2005: Sagicor Life purchased a 20% interest in FamGuard Corporation Limited, the parent company of a leading insurance company in the Bahamas, Family Guardian Insurance Company Limited.
- 2008: Acquired a 77% interest in Barbados Farms Limited, whose common shares are listed on the Barbados Stock Exchange. BFL engages in agriculture, primarily the production of sugar cane, and owns parcels of land, some of which are utilized for agriculture while others are either leased, being developed for resale or not in use.

Sagicor USA

- 2005: Acquired Laurel Life Insurance Company and its operating subsidiary, American Founders Life Insurance Company. Sagicor subsequently rebranded these businesses as Sagicor Life USA, a U.S.-based life insurance company with business in 41 states and the District of Columbia, concentrated in Texas, Arizona, Ohio, California and Indiana to diversify and extend its geographical reach.
- 2012: Acquired Washington-based company PEMCO, bringing over 10,000 policyholders under the Sagicor umbrella.

Sagicor believes that these acquisitions have allowed it to further strengthen its financial position and create growth opportunities in both the Caribbean and the U.S. insurance markets by enabling Sagicor to diversify its geographic exposure and gain economies of scale.

The success of the Company's transformation to date is the result of Sagicor's consistent focus on achieving the four key objectives detailed below:

Become the market-leading insurer in the Caribbean

Sagicor has become a leading provider of insurance products and related financial services in the Caribbean through strategic acquisitions over the years, and the subsequent identification and realization of synergies from these acquisitions, including asset portfolio acquisitions in Jamaica, Barbados, Trinidad & Tobago and other regions in the Caribbean.

Expand into new markets both within and outside of the Caribbean

Sagicor has consistently grown through strategic acquisitions. In 2005, for example, Sagicor expanded outside its core Caribbean market by acquiring Sagicor Life USA. In 2014, Sagicor acquired a Canadian chartered bank's Jamaican banking operations and rebranded the business as Sagicor Bank, which significantly enhanced Sagicor's banking presence in Jamaica.

Implement best-in-class governance practices

Sagicor's internal management is bolstered by a progressive governance framework. As far back as 1991, Sagicor voluntarily adopted the MCCSR, a Canadian risk-based assessment which governs minimum capitalization for insurance companies, which Sagicor believes is more conservative than the regulatory standards in the regions in which the Company operates.

Sagicor created its first iteration of an enterprise risk management approach in 1998. Under this approach, Sagicor regularly measures and monitors risks for each business and geographic location in which it operates. That assessment of risks, together with an estimation of return potential, influences the allocation of capital to Sagicor's businesses. The organization continues to evolve and enhance its approach to risk management seeks to ensure that it adopts best-in-class practices. The development of these risk management practices and policies is further discussed below under "*— Overall Corporate Strategy – Focus on capital optimization, through centralization and enterprise risk management.*"

In addition, Sagicor has developed and implemented a strong internal corporate governance architecture. One clear example of this is Sagicor's standing Corporate Governance and Ethics committee for the board of directors of Sagicor, which is tasked with developing and recommending policies and procedures that establish and maintain the highest standards of Corporate Governance and Corporate Ethics. This committee also manages the process for Director succession, Director performance, the operation of the President, the composition of Board and Committees, shareholder communications, and Sagicor's corporate image. The Committee's composition meets the independence requirements of Sagicor's Corporate Governance Policy. In addition, Sagicor's main subsidiaries each have required independent directors as part of their respective boards of directors. New Sagicor intends to maintain strong corporate governance.

As part of Sagicor's implementation of best-in-class practices, the Company regularly schedules executive management committee meetings designed to enable collaboration, operational oversight, and ongoing strategic discussions across Sagicor's divisions.

Optimize capital structure

Sagicor has consistently pursued strategies to enhance the flexibility of its capital. For example, in 2002, Sagicor demutualized the company, which resulted in easier access to less expensive capital. Sagicor listed its shares on the Barbados in 2003 and Trinidad exchanges in 2004.

In 2006, a subsidiary of Sagicor launched a successful U.S. bond offering, which was refinanced in 2015. The Company's last bond issuance was rated BBB by S&P, a rating that was effectively capped by the Barbados sovereign credit rating. In order to circumvent this issue in the future, in 2016, Sagicor redomiciled from Barbados to Bermuda - a jurisdiction that has a higher sovereign credit rating. Sagicor believed that this redomiciliation would allow the Company's ratings to better reflect its robust capitalization and balance sheet strength.

Overall Corporate Strategy

Sagicor strives to be a leading insurance and financial services provider of world class products and services to better serve its customers and broader stakeholders, while focusing on stable cash flow generation, delivering profitable growth, and realizing high shareholder returns.

In pursuit of these goals, Sagicor's strategy is based on the following components:

Drive further consolidation of Sagicor's core Caribbean insurance markets

Sagicor believes there is room for further consolidation in the Caribbean insurance industry. While there has already been significant consolidation in Barbados and Jamaica (in which Sagicor has been a major participant), Sagicor believes there are still many opportunities to further consolidate in Jamaica, Trinidad and Tobago and, to a lesser extent, the Eastern Caribbean. Furthermore, the property and casualty insurance sector remains highly fragmented with several small players each of whom have unclear competitive strategies. With Sagicor's lead rankings in this region, and the Company's proven ability to identify and execute acquisitions, Sagicor is well-positioned to be an active consolidator in the space. Additionally, Sagicor believes that there are significant benefits from the acquisition of new businesses, notably through the strengthening of Sagicor's geographic coverage in key markets and through the development of complementary products that can better serve Sagicor's customers' needs.

Continue to extract synergies from existing and acquired operations

Depending on the geography, Sagicor operates as a well-established leading insurance carrier or a young mid-market entrant. Across the Caribbean, the Sagicor brand is well known, highly regarded, and associated with strength and prudence. By contrast, in the United States, Sagicor seeks to gain increased brand recognition and market share. In the Caribbean, strategies are oriented towards promoting and exploiting market consolidation opportunities as well as defending and protecting market share. In the United States, strategies are focused on gaining share, driving speed to market, agility, and innovation.

Across all regions, Sagicor continually seeks to streamline its operations to increase efficiency, to control and reduce costs and to improve its service. In furtherance of these goals, Sagicor has established a shared services division, which streamlines information technology (“IT”) operations across Sagicor’s businesses and enhances effectiveness and efficiency in the delivery of IT services. Sagicor intends to further streamline its operational processes by adding additional back-office functions to its shared services model. Sagicor’s “Branch Network” is an innovation that allows customer-driven activities to be initiated in their country of origin but be processed, based on available skills and personnel, in any of the jurisdictions in which Sagicor operates. See “—Information Technology—Systems Framework—Systems of Record.”

Presently, the finance function is transitioning from dated legacy platforms to a single contemporary solution that will operate across all territories and all business lines. This new platform is likely to affect how the Group operates insurance, including but not limited to product development, actuarial, and underwriting activities. Potential expense synergies and reductions in unit costs should not only have a beneficial impact on operating profitability, but also potentially unlock substantial reserves associated with future cost assumptions for the in-force book of business.

Additionally, Sagicor believes that the continued growth of its business will enable Sagicor to generate further economies of scale, other operational efficiencies and increased margins.

Pursue profitable growth strategies by increasing insurance penetration

Consistent with the Company’s historical performance, Sagicor continues to believe it will be able to grow its business at rates above those of the economies in which it operates, principally by exploiting opportunities to sell more products to its current customer base and to leverage Sagicor’s growing platform in the United States.

There is a substantial opportunity for Sagicor to leverage its extensive distribution network to both acquire new customers and to pursue new growth opportunities through the cross-selling of its insurance products.

In the United States, Sagicor intends to continue to take advantage of profitable growth opportunities, expanding its business into new markets and complementing its product portfolio with tailored solutions to its customers. Sagicor Life USA continues to look for opportunities to grow its policy and premium base by acquiring strategic blocks of insurance portfolios or other life insurance companies. In addition, it is using cutting edge technology to expedite the underwriting process, thereby helping it acquire policies.

Continue to leverage cutting edge technology to further business objectives

Through technological innovation, Sagicor is quick to sense changes in market conditions, formulate responses, execute its plans, and deliver superior service swiftly to its policyholders, prospects, agents, and agencies.

Sagicor plans to deploy a fully-integrated IT platform based on commercial solutions, to introduce advanced systems that measure and manage its finance functions, risk processes, and standardize pricing models across jurisdictions, while still allowing for local adjustments based on country specific assumptions. As noted above, the finance function is presently transitioning from dated legacy platforms to a single contemporary solution that will operate across all territories and all business lines. This has been completed in the Southern Caribbean and is expected to be concluded for all jurisdictions in 2019. As mastery of the new system grows, new organization constructs may emerge that will also potentially unlock reserves associated with going forward cost assumptions for the in-force book of business.

Sagicor not only recognizes the United States as a growth market but also as its technology incubator. Management believes that, at this time, U.S. competitors do not have the ability to auto-adjudicate underwriting and thereby accelerate the process from weeks to minutes. Accelewriting®, a Sagicor innovation, continues to lead the industry. Accelewriting was launched in 2014, went on to receive innovation awards for digital and omnichannel solutions in 2016, and remains effectively unchallenged by competitors who are 50 to 100 times larger than Sagicor's U.S. operations. Technology concepts and innovation are trialed first in the U.S. and then, if applicable, exported to the Caribbean. This serves to keep the U.S. business competitive and vibrant but also allows Sagicor's Caribbean businesses to be early adopters of proven solutions and further enhances existing barriers to entry for competitors.

Focus on capital optimization, through centralization and enterprise risk management

Sagicor allocates capital by optimizing the balance between management's expected risk and return as it relates to each capital allocation decision. Through a group-wide enterprise risk management approach, Sagicor regularly measures and monitors risks for each business and geographic location in which it operates. That assessment of risks, together with expected returns, influences the allocation of capital to its businesses. In addition to Sagicor's internal models, Sagicor also regularly manages its allocation of capital against both regulatory and rating agency risk-based capital models.

Products and Services

This section describes in detail Sagicor's products and services. Sagicor's main lines of business are life and health insurance, employee benefits, asset management and banking services and property and casualty insurance. Sagicor sells these products and services to both individuals and groups. More detail on these products can be found below.

- Insurance products include those that pay benefits on life's contingencies including death, survivorship, accident, sickness, disability, and critical illness.
- Property and casualty insurance addresses property damage that may arise from natural disasters or other types of accidents.
- Annuities are provided on both a payout basis, typically after retirement, and on an accumulation basis, typically before retirement.
- Asset management services are provided primarily through mutual funds, in which some life insurance policies participate.
- Banking products and services consist primarily of deposits, secured loans, and debit and credit cards, the latter of which are solely provided by Sagicor's Jamaican subsidiaries.

Gross premiums from individual insurance products collectively contributed 67.6% and 60.7% of Sagicor's gross premium income and fees in the nine months ended September 30, 2018 and the year ending December 31, 2017, respectively.

Gross premiums from Sagicor's group insurance products collectively represented 18.2% and 25.4% of Sagicor's gross premium income and fees in the nine months ended September 30, 2018 and the year ending December 31, 2017, respectively.

Fees from Sagicor's non-insurance products and services represented 8.2% and 7.0% of Sagicor's revenue and fees in the nine months ended September 30, 2018 and the year ending December 31, 2017, respectively.

The following table shows a breakdown of gross premium revenues and fees as well as other revenues for ancillary services of these lines of business for the year ended December 31, 2017 and the nine months ended September 30, 2018.

Sagicor's Gross Premium Revenue and Fees		
	Year ended December 31, 2017	Nine months ended September 30, 2018 ⁽¹⁾
(in millions of US\$)		
Individual Insurance:		
Life.....	378.0	296.1
Annuities.....	194.5	273.4
Health.....	13.8	11.0
Total individual.....	586.3	580.5
Group Insurance:		
Health.....	140.2	114.7
Life.....	28.7	20.9
Creditor.....	12.4	8.6
Annuities.....	63.5	11.6
Total group.....	244.8	155.8
Property and casualty insurance.....	67.3	52.8
Asset management products.....	31.2	28.1
Banking.....	36.9	41.7
Total.....	966.5	858.9
(1) Unaudited.		

Life Insurance Products

Life insurance is sold on an individual and group basis. Life insurance products include whole life, term life, creditor life, endowment, unit-linked, disability insurance, and critical illness insurance.

Sagicor does not sell any universal life products with secondary guarantees. Additionally, Sagicor does not sell any universal life or other products with side accounts without explicit investment size limits.

Whole life insurance provides lifetime protection against death, with a cash value that increases over time and is subject to withdrawal charges. Premiums remain constant over the life of the policy.

Term life insurance provides protection for a limited period of time. The customer specifies the period of cover and the amount of protection and the policy typically pays death benefits during the specified term. Term policies do not accumulate a cash value. The policies can usually be renewed upon expiration and premiums typically increase upon renewal. Term life sold to groups usually provide a benefit based on a multiple of pay.

Endowments pay the same benefit either on death or on survival at the end of the term.

Unit-linked products have variable maturities and variable premiums and part of the premium can be invested in certain mutual funds. The benefits upon death or maturity are equal to the value of the units and in certain cases subject to a minimum of the guaranteed benefits.

Disability insurance replaces a percentage of an insured individual's monthly income should that individual be unable to work.

Critical illness insurance pays a predetermined benefit on the diagnosis of a serious illness like cancer, stroke, and heart disease.

Creditor Life

Creditor life insurance is provided on a group basis only and sold to lenders, who generally pass the costs through to participating customers. It repays a loan made by a lending institution upon the death of the insured borrower prior to the maturity of the loan.

Annuities

Annuities are sold on an individual and group basis. Payout annuities are purchased with a single premium with level benefits during an individual's lifetime. The benefits may be paid for a minimum period of time on the death of the individual within the minimum period. The benefits may increase either by a fixed rate or by reference to an index. There is usually no surrender value.

An accumulation annuity can be purchased either with a single or regular premium. The basis of accumulation can be referenced to an interest rate, which can be reset at predetermined times, or a stock index. The policy can be surrendered for a cash value prior to maturity. The cash value is subject to a predetermined or variable charge linked to market conditions.

Annuities can be sold to either individuals or to groups.

Sagicor does not offer any variable annuity products.

Health

Health insurance is sold on an individual and group basis. Health insurance reimburses individuals against acute illness. Expenses covered include doctor's office visits, laboratory tests, surgical expenses, hospital accommodation and overseas emergency medical care. The benefits are usually subjected to co-payments by the individual and limits on lifetime medical expenses. Health products can be sold to either individuals or to groups.

Sagicor does not offer any long-term care insurance products as part of its health insurance offerings.

Property and Casualty Insurance Products

Sagicor sells primarily property and motor vehicle insurance to individuals and groups. Property and motor vehicle insurance provides a benefit on losses due to occurrences such as, among others, natural disasters, fires, accidents and theft. Motor vehicle insurance indemnifies to a maximum amount on physical damage to a third party and/or insured and any consequential liability. The indemnification is subject to a deductible borne by the insured.

Gross premiums from Sagicor's property and casualty insurance collectively represented 6.1% and 7.0% of Sagicor's gross premium income and fees in the nine months ended September 30, 2018 and the year ending December 31, 2017, respectively.

Asset Management Products

Asset management products include mutual funds and interest rate sensitive products. Asset management products accounted for 3.3% and 3.2% of Sagicor's revenues in the nine months ended September 30, 2018 and the year ending December 31, 2017, respectively. Sagicor's total assets under management were US\$3.2 billion and US\$3.2 billion as of September 30, 2018 and December 31, 2017, respectively.

Banking Products

Banking products include deposits, secured loans and credit and debit cards. Banking products accounted for 4.9% and 3.8% of Sagicor's revenues in the nine months ended September 30, 2018 and the year ending December 31, 2017, respectively.

Operations

Sagicor operates primarily through its three business segments: Sagicor Jamaica, Sagicor Life and Sagicor Life USA. Net income to shareholders for continuing operations in 2017 for Sagicor Jamaica was US\$46.2 million, for Sagicor Life was US\$64.8 million and for Sagicor Life USA was US\$13.5 million. Each of these segments is discussed in further detail below.

Sagicor Jamaica

Overview

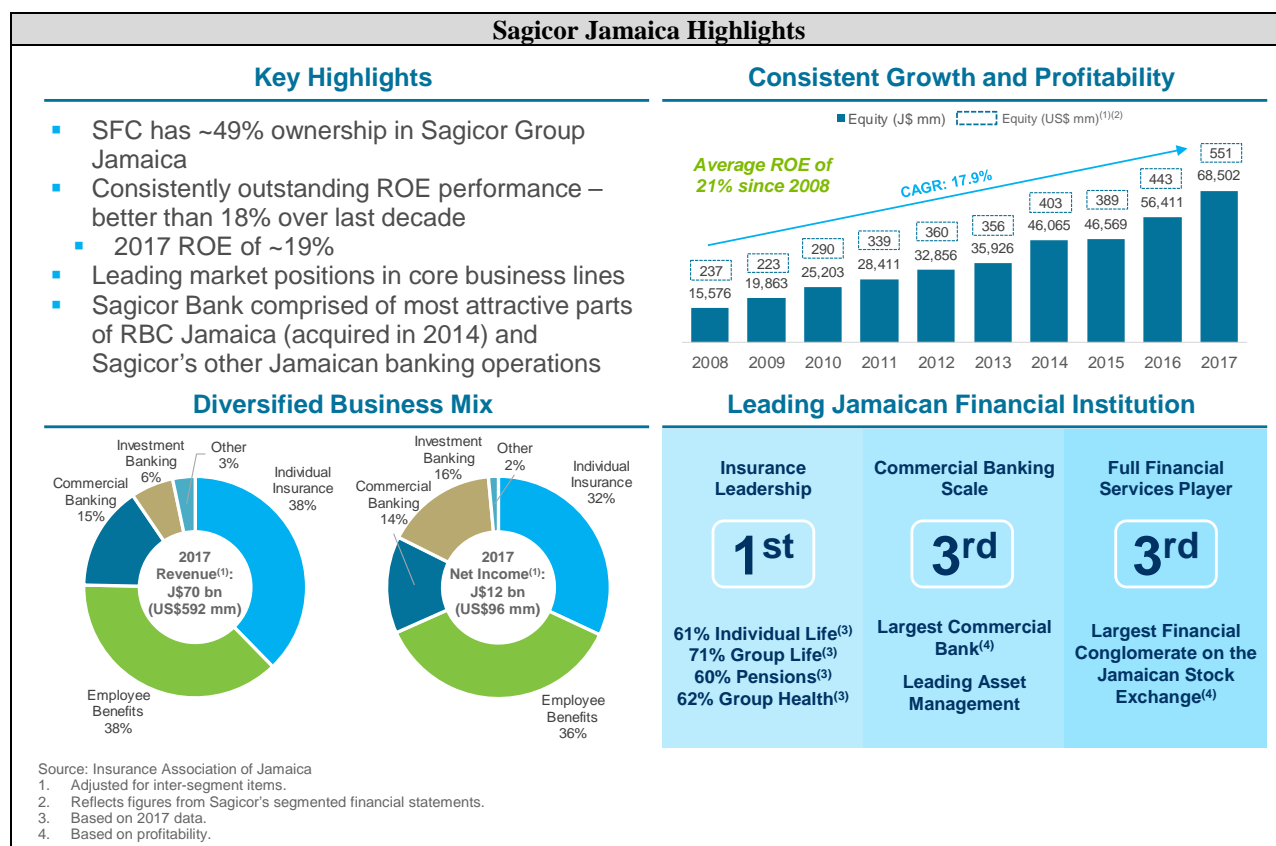
Sagicor operates in Jamaica through its controlled subsidiary, Sagicor Jamaica. Sagicor Jamaica is a full service financial institution offering a wide range of insurance and non-insurance solutions, such as banking and investment management, products and services.

Sagicor Jamaica continues to be focused on delivering strong client service, showing improvement with a 43% net promoter score as of December 31, 2017¹⁰, well above industry standards. It is continually looking for ways to innovate and cross sell to add value to its clients. It recently upgraded its banking and investment systems, which allow it to launch new products more seamlessly. Sagicor Jamaica is also focused on cementing the Sagicor brand with its recent “Smiles” brand campaign.

Sagicor Jamaica’s primary insurance products are individual life insurance and employee benefits, which is comprised of both group health and group pension. Sagicor Jamaica’s strong brand, together with Sagicor’s wide range of products and skilled sales force, has allowed it to maintain a leading position in Jamaica’s life insurance market, and has allowed the company to expand into new areas as opportunities arise, while maintaining consistent growth over time.

¹⁰ Source: LOMA independent survey of selected clients.

Financial and market highlights of Sagicor’s Jamaican operations are in the table below.



Sagicor Jamaica’s acquisition of a Canadian chartered bank’s Jamaican operations in June 2014 was a part of its efforts to grow. The acquisition included RBC Royal Bank (Jamaica) Limited, a commercial bank, and an inactive securities dealer, RBTT Securities Jamaica Limited. The merged commercial banking operation, now called Sagicor Bank, is the third largest commercial bank in Jamaica by assets with J\$125.2 billion of total assets as of December 31, 2017.

Sagicor Bank principally provides commercial banking services, including lending, accepting deposits, trading foreign exchange and corporate secretarial services across three market segments: retail, commercial and corporate clients. As an investment bank, Sagicor Investments (an affiliate of Sagicor Bank) focuses on securities trading, asset management, stock brokerage, corporate finance, advisory services, underwriting, cash management and custody services. It has several securities licenses and designations including as a Bank of Jamaica primary dealer, and unit trust and stockbroking licenses. With the RBC Jamaica acquisition, Sagicor Bank now operates through 16 branches located in key markets throughout Jamaica, including Kingston, Mandeville, May Pen, Black River, Savanna-la-mar, Montego Bay, and Ocho Rios.

Products and Distribution

Insurance

Individual life insurance is one of Sagicor’s key products offered in Jamaica, representing about 38% of revenue in 2017. Sagicor markets its individual insurance products in Jamaica to a wide cross-section of the population.

As of September 30, 2018 Sagicor had a portfolio of 530,562 life insurance policies in force in Jamaica, as compared to 507,610 life insurance policies as of December 31, 2017, which represents an annualized premium

income of US\$141.8 million and a sum assured or face value of policies of US\$8.7 billion as of September 30, 2018, as compared to US\$131.5 million and US\$8.1 billion as of December 31, 2017, respectively.

Sagicor Jamaica offers several group products including group health and group pensions. These products are both captured under the umbrella of employee benefits. As of September 30, 2018, Sagicor had a portfolio of 2,758 group policies in force in Jamaica, as compared to 2,789 group policies as of December 31, 2017, which represents an annualized premium income of US\$98.2 million and a sum assured or face value of policies of US\$6.2 billion as of September 30, 2018, as compared to US\$94.6 million and US\$5.8 billion as of December 31, 2017, respectively.

Commercial banking services

Sagicor Bank provides commercial banking services in Jamaica. Through a 16 branch network (physically shared between Sagicor Bank and Sagicor Investments), Sagicor Bank now provides such services to a wider market of individuals and businesses, while Sagicor Investments also has a wider footprint to provide non-banking financial services in clearly identified areas within the commercial bank branch network. Sagicor Bank's operations are located entirely in Jamaica and serve over 195,000 clients.

Sagicor Bank is credit-driven with loans available in both U.S. and Jamaican currency. The retail loan products include mortgages, car loans, credit cards and overdrafts and the commercial loan products include working capital loans, equipment and commercial real estate financing. Sagicor Bank also offers letters of credit and guarantees. Loans may be secured with appropriate collateral. Sagicor Bank's retail lending represents 36% of the portfolio by value while commercial lending is approximately 64%.

Depository products include certificates of deposit, chequing and savings accounts, with accounts available in local currency and U.S. dollars. Sagicor Bank is the fourth largest foreign exchange dealer in the Jamaican market.

Sagicor Bank also provides share registrar services to listed companies, and has a small but growing business in providing depository and other transaction services to non-banking financial institutions.

For the nine months ended September 30, 2018 and the year ended December 31, 2017, revenues from commercial banking were US\$84.7 million (J\$10.8 billion) and US\$73.6 million (J\$9.2 billion), respectively.

Non-banking financial products

Sagicor Investments, as a securities dealer, offers a wide range of non-banking financial services. It trades money market instruments in primarily J\$ and US\$. It also actively trades in local, regional and US\$ bonds with local and off-shore institutions. Sagicor Investments is also an underwriter and distributor among secondary market dealers of Government of Jamaica securities, Sagicor Investments' activities are integrated with its cash management services to institutional investors and investment management services to high net worth individuals. These services are located entirely in Jamaica and are available in the expanded distribution network. Sagicor Investments caters to approximately 10,000 clients.

Sagicor Investments trades local, regional and U.S. stocks for clients. Locally, it is recognized as one of the top five stockbrokers annually in volumes and value traded among the 12 stockbrokers in Jamaica.

Sagicor Investments also provides advice for entities looking to raise both debt and equity capital, which may include listing of these instruments on the local exchange. Additionally, it provides micro-credit small business financing through a pool of funds managed by Sagicor Investments and wholesaled as an agent on a non-recourse basis to institutions, who lend these funds to the small business sector. Sagicor Investments also provides business valuation, research, underwriting, and other related services.

Sagicor Investments is the largest unit trust manager in Jamaica with over 50% market share, and the funds have consistently been top of the tables in returns each year.

For the nine months ended September 30, 2018 and the year ended December 31, 2017, revenues from investment banking were US\$34.4 million (J\$4.4 billion) and US\$32.5 million (J\$4.1 billion), respectively.

Market and Competition

The Jamaican insurance industry is concentrated among a few large companies. Sagicor has a very strong position in the insurance market and estimates that it was the largest insurance company in Jamaica in 2016 based on gross life insurance premiums written. Furthermore, according to the Insurance Association of Jamaica, Sagicor is the largest provider of individual life and the largest provider of group life insurance in Jamaica based on gross premiums. Sagicor is also the largest provider of health insurance and pensions in Jamaica based on in-force business.

The insurance market and the principal competitive advantages affecting Sagicor's insurance business in Jamaica are:

- the size and strength of the distribution channel through Sagicor's career agency force;
- Sagicor's financial strength and claims paying reputation;
- the breadth of Sagicor's product lines and product quality;
- Sagicor's visibility in the market place;
- the quality of Sagicor's service; and
- Sagicor's asset management performance.

Sagicor's primary competitor for individual life insurance, health insurance, pension, and group life business in Jamaica is Guardian Group. One of the defining features of the life segment in Jamaica is the amount of market share captured by Sagicor and Guardian. Both groups together account for approximately 70% of all premiums written in Jamaica's life segment.

Smaller players include Scotia Jamaica Life Insurance Company Limited ("SJLIC"), which primarily sells creditor insurance, an indirect subsidiary of BNS, and the local arm of CUNA Mutual. With a global headquarters in Madison, Wisconsin, CUNA Mutual provides loan protection, savings, group life and funeral insurance products to credit union members in Jamaica. Jamaica's National Commercial Bank also distributes life insurance and wealth management solutions.

The number of active market participants in the financial services industry in Jamaica has remained stable over the last few years. Sagicor expects this trend to continue.

Sagicor Bank Jamaica and Sagicor Investments Jamaica (along with their direct parent Sagicor Group Jamaica Limited) have primary competitors that consist of financial conglomerates with diverse financial services operations that are licensed and regulated by either the Bank of Jamaica (BOJ) or the Financial Services Commission (FSC). The main competitors include The NCB Financial Group, Jamaica Money Market Brokers (JMMB) Group and the Jamaica National (JN) Group, as well as the Scotia Group (primarily banking and creditor insurance).

The competitive product offerings and demographics of the customer base within the peer groups are fairly similar.

The following graphic shows Sagicor's market share in Jamaica:



(1) Based on 2017 data.

(2) Based on profitability.

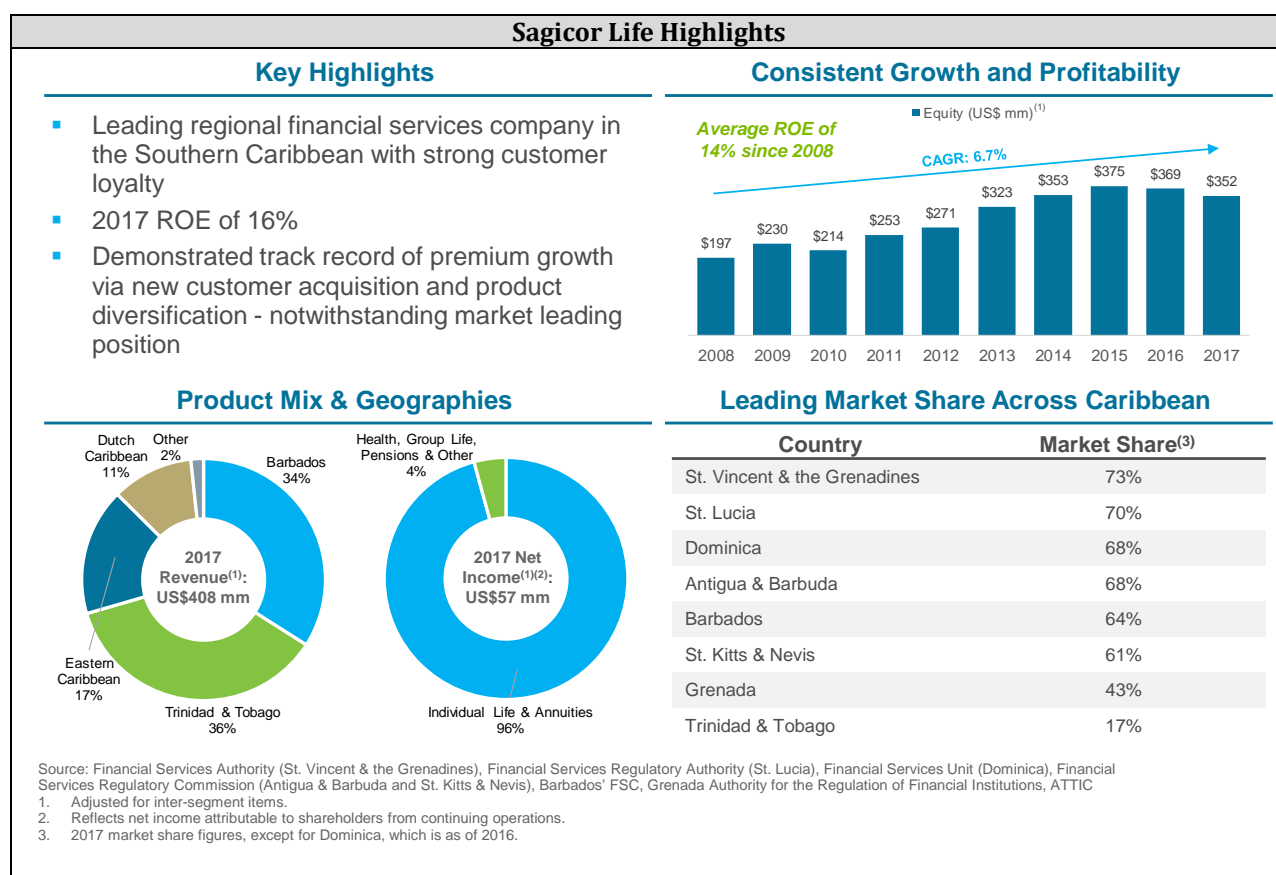
Sagicor Life

Overview

Sagicor operates in the Caribbean primarily through its subsidiary, Sagicor Life. Sagicor Life operates in the Southern Caribbean in Trinidad and Tobago as well as Barbados. Sagicor's operations in the Eastern Caribbean are conducted in seven territories (Antigua, Anguilla, the Commonwealth of Dominica, St. Lucia, Grenada, St. Kitts and Nevis, and St. Vincent) through three branches (Antigua, Grenada, and St. Lucia) and three agencies (Dominica, St. Kitts and Nevis and St. Vincent). Sagicor no longer writes new business in Anguilla. Sagicor also operates in the Dutch and North Caribbean. It is the leading insurance player in its various markets. Sagicor Life provides life, health, annuity insurance business, pension administration services and asset management.

While a majority of Sagicor's operations in the Caribbean operate through Sagicor Life, Sagicor provides some of its products in this region through its other subsidiary operating companies, such as Sagicor General and Sagicor Asset Management Inc.

Financial and market highlights of Sagicor Life’s operations are in the table below.



Products

Sagicor’s products in the Southern and Eastern Caribbean include life and health, employee benefits, including pensions, annuities, asset management and property and casualty insurance.

Sagicor targets middle to high-net worth individuals through superior customer service and an efficient and effective career agent distribution network. In the Eastern Caribbean and other Caribbean regions, Sagicor markets primarily to lower-middle and middle-income clients.

Sagicor’s strong corporate image, together with its wide range of products and skilled sales force, has allowed Sagicor to maintain a leading position in the mature life insurance market in the Caribbean. Sagicor Life has an “A-” (Stable) rating from A.M. Best.

The Company hopes to continue to grow its business in this market by cross-selling its broad range of products, including non-traditional life insurance and critical illness insurance to existing Sagicor customers, most of whom currently only hold one Sagicor product. Sagicor also plans to launch a suite of unit-linked products, which, in addition to being attractive and competitive, will allow a more efficient use of Sagicor’s capital.

As Sagicor seeks to grow its business, Sagicor intends to adjust its recruiting of advisors to enhance its entry into under-served markets and to develop its financial advisory business in order to further penetrate the high net worth segment.

As of September 30, 2018, Sagicor had 85,985 life insurance policies in force in Barbados, as compared to 75,574 as of December 31, 2017, which represents an annualized premium income of US\$64.1 million and a sum assured of US\$4.1 billion as of September 30, 2018, as compared to US\$3.9 billion for the year ended December 31, 2017. In Trinidad and Tobago, Sagicor had 86,914 life insurance policies in force as of September 30, 2018, as compared to 86,049 life insurance policies as of December 31, 2017. This represented annualized premium income of US\$77.9 million as of September 30, 2018, as compared to US\$76.2 million as of December 31, 2017, and a sum assured of US\$3.8 billion as of September 30, 2018 as compared to US\$3.8 billion for the year ended December 31, 2017. In the Eastern Caribbean, Sagicor had a portfolio of 59,928 life insurance policies in force as of September 30, 2018, as compared to 59,255 life insurance policies in force as of December 31, 2017, representing annualized premium income of US\$43.9 million and a sum assured of US\$3.3 billion as of September 30, 2018, as compared to US\$44.6 million and a sum assured of US\$3.2 billion as of December 31, 2017. In its other Caribbean regions, Sagicor had a portfolio of 31,647 life insurance policies in force as of September 30, 2018, as compared to 31,740 life insurance policies in force as of December 31, 2017, representing annualized premium income of US\$32.8 million and a sum assured of US\$2.4 billion as of September 30, 2018, as compared to US\$32.8 million and a sum assured of US\$2.4 billion for the year ended December 31, 2017.

Market and Competition

The Southern and Eastern Caribbean is a mature market for traditional insurance products, including life insurance and property and casualty insurance. Sagicor is one of the largest companies providing group life insurance and group health insurance in the Southern and Eastern Caribbean based on gross premiums based on gross premiums.

Sagicor's competitors include other regional insurers that compete with Sagicor in many jurisdictions, as well as local insurers that specialize in smaller territories. In some jurisdictions, Sagicor faces competition from banks, securities brokerage firms, investment advisors, and other financial intermediaries marketing insurance products, annuities and mutual funds. In recent years, turmoil in the financial markets and government intervention has had a detrimental impact on some of Sagicor's major competitors.

Sagicor's primary competitors for life and annuity insurance business in the Southern Caribbean are PALIG, Guardian Life Insurance and ScotiaLife Trinidad and Tobago Limited ("SLTT"), which primarily sells creditor insurance. In the property and casualty insurance market, Sagicor primarily competes with Guardian, Massy United and Insurance Corporation of Barbados Limited (IBCL). Sagicor's primary competitors for insurance business in the Eastern Caribbean are Nagico (which competes with Sagicor only for group insurance business), PALIG and Demerara Mutual (which compete with Sagicor only for individual insurance business).

In the life insurance market, three of the four largest life insurance companies are groups that have successfully expanded beyond their home bases across the Caribbean region. Guardian Group, which is based in Trinidad and Tobago, is the largest life company based on FY2017 Gross Premiums Written, followed by Sagicor Life and SLTT (which focuses primarily on creditor insurance), an indirect subsidiary of BNS.

Regarding the non-life market, the sister company of Guardian Life, Guardian General, leads the non-life insurance sector in the Trinidadian market, with a 25.7% share of premiums in 2017. Much like its life sector counterpart, Guardian enjoys the advantages of scale and a nationwide network of branches, as well as a well-established brand.

Moreover, Beacon is an indigenous composite (but mainly non-life) group with a 7.8% market share that is based in Trinidad and Tobago. It operates through branches in twelve locations across the country, and in Barbados, Grenada and St Lucia. It is represented by agents in eight locations in Trinidad and Tobago, as well as in Dominica, St Kitts & Nevis and in St. Vincent.

The following table shows Sagicor Life's market share as of December 31, 2017.

Total Market Share - December 31, 2017				
As of December 31, 2017				
Currency	Sagicor Gross Premium Written	Regulator's Industry Revenue	Market Share	
	(in millions of US\$)			
Antigua & Barbuda	EC	27.8	40.9	68%
Barbados ⁽¹⁾	BDS	209.0	328.7	64%
Dominica ⁽²⁾	EC	10.8	15.9	68%
Grenada.....	EC	15.9	37.4	43%
St. Kitts Nevis.....	EC	13.9	22.8	61%
St. Lucia.....	EC	39.2	55.6	70%
St. Vincent & the Grenadines.....	EC	16.7	22.7	73%
Trinidad and Tobago	TTD	782.0	4,591.2	17%

(1) Data provided by the regulator in Barbados (FSC) includes offshore business written by one competitor which has skewed the gross premiums written for the industry. Without it, Sagicor would have approximately 85% market share.
(2) Calculated as at December 31, 2016.

Significant price competition exists for sales through brokerage distribution. Sagicor attempts to mitigate this competition by selling its products principally through dedicated advisors and by increasing the number of Sagicor's advisors in the Southern and Eastern Caribbean.

The principal competitive factors affecting Sagicor's life, group and non-life business in the Southern and Eastern Caribbean are:

- the size and strength of the distribution channel through Sagicor's career agency force;
- Sagicor's financial strength and claims paying reputation;
- breadth of Sagicor's product lines and product quality;
- Sagicor's visibility in the market place;
- the quality of Sagicor's service; and
- Sagicor's asset management performance.

In addition to the factors outlined above, in the Eastern and Dutch Caribbean there is an additional requirement of managing Sagicor's business across many small islands. This creates compliance burdens and logistical challenges, which is a key differentiating factor for Sagicor given its scale and detailed market knowledge and provides barriers to entry for potential new competitors.

Sagicor Life USA

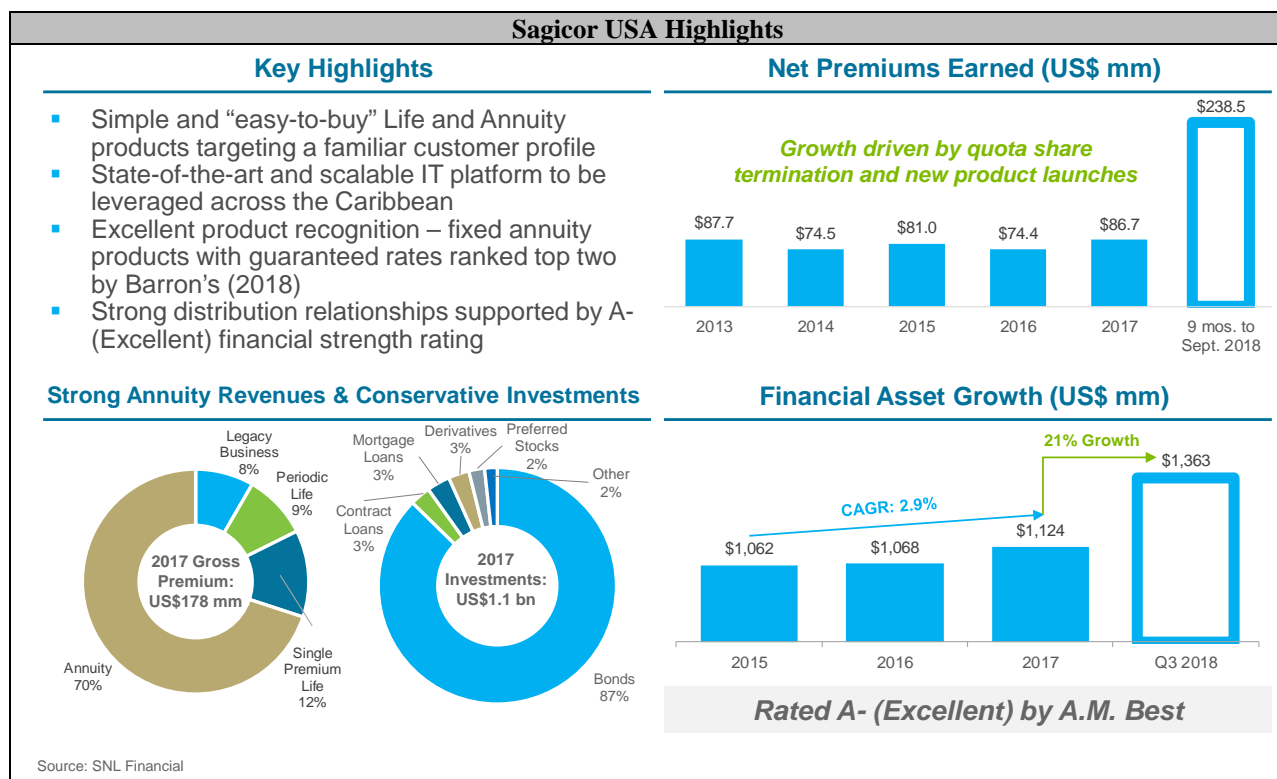
Overview

Sagicor moved beyond its core Caribbean markets in 2004 when Sagicor established Sagicor USA to spearhead the Company's move into the United States. In 2005, Sagicor acquired American Founders Life Insurance Company, the predecessor of Sagicor Life USA, Sagicor's USA-based operating subsidiary. This acquisition was part of Sagicor's strategy to expand into markets with significant growth potential or where the Company can develop global best practices that it can then introduce into its core geographies.

Since its acquisition, Sagicor Life USA has been following a clearly defined strategy of creating the Sagicor story in the United States by providing innovative customer solutions to the middle-income American. While the Company

continues to look for opportunities to grow its policy and premium base by acquiring strategic blocks of life insurance business or other life insurance companies, the focus has been on organic growth since 2007, developing and marketing its own products. As just one example of this innovative approach, the Company was one of the first companies in 2014 to incorporate advanced underwriting techniques to automate the application process, shaving weeks off the policy issuance time schedule and providing consumers with the ability to obtain an underwriting decision within minutes of application submission. The Company's Acelewriting platform has been recognized as one of the best in the industry by several leading firms. In a further innovation, the Company expanded its Acelewriting platform to allow consumers to buy directly from the Company through its online site, SagicorNOW™, if an agent is not desired. SagicorNOW frees the consumer to obtain coverage when they would like to 24 hours a day, 7 days a week, and 365 days a year without ever having to speak to someone, if that is what the customer wants. SagicorNOW is available in 22 states and it is expected to be in the remaining 23 states the Company is licensed in by the end of 2018.

Financial and market highlights of Sagicor USA's operations are in the table below.



As of December 31, 2017, Sagicor Life USA was licensed in 45 states in addition to the District of Columbia. It markets a full array of life and annuity policies through a network of field marketing organizations, independent producers, and career agents. Approximately 53% of Sagicor Life USA's premiums are written in Texas, Florida, California, Arizona, Missouri, Ohio, and Minnesota, with only Texas accounting for more than 10% overall. A.M. Best currently assigns Sagicor Life USA a rating of "A-." Sagicor Life USA has administrative offices in Scottsdale, Arizona and Tampa, Florida.

Products and Distribution

Sagicor Life USA offers a wide array of life and annuity products. While these products can serve all facets of the U.S. market, Sagicor Life USA is focused on the large, underserved middle market. Sagicor Life USA was one of the first companies to offer a full suite of life and annuity products with crediting rates based on the movement of popular equity indices as well as global baskets. Sagicor Life USA offers term, whole life (non-participating

periodic premium and single premium (indexed and standard)), universal life (indexed as well as no-lapse versions), indexed annuities, single premium immediate annuities, and multi-year guaranteed annuities.

The Company purchases custom options (hedges) that are selected to materially replicate the policy benefits that are associated with the equity indexed components of certain of our products. These options are appropriate to reduce or minimize the risk of movements in the equity market (market risk). The hedging transactions are accounted for as call options and are originally valued at the premium paid, with the statement carrying value being adjusted to fair value. To minimize potential counterparty risk from the purchase of these customized contracts from broker dealers, the Company limits its transactions to only banks and brokers carrying an unsecured debt rating of at least A or P-1 by either Standard and Poor's or Moody's. See note 41.6 of the 2017 Sagikor Audited Annual Financial Statements.

Sagikor Life USA principally offers life and annuity products to individuals through independent marketing organizations across the country. It does not market health, disability, long-term care, or variable products and while some of its products can and are sold in worksite situations, it does not actively market in that environment nor does it have traditional group products.

As of September 30, 2018, Sagikor Life USA had a portfolio of approximately 95,700 life insurance policies and annuity policies in force, as compared to approximately 95,500 life insurance and annuity policies as of December 31, 2017, representing annualized premium income of US\$238.5 and US\$153.5 million, respectively. This represented US\$6.9 billion sum assured as of September 30, 2018 and US\$6.3 billion sum assured as of December 31, 2017. Sagikor Life USA had US\$1.9 billion in total assets as of September 30, 2018, as compared to US\$1.7 billion as of December 31, 2017. The net growth in policy count is a result of strong new business production offsetting the natural decline in policies written prior to 2007 through death, lapse or surrender.

Market and Competition

Sagikor Life USA markets its life insurance products through approximately 5,300 third-party marketing firms, financial institutions and independent and career agents located in 45 states and the District of Columbia. Sagikor Life USA markets its products primarily to individuals and small businesses and is focused on the large, underserved middle market, which is similar to the target demographic for which it is the market leader in the Caribbean.

The U.S. insurance market is highly fragmented. Where insurance is a commodity, scale, size and volume are necessary to achieve profitability amid strong competition. As a result, a portion of Sagikor's strategy in the United States continues to be to acquire blocks of individual life policies that can easily be assimilated into its systems and to purchase small life insurance companies.

Sagikor Life USA has numerous competitors in each of its product lines and growth strategies. In the life and annuity market, Sagikor's main competitors could consist of small to medium regional companies or large, nationally and globally renowned companies. Some market through captive sales forces while others compete with Sagikor for the attention of independent brokers or look to attract business through aggressive online marketing. In the direct to consumer space, SagikorNOW competes directly with web-based approaches established by large, global renowned companies as well as several InsurTech start-ups. Other competitive factors in Sagikor's markets in the United States include the development of products to suit customer needs, the development of distribution networks and investment performance. As of the end of 2017 (the last reporting date), Sagikor Life USA was ranked 151st of the top 200 life insurance companies by total assets. When Sagikor Life USA was acquired by Sagikor, it was ranked 175th. It is consistently mentioned as one of the top term life companies in the country, as well as its recently introduced multi-year guaranteed annuities which were ranked in the top 50 best annuities, according to a Barron's 2018 report.

The following table shows the main competitors and their market shares in the United States insurance market, for the periods indicated.

Main competitors market share

2017

2016

Fixed Annuity New Sales

New York Life Insurance Company	10.0%	8.6%
Allianz Group	7.5%	9.3%
American International Group, Inc.	6.4%	7.0%
Global Atlantic Financial Group Limited	6.0%	4.7%
Athene Holding Ltd.	5.4%	4.8%
Nationwide Mutual Insurance Company.....	5.1%	2.9%
American Financial Group, Inc.	4.3%	4.0%
American Equity Investment Life Holding Company.....	4.2%	6.5%
Symetra Financial Corporation	3.3%	3.4%
Security Benefit Corporation	2.7%	3.2%
Brighthouse Financial, Inc.	2.7%	2.4%
Midland National Life Insurance Company.....	2.5%	3.8%
FGL Holdings	2.4%	2.3%
Pacific Mutual Holding Company	2.3%	2.2%
Principal Financial Group, Inc.	2.3%	2.3%
North American Company for Life and Health Insurance	2.0%	2.5%
Lincoln National Corporation	2.0%	1.8%
Delaware Life Insurance Company.....	1.9%	1.6%
American National Insurance Company	1.8%	1.0%
Massachusetts Mutual Life Insurance Company.....	1.8%	1.7%

Total Life Insurance Issued (by Face Amount Issued)

MetLife, Inc.	8.9%	6.8%
Prudential Financial, Inc.	6.6%	6.1%
The Northwestern Mutual Life Insurance Company.....	5.2%	5.3%
Securian Financial Group, Inc.	5.0%	5.6%
New York Life Insurance Company	4.2%	3.9%
Lincoln National Corporation	3.7%	3.9%
Unum Group	3.6%	3.4%
Principal Financial Group, Inc.	2.9%	2.8%
Massachusetts Mutual Life Insurance Company.....	2.9%	2.4%
Primerica, Inc.	2.8%	2.8%
State Farm Mutual Automobile Insurance Company	2.8%	2.9%
Cigna Corporation.....	2.5%	2.7%
American International Group, Inc.	2.4%	2.2%
The Guardian Life Insurance Company of America	2.4%	2.5%
Liberty Life Assurance Company of Boston	2.1%	2.3%
Mutual of Omaha Insurance Company	2.0%	2.1%
Aetna Inc.....	2.0%	2.6%
StanCorp Financial Group, Inc.	1.9%	2.6%
The Hartford Financial Services Group, Inc.	1.9%	2.7%
Transamerica Corporation	1.8%	2.4%

Source: Market Research.

Net Policy Benefits

Net policy benefits consist of:

- life insurance, proceeds from death claims, matured policies and policies surrendered;
- payments under annuity contracts;
- health claims in the normal course of business; and
- net property and casualty insurance claims.

The tables below summarize the distribution of Sagicor's net policy benefits by segment as of December 31, 2017.

Sagicor Net Policy Benefits					
As of December 31, 2017					
	Sagicor Life	Sagicor Jamaica	Sagicor USA <small>(in millions of US\$)</small>	Head office and other	Total
Net policy benefits ⁽¹⁾	197.8	171.1	87.6	27.1	483.6
Net change in actuarial liabilities	11.9	83.3	27.1	-	122.3
Net policy benefits and change in actuarial liabilities	209.7	254.4	114.7	27.1	605.9
Interest expense	12.2	37.5	2.1	3.1	54.9
Total benefits.....	<u>221.9</u>	<u>291.9</u>	<u>116.8</u>	<u>30.2</u>	<u>660.8</u>

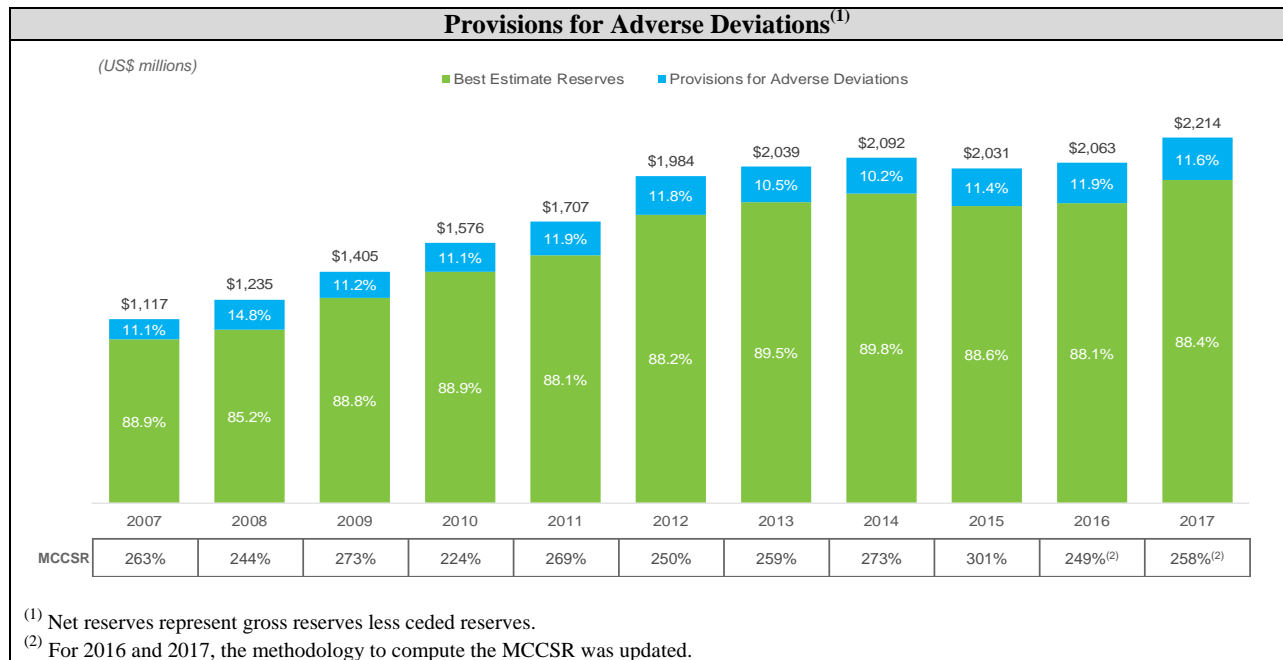
(1) Net policy benefits consist of: (i) life insurance, proceeds from death claims, matured policies and policies surrendered; (ii) payments under annuity contracts; (iii) health claims in the normal course of business; and (iv) net property and casualty insurance claims.

Claims, Capital and Reserving Policy

Overview

Sagicor's capital and reserving policy is part of an integrated enterprise risk management system. Sagicor voluntarily adopted the Canadian risk based capital and reserving standards in the mid-1990s because there were no uniform capital and reserving standards in the Caribbean and the statutory standards were weaker. In 2001, the Government of Jamaica adopted the Canadian risk based capital and reserving standards. The policy allows Sagicor to have a common platform to assess the performance of each principal operating entity and therefore allocate capital more efficiently. Sagicor targets a capital ratio of at least 175% of MCCR under the most recent Canadian MCCR standards in place as of year-end 2017, and it has exceeded this target since adoption.

Sagicor follows a prudent reserving philosophy including voluntary adherence to Canadian actuarial standards, which strengthens the resilience of its liability coverage. As part of its reserving policy, Sagicor records provisions to account for potential adverse deviations in addition to its best estimate reserves. These reserves, which are estimated using best estimate assumptions, are validated by internal and external specialists. As of 2017, Sagicor's reserves include US\$256.0 million of PfADs, which will eventually be reclassified into equity if no such adverse deviations occur as reserves are released and paid out. As illustrated in the table below, Sagicor's aggregate PfADs have consistently ranged from 10% to 12% of net reserves for each of the last nine years, which includes a wide array of economic conditions.



For life insurance and annuities, the reserves are the sum of the expected claims and expenses less premiums over the expected life of each policy. The expected claims, expenses and premiums are based on assumptions for future economic factors, namely, interest rates and inflation, and future policyholder behavior, namely, mortality and lapses and future company behavior, namely, expenses. All assumptions have two components: a best estimate and a margin for adverse deviation. Therefore, the reserves have two components: a best estimate and a PfAD. In addition, the reserves are determined under prescribed economic scenarios, and the reserves under the worst economic scenario are chosen; typically, this is a declining interest rate scenario for Caribbean countries. The difference between the best and worst case economic scenarios was US\$133 million or 15% of total equity as of December 31, 2017.

For the Company’s property and casualty and health insurance claims, reserves are primarily related to incurred but not paid claims.

The following sections discuss Sagicor’s claims and reserving policies in greater detail. Sagicor administers its claims internally, namely, adjudication and payment, within specific target performance standards.

Life Insurance

Claims

Sagicor manages its exposure to claims risk through detailed underwriting and claims guidelines. These guidelines provide direction to Sagicor’s staff as it relates to the classification of risks and to the adjudication of claims. Exposure to claims risk is further minimized by reinsurance guidelines, which limit the amount of risk retained under any one policy. Policies in excess of pre-defined limits are partially reinsured with other companies. All of Sagicor’s claims administration and management is done in-house.

Reserving

Sagicor follows the Canadian standards for valuation as set by the Canadian Institute of Actuaries to the extent that they can be applied to the Caribbean. The primary bases used are the Canadian Asset Liability Method (“CALM”) and Policy Premium Method (“PPM”). CALM and PPM are asset-liability matching methodologies that allocate specific assets to cover the future net policy cash-flows.

Under CALM, the actuarial liabilities (reserves) of each insurer are determined by the value of specified assets (in the form of investments and cash) required to mature the net policy cash-flows of the contracts over the remaining lives of the insureds.

The individual life and annuity insurance actuarial reserves for all entities combined, as of December 31, 2017, were US\$2.2 billion.

Sagicor's group life and group creditor reserves are generally valued using PPM using the interest rate arrays generated under CALM for individual life. The reserves for group life and group creditor, as of December 31, 2017, were US\$32.0 million.

The CALM methodology produces the total reserve requirement for each CALM fund. In general, the CALM methodology is used to determine the net overall actuarial liabilities required by an insurer. PPM equivalents are used to determine the amount of reinsurance balances in the reserve, the distribution of the total reserve by country (for statutory reporting), and the distribution of the reserve by policy (for MCCR negative reserves). PPM equivalents and other approximations to CALM have also been used in calculating certain components in the actuarial liabilities.

Actuarial liabilities include two major components: a best estimate reserve and a provision for adverse deviations. The latter provision reflects the uncertainty in computing best estimate reserves, allowing for possible mis-estimation of actual experience in an effort to provide greater comfort that reserves will be adequate to pay future benefits. For additional information on Sagicor's assumptions and provisions for adverse deviations, see note 13.3 to the Sagicor Audited Annual Financial Statements, included elsewhere in this prospectus.

For the respective reserve assumptions for mortality and morbidity, lapse, future investment yields, operating expenses, and taxes, best estimate reserve assumptions are determined where appropriate for each major geographical segment: Jamaica, Trinidad and Tobago, Barbados, the United States, and other Caribbean countries.

Provisions for adverse deviations are established in accordance with the risk profiles of the business and are, as far as is practicable, standardized across the major geographical segments. Provisions are determined within a specific range established by the Canadian Standards of Practice.

Health Insurance

Claims

Sagicor receives health insurance claims under individual contracts and group contracts. These claims are fully administered and managed internally by Sagicor's claims section. Sagicor's aim is to provide timely, efficient, high-quality claim services to its clients while maintaining control of its costs. Sagicor has independent chief medical officers at Sagicor Life and Sagicor Jamaica and has access to designated medical officers in the jurisdictions in which it operates. These medical officers provide oversight assistance with certain large claims in an attempt to prevent fraud.

Reserving

The Modified Completion Factor Method is used to estimate the aggregate reserves needed for health insurance. This method provides for claims incurred but not reported, or IBNR, as well as claims reported but not yet paid. The reserves for health insurance were, as of December 31, 2017, approximately US\$47.3 million.

Property and Casualty Insurance

Claims

Sagicor receives claims in its property and casualty insurance business with respect to property, automotive and casualty. Property claims consist primarily of loss or damage to insured property caused by fire, flood, hurricane or storm damage, burglary or theft. Motor claims primarily result from injury or damage to vehicles, passengers and

pedestrians. Casualty claims normally result from bodily injury to employees or members of the public in offices, restaurants or at other places of work, such as construction sites.

Sagicor settles claims internally and uses external experts to advise on complex cases. Sagicor refers personal injury claims to its independent panel of medical advisors, led by its independent chief medical officer.

Reserving

Sagicor maintains loss reserves in its general insurance lines to cover its estimated ultimate liability for losses and loss adjustment expenses for reported and unreported losses incurred as of the end of each accounting period. Loss reserves do not represent an exact calculation of liability, but rather are estimates of the expected cost of the ultimate settlement of losses. These estimates are based on statistical projections of facts and circumstances and trends in loss severity and other variable factors, including new bases of liability and general economic conditions.

Reserving for liability claims is subject to significant uncertainties that generally exceed those presented with other types of claims. These uncertainties include long reporting delays and unresolved legal issues about the policy and the value of the policy. As a consequence, in addition to traditional loss reserving techniques, Sagicor relies on internal expertise and external legal and professional advisors.

The reserves for liability claims were, as of December 31, 2017, approximately US\$32.2 million.

Reinsurance

Overview

Sagicor uses reinsurance in each of its three principal business segments to achieve different objectives, namely, protection of the capital base from catastrophes (all segments), as a source of capital to fund growth (Sagicor Life USA), which program ended as of March 2018, and to protect its net income stream from volatility from large claims primarily in the Caribbean health insurance operations (Sagicor Life Inc., Sagicor Life Jamaica Limited, and Sagicor Life of the Cayman Islands Ltd., the Caribbean life insurance operations). Sagicor has reinsurance for both its individual and group insurance business.

Sagicor uses a panel of high quality reinsurers. Sagicor's reinsurance is conducted with reinsurers that either have an investment grade rating or provide collateral against the risk. The maximum capacity loss for Sagicor under its reinsurance arrangements is US\$8 million. Sagicor has long standing relationships with its reinsurers and has had no material issues.

The table below lists some of Sagicor's key reinsurance providers and their respective A.M. Best ratings:

Company	A.M. Best	
	2018	2017
Allianz Life Ins Co of North America	A+	A+
Employers Reassurance Corp	A-	A-
Guggenheim Life and Annuity Co.....	B++	B++
Hannover Life Reassurance Co of Am	A+	A+
Heritage Life Insurance Co.....	NR	NR
Lincoln National Life	A+	A+
MedAmerica Insurance Company	NR	NR
National Foundation Life Ins Co	B+	B+
Optimum Re Insurance Co	A-	A-
RGA Reinsurance Co	A+	A+
Sagicor Life, Inc.	A-	A-
SCOR Global Life Americas Reinsurance Co	A+	A
SCOR Global Life USA Reinsurance Co	A+	A
Scottish Re (U.S.), Inc.	NR	NR
Security Life of Denver	A	A
Sterling Investors Life	NR	NR

Swiss Re Life & Health America.....	A+	A+
The Canada Life Assurance Company.....	A+	A+
Transamerica Life Ins Co	A+	A+
Transamerica Premier Life Ins Co.....	A+	A+
Washington National Ins Co.....	A-	A-

The form of reinsurance is usually an excess of loss cover, where a claim in excess of a predetermined amount is borne by the reinsurer, and/or quota share, where a predetermined portion of the original premium and claim are received and paid by the reinsurer. The predetermined amounts vary by operating entity. If a reinsurer were not to satisfy obligations, Sagicor could be adversely affected.

Sagicor has filed an application to establish a captive life reinsurer in Bermuda with the aim of streamlining its reinsurance programs.

Catastrophe Reinsurance

The life reinsurance is payable on an event involving three or more deaths. There is a deductible of US\$1.125 million. The annual aggregate limit is US\$40.3 million. The reinsurers are RGA Reinsurance Company, Missouri (50%) and Hannover Reuck SE, Hannover (50%). Sagicor has made no claim on this policy.

The property and casualty is payable after the first US\$7.5 million of claims. Sagicor also purchases premium protection to seek to ensure 100% reinstatement of coverage.

Life Reinsurance

Sagicor Life USA, the U.S. operations, have reinsurance coverages that are product specific with the reinsurer being responsible for claims above US\$50,000 to US\$500,000, depending on the specific block of business.

Sagicor’s Caribbean operations, Sagicor Jamaica and Sagicor Life Inc., have reinsurance coverage for individual life claims above US\$500,000, and for group life claims above US\$125,000.

Asset and Liability Management and Investments

Overview

Sagicor’s enterprise risk management includes an integrated approach to its corporate governance structure, ALM, investment policy and capital and reserving policy.

Each principal operating entity has an Investment and Risk Committee of its board of directors. Each committee reviews investment policies and performance, risk measures and ALM studies. ALM and investment management are mainly managed internally by each operating entity.

Asset and Liability Management

The insurance liabilities are measured under the Canadian reserving standards on a fair value basis. Assets equal to the insurance liabilities are allocated to those liabilities. The remaining assets are allocated to shareholder capital. The insurance liabilities are sensitive to the following:

- economic factors, such as interest rates and inflation;
- economies of scale; and
- policyholder behavior, including mortality and policy lapses.

The assets are sensitive to the following:

- economic factors;
- interest rates; and
- credit events.

Sagicor uses mainly fixed income securities, namely, bonds, mortgages, deposits, and policy loans, of similar currency, duration and cash flows, to match its insurance liabilities. The broad matching approach reduces the risk of Sagicor having to (i) sell assets in poor market conditions, (ii) buy assets in a falling interest rate climate, and (iii) borrow at high interest rates to meet benefits requirements. Broad matching also reduces the risk of shocks to net income and capital. Sagicor uses a broader mix of assets, including property, equities and foreign fixed income securities to match its shareholder capital. Unit-linked liabilities are matched with units in the relevant underlying investment funds.

Sagicor's life insurance liabilities have a longer duration than its other liabilities because of the inherent nature of life insurance liabilities. This discrepancy is compounded by the non-investment grade status of some of the countries that Sagicor operates in, restrictions on foreign investments, and the lack of variety of long term fixed income securities in the Caribbean. However, Sagicor has low liquidity risk because of net positive operating cash flows.

ALM risks are managed by:

- matching capital with the preferences of investment grade assets and/or US\$ assets, where practical;
- a deliberate mismatch of foreign currency assets, preferably investment grade assets against local currency liabilities of non-investment grade countries, where practical;
- designing products so that Sagicor has the ability to pass through investment risks for certain classes of policies;
- structuring the mix of products such that some liabilities offset each other (e.g. Sagicor's annuities products offset Sagicor's ordinary life insurance products);
- originating mortgages with recourse to match long-term liabilities;
- limiting the exposure to any one counterparty;
- limiting the exposure both within and across asset classes;
- reinsurance of catastrophe risks with companies that have high credit ratings; and
- regular stress and scenario testing.

Sagicor's ALM is reflected in the tables below showing its foreign exchange sensitivity and interest rate sensitivity.

Foreign exchange sensitivity

Sagicor is exposed to foreign exchange risk as a result of fluctuations in exchange rates since its financial assets and liabilities are denominated in a number of different currencies. Sagicor is exposed to this currency risk in its operating currencies, whose values have noticeably fluctuated against the United States dollar.

For example, the effect of a 10% depreciation in the J\$ relative to the US\$ arising from J\$ reporting units as of December 31, 2017 and for the year then ended are considered in the following table.

(in thousands of US\$)	Amounts denominated in		Total amounts	Effect of a 10% depreciation
	J\$	US\$		
Financial position:				
Assets	1,566,473	1,112,196	2,678,669	(156,647)
Liabilities	1,121,819	988,958	2,110,777	(112,182)
Net position	444,654	123,238	567,892	(44,465)
Represented by:				
Currency risk of the Group's investment in foreign operations				(44,465)
Income statement:				
Revenue	483,662	71,483	555,145	(36,381)
Benefits	(226,671)	(46,464)	(273,135)	22,667
Expenses	(157,339)	(14,856)	(172,195)	15,734
Income taxes	(22,826)	-	(22,826)	2,283
Net income	76,826	10,163	86,989	4,303
Represented by:				
Currency risk relating to the future cash flows of monetary balances				11,985
Currency risk of reported results of foreign operations				(7,682)
				4,303

The tables above show that a 10% decline in the J\$ relative to the US\$ will result in a US\$44.5 million decline in the net assets resulting from translation losses and net income gains of approximately US\$4.3 million. A 10% appreciation in the J\$ relative to the US\$ would have equal but opposite effects to those disclosed above.

Interest rate sensitivity

Sagicor is exposed to interest rate risks. Sensitivity to interest rate risk is considered by operating subsidiaries. The effects of changes in interest rates of assets backing actuarial liabilities are examined below.

Sensitivity arising from the valuation of actuarial liabilities

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

Sensitivity	Scenario		
	Sagicor Life Inc. Segment	Sagicor Jamaica Segment	Sagicor USA Segment
High interest rate	Assumed increases in the investment portfolio yield rates of 0.25% per year for 5 years, with the rates remaining constant thereafter.	Assumed increases in the investment portfolio yield rates of 0.5% per year for 10 years.	A 1% increase was applied to the investment portfolio rate.
Low interest rate	Assumed decreases in investment portfolio yield rates of 0.25% per year for 5 years, with the rates remaining constant thereafter.	Assumed decreases in investment portfolio yield rates of 0.5% per year for 10 years.	A 1% decrease was applied to the investment portfolio rate.

The following table represents the estimated sensitivity of the above scenarios to net actuarial liabilities for insurers by segment.

	Sagicor Life Segment		Sagicor Jamaica Segment		Sagicor Life USA Segment	
	2017	2016	2017	2016	2017	2016
Base net actuarial liability	956,305	936,049	374,483	327,183	623,269	580,784
Scenario	Increase/(decrease) in liability		Increase/(decrease) in liability		Increase/(decrease) in liability	
High interest rate	(89,289)	(84,334)	(111,058)	(98,734)	(37,115)	(34,545)
Low interest rate	161,474	156,127	102,183	124,400	42,637	39,771

The Group's property and casualty operations are not exposed to a significant degree of interest rate risk, since the majority of its interest bearing instruments has short-term maturities.

The sensitivity of the Group's principal operating subsidiaries engaged in banking, investment management and other financial services are considered in the following paragraphs:

Sagicor Investments Jamaica Limited and Sagicor Bank Jamaica Limited

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

Sagicor is exposed to interest rate risks. The occurrence of an adverse change in interest rates on invested assets may result in financial loss to Sagicor in fulfilling the contractual returns on insurance and financial liabilities.

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

2017			
Change in interest rate		Effect on net income	Effect on total comprehensive income
J\$	US\$		
-1%	- 0.5%	8,525	21,297
+1%	+ 0.5%	(8,856)	(19,691)

Investments

Each principal operating entity has an investment policy that provides a framework of maximizing investment yield subject to the management of the ALM risks described above and the investment regulations of each country.

As of September 30, 2018, Sagicor had US\$5.1 billion of diversified financial assets and net investment income of US\$163.4 million, a net investment return of 3.2%, which reflects the impact of the GoB debt exchange. Since becoming a public company in 2002, Sagicor has had positive and stable investment portfolio performance. Sagicor believes such stability of its investment returns is a direct result of its ALM strategy and its management of the ALM risks.

Carrying Values

The first table below shows the carrying value of Sagicor's investment portfolio for the year ended December 31, 2017 as well as the current year through September 30, 2018. The second table below shows Sagicor's net investment return for the year ended December 31, 2017, as well the current year through September 30, 2018.

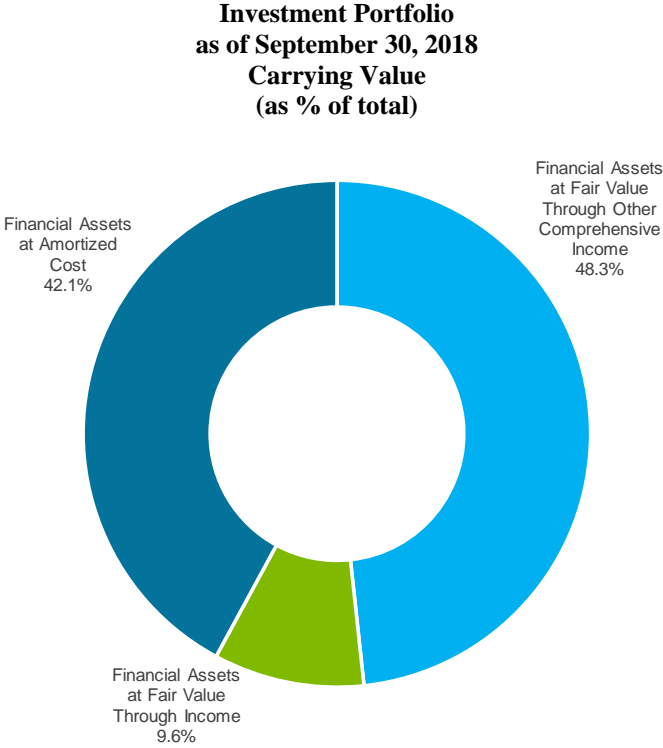
On January 1, 2018, Sagicor adopted IFRS 9. Previously, investments were accounted for in accordance with IAS 39. Debt instruments, including hybrid contracts, are measured at fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVOCI") or amortized cost based on the nature of the cash flows of these assets and the Group's business model. Equity instruments are measured at FVTPL, unless they are not held for trading purposes, in which case an irrevocable election can be made on initial recognition to measure them at FVOCI with no subsequent reclassification to profit or loss. Financial assets are measured on initial recognition at fair value and are classified as and subsequently measured either at amortised cost, at FVOCI or at FVTPL. For a discussion of Sagicor's treatment of carrying values, see "*Management's Discussion and Analysis of Sagicor*".

Carrying Value of Sagicor's Consolidated Investment Portfolio

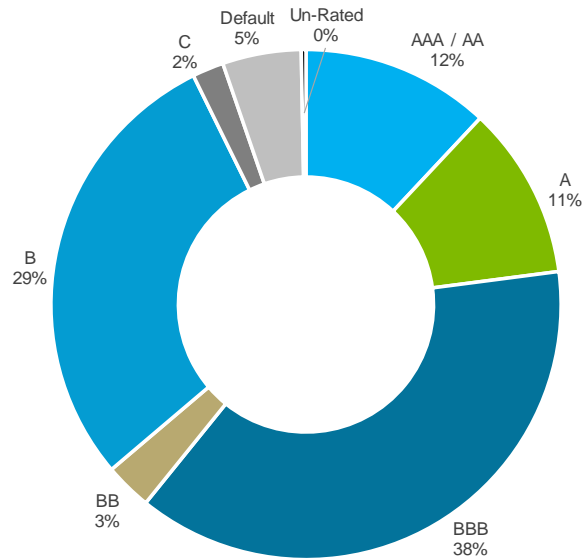
	As of September 30, 2018 (IFRS 9)		As of December 31, 2017 (IAS 39)	
	Carrying Value	Carrying value (as % of total)	Carrying value	Carrying value (as % of total)
	(in millions of US\$, except percentages)			
Investments at fair value through other comprehensive income (2017 – available for sale)				
Debt securities	2,451.2	48.3%	2,266.3	45.8%
Equity securities	0.4	-	86.9	1.8%
Total.....	2,451.6	48.3%	2,353.2	47.6%
Investments at fair value through profit and loss (2017 - fair value through income)				
Debt securities	177.2	3.5%	180.5	3.6%
Equity securities	252.8	5.0%	158.6	3.2%
Derivative financial instruments	27.0	0.5%	32.5	0.7%
Mortgage loans	30.6	0.6%	45.4	0.9%
Total.....	487.6	9.6%	417.0	8.4%
Investments at amortised cost (2017 – loans and receivables)				
Debt securities	1,050.2	20.6%	1,051.7	21.2%
Mortgage loans	292.4	5.8%	296.9	6.0%
Policy loans	145.0	2.9%	142.1	2.9%
Finance loans and finance leases.....	517.3	10.2%	564.4	11.4%
	30.2	0.6%		
Securities purchased under agreements to resell ..			16.5	0.3%
Deposits	102.9	2.0%	111.4	2.2%
Total.....	2,138.0	42.1%	2,183.0	44.0%
Total financial investments	5,077.2	100.0%	4,953.2	100.0%

Sagicor's Net Investment Results		
	<u>As of September 30,</u>	<u>Year ended December 31,</u>
	<u>2018</u>	<u>2017</u>
	(in millions of US\$)	
Income		
Rental income from investment property	2.7	3.9
Interest income:		
Debt securities	156.2	204.0
Mortgage loans	13.2	18.7
Policy loans	7.5	9.7
Finance loans and finance leases.....	46.5	58.7
Securities purchased under agreements to resell	1.0	0.5
Deposits	1.9	3.1
Dividend income	1.5	3.8
Net gains on financial investments	27.5	78.3
Net fair value gains on investment property	1.5	0.1
Other investment income	3.0	10.2
Gross Income.....	<u>262.5</u>	<u>391.0</u>
Expenses		
Direct operating expense of investment property	(1.5)	(2.0)
Allowances for credit impairment losses.....	(96.0)	(8.4)
Other investment expenses.....	(1.6)	(1.4)
	<u>(3.1)</u>	<u>(11.8)</u>
Investment income net of credit impairment losses.....	<u>163.4</u>	<u>379.2</u>

The pie charts below present a breakdown of the carrying value and risk exposure of Sagicor's consolidated investments portfolio as of September 30, 2018:



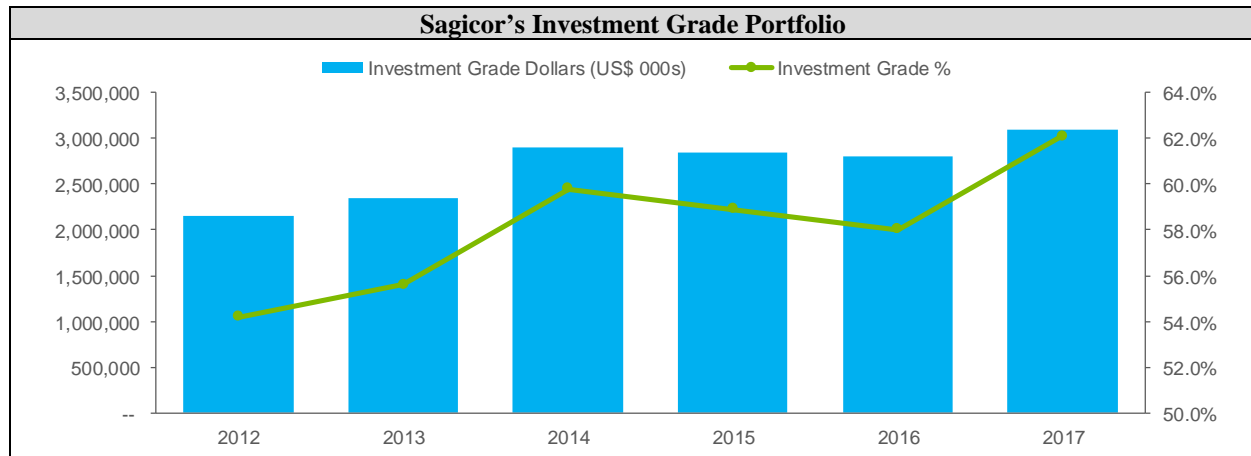
**Investment Portfolio Risk Exposure
as of September 30, 2018
(% of total)**



See “—Asset and liability management and investments—Overview of investment portfolios” for further information.

Credit Exposure

Sagicor’s portfolio predominantly consists of fixed income securities as a consequence of its ALM policy. Sagicor has a strategic objective of increasing its exposure to investment grade assets subject to investment regulations in each country. The table below shows that both the absolute value and the proportion of investment grade assets have generally increased over time.



In addition, as of September 30, 2018, the investment portfolio was comprised of 65% or US\$3.625 billion investment grade assets and 35% or US\$1.8 billion non-investment grade assets. In particular, the Government of Jamaica exposure represented 47% of the non-investment grade portfolio or 16% of the whole portfolio while the Government of Barbados exposure represented 13% of the non-investment grade portfolio or 5% of the whole

portfolio. Furthermore, a portion of the investment experiences from the non-investment grade portfolio are borne by customers which amounted to US\$526 million or 29%.

Under the Canadian risk based capital and reserving policy, Sagicor holds capital for the credit risk, with higher required capital for lower credit quality.

(Exposure in US\$ Millions)						
Credit Rating	Exposure	%	Credit Risk Pass Through	N-IG Exposure	% of N-IG	
AAA, AA	1,002	19%	Securities sold for re-purchase	480	27%	
A	622	12%	Deposit administration contracts	46	3%	
BBB	1,737	34%	Total	526	29%	
Total Investment Grade	3,361	65%				
Counterparty	Credit Rating	Exposure	% of N-IG			
BB	192	4%	Government of Jamaica	B	839	47%
B	1,311	25%	Government of Barbados	D, CCC*	242	13%
CCC,CC	76	1%	Government of St Lucia	B	69	4%
C	9	0%	Government of Bahamas	BB	52	3%
Default (D)	195	4%	Total		1,202	67%
Unrated	17	0%				
Total Non-Investment Grade (N-IG)	1,800	35%	* \$47 of bonds (internally rated CCC) have a protective clause approved by the Supreme Court prohibiting restructuring by the Government of Barbados at any time.			
Total	5,161	100%				

Sagicor has developed an internal credit rating standard. The internal rating is a 10-point scale which allows for distinctions in risk characteristics and is referenced in the rating scales of international credit rating agencies.

Sagicor's largest exposures to individual counterparty credit risks as of September 30, 2018 and December 31, 2017 are set out below. The individual ratings reflect the rating of the counterparty listed below, while the amounts include exposures with subsidiaries of the counterparty.

Sagicor's Counterparty Credit Risk				
	Nine months ended September 30,		Year ended December 31,	
	Risk Rating	2018	Risk rating	2017
		(in millions of US\$, except for ratings)		
Investment portfolios:				
Government of Jamaica.....	5	839.3	5	861.3
Government of Trinidad and Tobago.....	3	196.7	3	265.2
Government of Barbados ⁽¹⁾	6	47.0	-	-
Government of Barbados	8	195.5	6	280.4
A Canadian chartered bank	2	43.5	2	56.4
Government of St Lucia.....	5	68.6	5	71.6
The Federal National Mortgage Association	1	128.2	1	108.9
The Federal Home Loan Mortgage Corporation.....	1	77.8	1	61.6
Lending portfolios:				
Value Assets International S.A. and Egret Limited.....	4	29.3	4	29.1
Reinsurance assets:				
Guggenheim Partners ⁽²⁾	3	501.4	3	531.3
(1) Bonds issued by the Government of Barbados in the amount of US\$46.6 were not subject to the Government of Barbados' restructuring plan, and have been classified separately from the remaining Government of Barbados debt.				
(2) The reinsurance assets held in the name of Guggenheim Partners are secured by assets held in trust. For the year ending December 31, 2017 these assets totaled US\$574.1 million.				

Foreign Exchange Risk

The table below presents the foreign exchange risk of Sagicor's investment portfolio by currency as of September 30, 2018.

FX Risk of Investment Portfolio – September 30, 2018							
	As of September 30, 2018						
	BBD	J\$	TTD	Eastern Caribbean \$	US\$	Other currencies	Total
	(in millions of US\$)						
Financial investments ⁽¹⁾	331.8	936.1	420.6	139.9	2,844.7	150.9	4,824.0
Cash resources.....	15.5	99.8	44.1	13.5	143.3	49.0	365.2
(1) Monetary balances only.							

The table below presents the foreign exchange risk of Sagicor’s investment portfolio by currency as of December 31, 2017.

FX Risk of Investment Portfolio – December 31, 2017							
As of December 31, 2017							
	BBD	J\$	TTD	Eastern Caribbean \$	US\$	Other currencies	Total
	(in millions of US\$)						
Financial investments ⁽¹⁾	444.4	942.7	430.7	140.7	2,598.4	150.9	4,707.8
Cash resources.....	30.5	103.3	28.5	16.0	122.9	58.9	360.1

(1) Monetary balances only.

Barbados Debt Restructuring

The Government of Barbados (“GoB”) suspended payment on external sovereign debt on June 7, 2018 but continued to pay interest on domestic debt. On October 14, 2018, the GoB announced that its proposal to exchange domestic debt for new debt with lower coupons and extended maturities was accepted by its domestic creditors. Sagicor holds US\$337 million of GoB debt, composed of US\$278 million of domestic debt and US\$59 million of external debt. The GoB has not yet announced any restructuring terms for external US dollar denominated debt. Sagicor has determined the net impact of the credit events on GoB debt to shareholders at approximately US\$43.0 million for the nine months ended September 30, 2018 (gross expected credit losses of US\$101 million less actuarial offset), of which all have been reserved for as reflected in the September 30, 2018 financial statements, and which was the main factor causing the decrease in our results. Sagicor does not expect that there will be any incremental impact on Sagicor as it relates to the external US dollar denominated debt. Additional details may be found under “*Management’s Discussion and Analysis of Sagicor — Financial Summary – Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017.*”

Overview of AIM

Alignvest Investment Management Corporation (“AIM”) is a provider of institutional portfolio management services. AIM strives to deliver strong, risk-adjusted returns to long-horizon investors by building upon the best practices of leading pension and endowment investment models and offers sophisticated multi-asset class investment management solutions and expertise across global public and private markets, as well as customized institutional advisory mandates.

AIM’s world-class team has extensive CIO- and board-level experience at major asset owners, including Canada Pension Plan Investment Board (CPPIB), as well as other pension funds, endowments, asset managers, and insurance firms.

As part of their approach, AIM develops customized solutions to maximize long-term, risk-adjusted expected returns based on the belief that the most important long-run investment decision is strategic asset allocation and the careful selection of globally diversified portfolios of alternative assets. AIM’s team further adds value using tactical asset allocation based on proprietary medium-term macroeconomic research.

Within global asset classes, AIM’s portfolios use a state-of-the-art, factor-based approach. AIM’s building block portfolios use a hybrid of internal and external management to incorporate low-cost passive and cost-conscious, active strategies to enhance risk-adjusted expected returns. AIM seeks out active strategies that are focused or concentrated within inefficient, overlooked, and illiquid markets. Finally, dynamic risk management is an integral part of its investment strategy, designed to keep desired active risk exposures and to remove unwanted risk.

AIM provides a high level of service to our clients that draws on its team’s deep experience and insight into investment policies, asset allocation, portfolio management, and risk management.

AIM and Sagicor intend to enter into an arm's length investment management agreement prior to the close of the proposed Transaction.

AIM is an affiliated entity of AMC; AMC also indirectly controls the Sponsor. Accordingly, AIM's involvement could be seen as a non-arm's length transaction. The key terms of AIM's investment management agreement will be negotiated at arm's length between AIM and Sagicor. In connection therewith, the board of directors of Alignvest is expected to determine that the fair market value of the proposed services to be provided are less than 1% of Alignvest's market capitalization and that the investment management agreements are on arm's length terms.

AIM Investment Professionals

Donald Raymond

Donald Raymond is a Managing Partner of AIM and Chief Investment Officer at Alignvest Management Corporation. He is a Director of Great-West Lifeco Inc., the current Chair of the Board of Trustees of Queen's University and was the past Chair of the university's Investment Committee. Mr. Raymond is also an Adjunct Professor of Finance and Chair Emeritus of the International Centre for Pension Management, both at the University of Toronto's Rotman School of Management. Mr. Raymond is also a member of the Investments and Risk Advisory Panel of the Monetary Authority of Singapore. Prior to joining Alignvest in 2014, Mr. Raymond was the Chief Investment Strategist for the US\$220 billion CPP Investment Board (CPPIB) where he devoted 12 ½ years of his career to helping build CPPIB into a leading global investment organization. He built CPPIB's Public Market Investments department from inception and was also its first Chief Investment Strategist. In this role, he chaired CPPIB's Investment Planning Committee, responsible for overseeing the portfolio design and management of one of the fastest-growing pools of capital in the world. He was also the principal architect of CPPIB's innovative Total Portfolio Approach, and was instrumental in the development of the United Nations' Principles of Responsible Investing (UNPRI), as well as their adoption by CPPIB in 2005. Prior to joining CPPIB in 2001, Mr. Raymond worked for Goldman Sachs, first in Toronto as a top-ranked fixed-income strategist before moving into a global equity and fixed-income portfolio management role in New York. He began his investment career in the fixed-income derivatives department of Burns Fry, a predecessor of BMO Capital Markets Inc. Prior to developing an interest in finance, Mr. Raymond worked for Schlumberger in China and trained as a pilot in the Canadian military. He holds a Ph.D. in Electrical Engineering from Queen's University and a Chartered Financial Analyst charter.

Kerry Stirton

Kerry Stirton is a Managing Partner of Alignvest Investment Management and a Member of the AIM Investment Committee. Mr. Stirton has more than 20 years' investment experience including equity portfolio management, equity research, hedge fund investing, activist investing, and commodity trading. Prior to joining Alignvest, Mr. Stirton was Head of Research at Tetrem Capital, and former Managing Director at CIBC Asset Management, where he led a US\$25 billion Institutional Advisory Business. Mr. Stirton's experience includes the roles of Equity Investor in Goldman Sachs' Proprietary Investment Group, Senior Research Analyst at Sanford C. Bernstein, and a Manager at McKinsey and Company. Mr. Stirton has also been an Investment Committee Member of the Ben Gurion University Endowment. Mr. Stirton holds law degrees from Harvard Law School and University of Oxford where he was a Rhodes Scholar, and has received an MA from University of Toronto. Mr. Stirton has successfully passed Finra's Series 7, 63, and 55 Examinations and the NFA's Series 3 National Commodities Futures Examination.

Dr. Randolph Cohen

Randy Cohen is a Partner at Alignvest Investment Management. Mr. Cohen also teaches finance and entrepreneurship in the MBA program at Harvard Business School. Mr. Cohen has helped to start and grow a number of investment management firms and has also served as an actuarial consultant specializing in pension plan asset/liability management. He is a frequent speaker at investment conferences globally, such as the Sovereign Investor Institute and the Foundation and Endowment Asset Management conference. Mr. Cohen is a highly respected researcher whose main focus is on the relationship between institutional investors and the stock market. He has published frequently cited articles on the ex-ante identification of outstanding investment managers and the prediction of security and asset-class performance. His work has been published in top academic journals including

the Journal of Finance, Quarterly Journal of Economics and Journal of Financial Economics. His 2003 paper “The Value Spread” (with Christopher Polk and Tuomo Vuolteenaho) and his 2005 article “Judging Fund Managers by the Company They Keep” (with Joshua Coval and Lubos Pastor), were both nominated for the annual Smith-Breeden Prize for the best asset-pricing paper published in the Journal of Finance. Mr. Cohen holds an AB in Mathematics from Harvard College and a PhD in Finance from the University of Chicago.

Information Technology

Strategy and Philosophy

The goal of Sagicor’s IT strategy is to proactively harness leading computing technologies that can enable Sagicor to achieve its business objectives, promote strategic ambitions, and enlarge future opportunities. Technology represents a key enabler to achieve share growth in the massive U.S. market and helps fuel the Caribbean operations. Properly conceived information technologies help reduce operating costs, deliver an improved customer experience, promote growth, and drive innovations to create new competitive advantage and shareholder value. Sagicor aims to compete in time by accelerating its enterprise velocity in the areas of sensing, analyzing, formulating and reacting to be faster than its competition, which positively enhances customer experience and overall net income.

Support Services and Structure

Comprehensive IT support services, deployed as a shared service, are provided to all Sagicor subsidiaries and across all territories through a modern network that connects Sagicor’s various businesses and branch offices. Sagicor’s IT capabilities and services are delivered through two primary data centers in the United States and Jamaica as well as four satellite centers that primarily host local files, print, and select business applications. IT staff are located in Barbados, Trinidad, Jamaica, and the United States. Disaster recovery is provided through third-party agreements aligned to the Company’s requirements. The banking business in Jamaica has dedicated facilities that are locally operated.

Strategic Initiatives

Information Technology is recognized as a critical factor in solidifying Sagicor’s market positions as well as cost-effectively servicing a broad, geographically dispersed customer base across multiple distribution channels. To succeed, Sagicor is building its digital transformation strategy on a foundation of systems, processes, and investments that promote ongoing innovation and reinvention. Sagicor understands that customers expect great experiences and require easy to use and frictionless digital interactions. Insurance and banking products and services must become as intuitive and reliable for the customer as replenishing their pantry from online retailers. Improving velocity is the strategy and digital transformation is the tactic used at Sagicor to deliver on these customer expectations.

Technology-related investment is aligned against four strategic pillars: top-line growth, enhance net income, improve the customer’s experience, and mitigate risk exposures. Each pillar is segmented into underlying levers that may be used to drive improved outcomes. For instance, top-line growth has seven levers: acquire portfolios, enter new geographies, penetrate new and existing segments, deploy new distribution channels, enhance existing distribution channels, develop new products, and improve policy holder persistency.

Systems Framework

Sagicor stratifies its IT systems into three categories: systems of record, engagement, and insight. Sagicor recognizes that achieving robust linkages within and across these strata requires a vibrant integration fabric or enterprise service bus. Cybersecurity is woven throughout the framework as well as across the ecosystem of Sagicor’s key suppliers.

Systems of Record

Sagicor expects to harmonize its life administration systems across its businesses in the United States and Southern Caribbean. Sagicor’s Jamaica business is also evaluating its transition to the new common platform. Sagicor’s goal

is to have all its entities utilizing modern, flexible, rules-based solutions that are common for the relevant business vertical. Beyond systems implications, this approach is likely to affect how product development, actuarial, underwriting, and finance activities are delivered. By defining a single common base code for Individual Life as well as Group businesses, Sagicor will consolidate common interfaces and modifications into one shared software release leading to platform consistency. In effect, each jurisdiction will leverage a software bundle that consists of base code, custom code for use by all jurisdictions, and custom code that is only for that jurisdiction. This will accelerate how innovations are propagated across the business lines.

Sagicor has deployed workflow-based technologies to boost operational efficiency and enhance the customer experience. Sagicor's "Branch Network" allows customer-driven activities to be received in their country of origin and based on available skills and personnel, be completed in any of the jurisdictions in which Sagicor operates. "Cross-skilling" the branch workforce allows better workload balancing and re-assignment of non-peak tasks away from peak periods - providing real productivity gains, improved customer experience, and better job satisfaction for employees.

Sagicor is also exploring the use of on-demand services for computationally intensive applications like actuarial modeling, as these services may hold the promise of substantially shrinking processing time, which would allow more scenarios and solution permutations to be quickly explored by actuaries and business leaders.

Systems of Engagement

Sagicor understands that it must deliver the customer journey through more personalized, seamless interactions across the various touchpoints the consumer encounters, which include internal systems as well as those provided by third-parties inclusive of call centers, email marketing, mobile apps, content systems, portals, social media channels, etc.

To improve communications with policyholders, independent intermediaries, and captive sales channels, Sagicor employs portal technologies to promote self-service and convenience. Investments in expert systems and predictive analytics provide the means to deliver a final underwriting decision with a material reduction in cycle time. In 2016, Sagicor was recognized by Celent, a leading IT advisory company, for its Accelewriting® innovation. Where permitted by regulation, Sagicor enables a straight-through process for electronic delivery from application to contract, thus eliminating time-consuming mailing procedures so that clients can more quickly enjoy the benefits of insurance.

Sagicor's workflow systems are also externally focused customer-centric solutions; they do more than move internal workload efficiently through relevant business processes. When properly mined and analyzed, they reveal the means to use customer service as a source of sustainable competitive advantage. This helps raise barriers to entry for Sagicor's home markets and promote local and near-shore productivity in highly competitive markets such as the United States.

Sagicor has also launched mobile solutions to enhance agent productivity and reach consumers on their terms for a growing variety of transactional tasks. Additionally, Sagicor supports non-traditional payment platforms to address emerging payment preferences. Sagicor's digital strategy and lead management efforts allow it to leverage its digital footprint and offer a more personalized experience as well as greater convenience for consumers. It serves to shape the customer experience into the relationship Sagicor strives to cultivate. The data derived from digital channels and internal databases allows Sagicor to accelerate value creation and enhance top line growth. Sophisticated geo-tagging, content management, personalization algorithms, and data visualizations help fuel Sagicor's growth story.

Systems of Insight

To elevate the customer experience, Sagicor consumes, collects, and analyzes data from traditional systems and external sources in both structured and unstructured formats. Systems of insight use advanced analytics to identify correlations and causations, so they may inform decision-making, marketing initiatives, and product development. Sagicor leverages these techniques to detect, repel, and prosecute healthcare fraud, identify underserved demographics, improve channel efficacy, and recognize product opportunities. Sagicor plans to extend this approach to enhance the customer's experience across individual life and group health for key customer-driven transactions.

Enterprise Service Bus

Key to these advances is the ability to deliver tight integration across systems, complete with real-time audit trails. Sagicor is expanding its architecture built on an enterprise service bus (ESB) that provides message queuing, data extraction, error correction, data transformation, data retransmission, and failure alerts. Sagicor's ESB architecture allows Sagicor's employees to focus on analysis and discovery versus data entry, data formatting, and data uploading.

Cybersecurity

Sagicor employs a defense-in-depth strategy for cybersecurity. Multiple layers of security controls are placed throughout the environment. The design strives to protect data relating to policyholders, prospects, partners, and financial performance regardless of an adversary's knowledge of Sagicor's deployment landscape. Intrusion detection, prevention, vulnerability scans, and penetration tests are important pieces of Sagicor's defense approach, while a robust patching cadence seeks to limit exposure to new vulnerabilities.

Sagicor uses third-party services to monitor externally facing profiles of key suppliers so that they do not become sources of contagion to the enterprise. Sagicor uses the U.S. National Institute of Standards and Technology (NIST) security framework to inform its security program. The NIST Cybersecurity Framework consists of standards, guidelines, and best practices to manage cybersecurity-related risk. It represents a prioritized, flexible, and cost-effective approach to promote cyber protection and resilience. Though no company can claim completely secure computing, Sagicor makes prudent investments designed to meet the challenges of new and emerging attack vectors.

Employees and Labour Relations

General

Sagicor's human resource philosophy is built on the compelling propositions the Group makes in all labour markets as an employer of choice. This philosophy is supported by career opportunities, modern people policies, competitive compensation and benefits programs, and recognition and rewards programs. Personal, professional and industry specific training programs build strategically focused competencies and associated behaviors for a performance based culture. Special programs and events improve employee morale and engagement and provide a talent pool that is aligned to our strategy. Sagicor's human resource strategy focuses on the development of a strong customer service culture firmly supported by systems that recognize and reward performance. Group companies review compensation annually and use market compensation data to seek to ensure that compensation and benefits are competitive and support the group's talent management strategy. Annual incentives are linked to corporate, business unit, and individual performances using Sagicor's balanced scorecard methodology.

Employee performance is managed using the success factors talent management suite to set goals, manage performance, and for decisions on promotions and compensation.

Group companies monitor employee engagement using the LOMA surveys. These surveys measure the state of emotional and intellectual commitment of employees. The dimensions explore components of employee morale, company image, organizational commitment, job satisfaction and specific aspects of the work experience, employee involvement, leadership, rewards and recognition, and quality of work life. Most group companies reported incremental improvements improvement in their survey results for 2014 including increased survey participation rates and positive trends on all dimensions for morale, employee engagement, and leadership, recognition and rewards and quality of work life. Management reviews survey results and recommendations and includes programs to support initiatives and address concerns in each year's business plans.

Workforce and Labour Relations

As of December 31, 2017, Sagicor had a total workforce of 3,958 people, including Sagicor's advisors. The following table shows the breakdown of Sagicor's workforce by geographical segment as of December 31, 2017.

Sagicor's Workforce by Geography		
	Workforce	Percentage of Sagicor workforce
Barbados		
Employees	512	12.9%
Advisors.....	144	3.6%
Jamaica		
Employees	1,697	42.9%
Advisors.....	588	14.9%
Trinidad and Tobago		
Employees	265	6.7%
Advisors.....	256	6.5%
Eastern Caribbean		
Employees	87	2.2%
Advisors.....	116	2.9%
Other Caribbean		
Employees	46	1.2%
Advisors.....	70	1.8%
United States		
Employees	148	3.7%
Advisors.....	29	0.7%
Total.....	3,958	100.0%

The following table shows the breakdown of Sagicor's workforce by type of employee and union-status as of September 30, 2018.

Sagicor's Workforce by Employee Type			
	Union	Non-union	Union membership % of each classification
Sales			
Senior management	-	4	0.0%
Branch management	-	41	0.0%
Sagicor advisors	21	1,096	1.9%
Total.....	21	1,141	1.8%
Operations			
Executives.....	-	30	0.0%
Senior management	-	96	0.0%
Middle management.....	-	237	0.0%
Professional	-	55	0.0%
Administrative support.....	672	1,976	25.4%
Total.....	672	2,394	21.9%

As of September 30, 2018, Sagicor's workforce consisted of 4,228 employees, which represents 693 union employees and 3,535 non-union employees.

Sagicor has good relations with the trade unions that represent Sagicor's employees and advisors and has not experienced a work stoppage in more than ten years.

In October 2007, the Barbados courts determined that Sagicor's advisors/sales agents who Sagicor traditionally treated as "independent contractors" were "employees", having considered the working arrangements and benefits provided to this group. While Sagicor continues to treat its advisors in other Caribbean jurisdictions as independent contractors, Sagicor anticipates that regional courts may follow the determination of the Barbados courts. Sagicor does not believe the change of legal status will have a material effect on our business.

Labour Relations

In Barbados at December 31, 2017 only 20 Sagicor advisors and 10 administrative employees, or 4.5% of Sagicor's employees, were members of a trade union. There is no union agreement in place at this time. There has been no industrial action.

In St. Lucia there has been no communication with the trade union since the last collective agreement ended on December 31, 2014. There has been no industrial action.

In Antigua, Sagicor Eastern Caribbean Inc. signed a collective agreement effective from January 1, 2017 for 10 non-management administrative employees or 18% of the total workforce (Sales and Operations) in Antigua. The negotiations were cordial. There has been no industrial action.

In Jamaica, a two-year agreement is in place with the trade union. New negotiations commenced for the period 2019-2020 in November 2018. Sagicor Jamaica continues to maintain a cordial relationship with the trade union through regular consultations with union representatives. The last industrial action occurred in 1995, prior to Sagicor's acquisition of Sagicor Jamaica, and there has been no industrial action since the acquisition.

Training and Development

Sagicor provides structured industry training for all staff, and they are encouraged to achieve professional insurance designations. Considerable support is offered to students pursuing professional designations in accounting, actuarial science, investments and IT through grants, loans, study leave programs and facilitating attendance at the annual LOMA and LIMRA conferences, where attendees benefit from presentations and discussions on a number of insurance industry issues.

Applicable employees are required to complete the 280 and 290 modules of the industry training provided by LOMA. Many pursue the Fellow, Life Management Institute (FLMI) and Associate of Customer Service designations. Group companies use LOMA, LIMRA, local campuses of the University of the West Indies, and international universities for Management and for Executive Development programs. Leadership programs topped the list of strategic training development programs over the past two years.

Diversity Statistics

Sagicor has strong gender diversity within its leadership team. There are currently 69 men and 58 women, or 54.3% and 45.7% respectively, who hold positions as executives and senior managers in Sagicor. Additionally, there are 59 men and 18 women, or 76.6% and 23.4% respectively, on the various boards that comprise the Sagicor Group.

THE BUSINESS OF ALIGNVEST

Alignvest is a special purpose acquisition corporation incorporated under the laws of the Province of Ontario. Alignvest was organized for the purpose of effecting an acquisition of one or more businesses or assets by way of a merger, share exchange, asset acquisition, share purchase, reorganization or other similar business combination involving Alignvest that will qualify as its “qualifying acquisition”.

On November 27, 2018, Alignvest announced that it had entered into the Arrangement Agreement with Sagicor pursuant to which, among other things, Alignvest shall acquire, directly or indirectly, all of the shares of Sagicor by way of a scheme of arrangement under the laws of Bermuda, where Sagicor is incorporated. The Sagicor Arrangement constitutes Alignvest’s proposed qualifying acquisition.

This proposed qualifying acquisition is entirely consistent with the approach and the objectives outlined at the time of Alignvest’s initial public offering, notably:

- We are partnering with a strong, experienced, well-aligned management team, who want to continue to build their business;
- Sagicor operates in an industry in which Alignvest has expertise and can be a value-added partner;
- There is a clear and demonstrated opportunity to execute accretive follow-on acquisitions; and
- Sagicor presents an opportunity to generate attractive risk-adjusted returns on invested capital.

AMC, the parent of the Sponsor of Alignvest, is a leading alternative investment management firm that seeks to deliver superior risk-adjusted returns for its clients, which include pension plans, foundations, and ultra-high net worth family offices, by identifying and exploiting market discontinuities, and by attracting the very best talent to build industry-leading investment platforms. The partners of the firm have a strong combination of investment and operational expertise, having created and managed numerous successful operating businesses, and having built and led large, highly profitable businesses within global financial and consulting firms.

AMC was formed in 2011 and has raised equity and investment capital from a number of private family offices and institutions. AMC’s founding partners have committed to invest over C\$230 million of their personal capital into funds managed by AMC, on a fully discretionary basis, with the capital subject to full recyclability (including all gains). AMC believes that this long term, discretionary, and aligned pool of capital provides the firm with a strong and differentiated foundation. AMC is currently parent to five investment platforms: Alignvest Private Capital, which makes direct private investments; Alignvest Student Housing Real Estate Investment Trust, a Real Estate Investment Trust focused on consolidating the Canadian purpose-built student accommodation sector; Alignvest Investment Management, which provides institutional portfolio management services; Alignvest Capital Management, which executes public market investment strategies; and Alignvest Acquisition II Corporation, our second TSX-listed special purpose acquisition corporation.

AMC is headquartered in Toronto, Ontario, with an additional office in London, United Kingdom.

PROPOSED ACQUISITIONS

Consistent with the Company's past practices and in the normal course of business, the Company is continuously engaged in discussions with respect to possible acquisitions of and investments in new assets and businesses, dispositions of existing assets and related financings and refinancings. There can be no assurance that any of these discussions will result in a definitive agreement, and, if they do, what the terms or timing of any acquisition, investment, disposition, financing or refinancing would be, if consummated. The Company expects to continue current discussions and actively pursue acquisition, investment, disposition, financing and refinancing opportunities.

The Company has recently entered into definitive agreements to acquire:

- All of the shares of SJLIC from The Bank of Nova Scotia Jamaica Limited ("**BNS Jamaica**"); and
- All of the shares of SLTT from Scotiabank Trinidad and Tobago Limited ("**BNS TT**").

As of the date hereof, other than the proposed acquisitions of SJLIC and SLTT, as described in more detail below, the Company is not a party to any other material definitive agreements in respect of acquisitions.

Proposed Acquisitions of SJLIC and SLTT

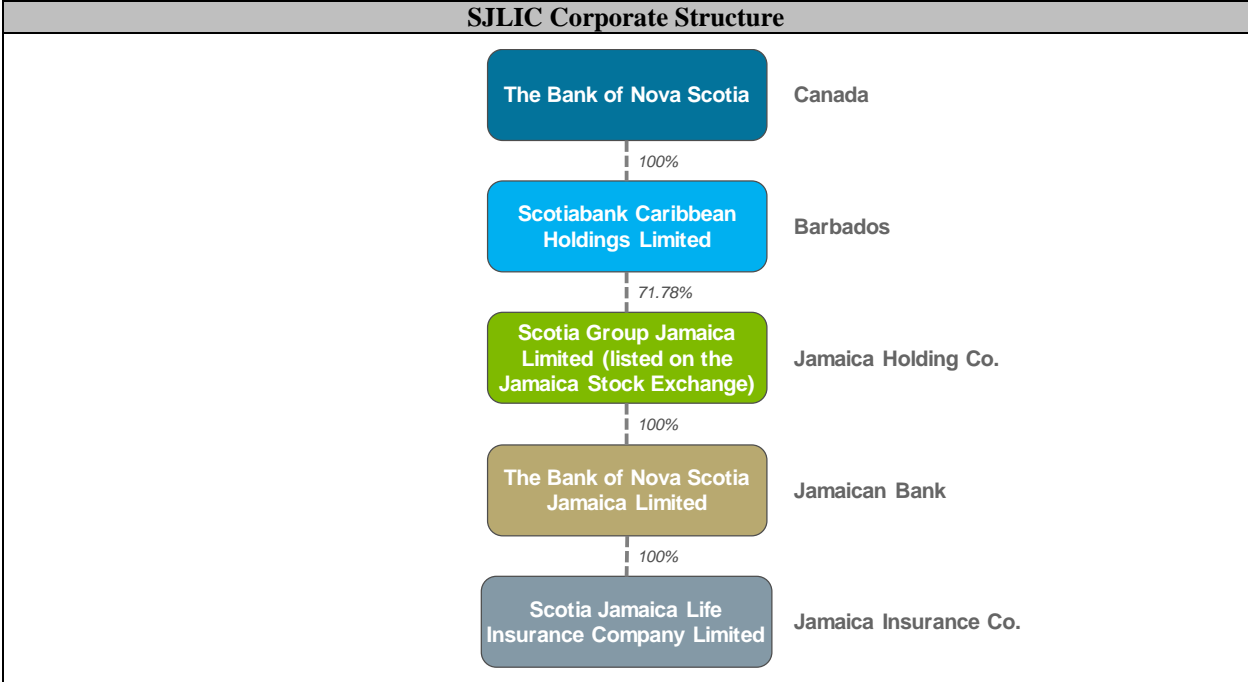
Overview

Scotia Group Jamaica Limited ("**SGJL**") and BNS TT are majority-owned and publicly traded subsidiaries of The Bank of Nova Scotia ("**BNS**"), and are held through Scotiabank Caribbean Holdings Limited ("**BNS Caribbean**"). SGJL (through its subsidiary BNS Jamaica) and BNS TT are among the leading banks in their respective countries, with broad customer bases, strong profitability and robust capitalizations. While each is primarily focused on providing banking services to retail and commercial clients, they also provide their banking clients with access to complementary insurance products through their local insurance subsidiaries, SJLIC and SLTT.

Sagicor is acquiring SJLIC and SLTT from BNS Jamaica and BNS TT, whose decisions to sell these local insurance subsidiaries were driven by a shift in BNS's priorities away from "non-core" insurance businesses and a desire to focus the operations of SGJL and BNS TT on their core banking business.

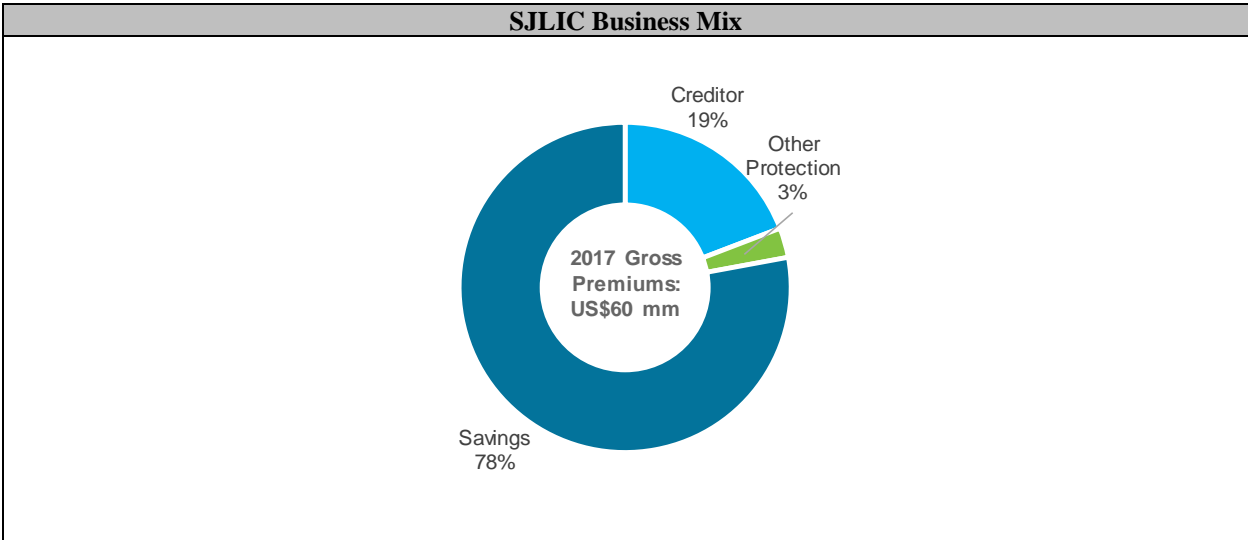
SJLIC

SJLIC is a member of the SGJL corporate group, a publicly listed holding company trading on the Jamaica Stock Exchange. SGJL is owned 71.78% by BNS Caribbean. A summary corporate structure is shown below.



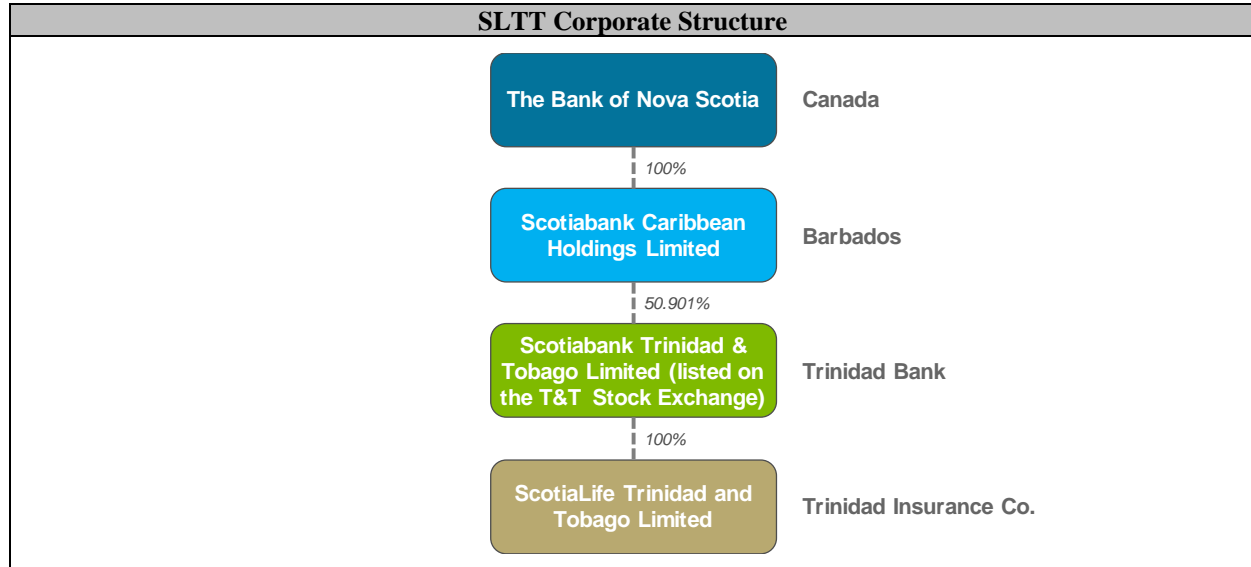
SJLIC was incorporated in 1995. The company employs approximately 90 total staff members dedicated to the distribution and servicing of SJLIC’s insurance products. Those products are distributed through SGJL’s extensive retail branch network throughout Jamaica. The products include:

- **Creditor Insurance.** This includes creditor life, creditor health, creditor home and creditor auto. These products are distributed directly out of BNS Jamaica’s branches.
- **Other Protection and Savings.** This includes critical illness, whole life, universal life and pension savings. These products are distributed out of BNS Jamaica’s branches but referred to SJLIC’s licensed agents, who are located outside the retail bank distribution environment.



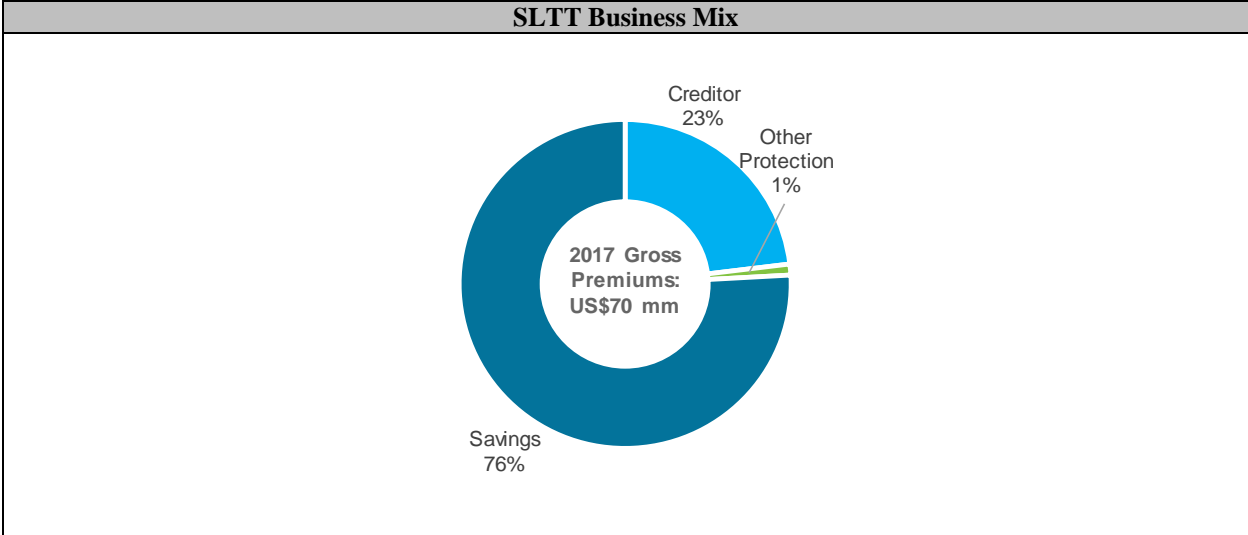
SLTT

SLTT is a member of the BNS TT corporate group, a publicly listed holding company trading on the Trinidad and Tobago Stock Exchange. BNS TT is owned 50.901% by BNS Caribbean. A summary corporate structure is shown below.



SLTT was incorporated in 2000. The company employs approximately 70 total staff members dedicated to the distribution and servicing of SLTT’s insurance products. Those products are distributed through BNS TT’s extensive retail branch network throughout Trinidad and Tobago. Those products include:

- **Creditor Insurance.** This includes creditor life, creditor health, creditor home and creditor auto. These products are distributed directly out of BNS TT’s branches.
- **Other Protection and Savings.** This includes whole life, universal life and annuities. These products are distributed out of BNS TT’s branches but referred to SLTT’s licensed agents, who are located outside the retail bank distribution environment.



General

The SLTT and SJLIC transactions are not conditioned on each other. They are each conditional on the closing of the Sagicor Arrangement and other conditions to closing, including certain regulatory approvals. Accordingly, they will not be completed until after the closing of the Sagicor Arrangement and are thus not part of Alignvest’s qualifying acquisition.

SJLIC and SLTT Share Purchase Agreements

Sagicor and each of BNS Jamaica and BNS TT (each, a “Vendor” and, collectively, the “Vendors”) have agreed on a transaction with three components, as detailed in the purchase agreements dated November 27, 2018 (each a “Scotia Agreement”, and, collectively, the “Scotia Agreements”). First, the Vendors will extract a pre-transaction dividend of over US\$100 million of capital over 150% of MCCR (currently approximately US\$38 million in SJLIC and US\$63 million in SLTT). Second, Sagicor will provide the Vendors with up-front cash proceeds of US\$240 million (before adjustments) in exchange for all of the issued and outstanding shares of SJLIC and SLTT. Third, Sagicor and the Vendors will enter into a “bancassurance”-type agreement whereby the Vendors or their affiliates will be permitted to sell Sagicor products – on a white-label basis – to the Vendors’ banking customers, in return for which Sagicor will pay commissions to the Vendors. The commission rate will vary depending on the type of product sold – see “Master Program Agreement Term Sheet”. The purchase price contemplated by the Scotia Agreements is subject to adjustment based on the amount by which a pre-closing estimate of capital in excess of 150% of MCCR is greater or lesser than the amount of capital in excess of 150% of MCCR at closing. The purchase prices paid under the Scotia Agreements are subject to further post-closing adjustment on the basis of the shareholder equity of each of SJLIC and SLTT as calculated 90 days following closing, such adjustment currently estimated to be approximately US\$23 million in the aggregate.

Sagicor plans to fund the transaction via US\$140 million of equity from Alignvest and new local currency borrowing of US\$100 million. There can be no assurance that such funding will be available or as to the terms thereof. If Alignvest suffers redemptions such that all or part of such US\$140 million is not available, Alignvest and Sagicor will need to source replacement debt or equity to complete the transaction or renegotiate it. The transactions are not subject to financing conditions in favour of Sagicor and are not inter-conditional on each other. However, they are conditional on the completion of the Sagicor Arrangement. They are not expected to be completed until after the closing of the Sagicor Arrangement, and are thus not part of Alignvest’s qualifying acquisition.

Representations and Warranties

The Scotia Agreements each contain limited representations and warranties of the applicable Vendor (on their own behalf and on behalf of SJLIC and SLTT), respectively, in favour of Sagicor. They include representations and

warranties with respect to due incorporation, corporate power and authority, conflicts, certain financial matters, litigation, investment assets, claims history, taxation matters, and compliance with laws (including regulatory compliance).

The Scotia Agreements each also contain certain limited representations and warranties of Sagicor in favour of the applicable Vendor, as well as certain limited representations and warranties of Alignvest in favour of the applicable Vendor.

Covenants

During the interim period, each Vendor is required to continue to administer the applicable business being acquired in good faith and in substantially the same manner as done in the ordinary course, respectively, with no material change in activity, including not entering into any material contracts, selling any assets, or materially changing any actuarial assumptions, subject to certain exceptions.

Certain short-term transitional services are to be provided by each of BNS Jamaica and BNS TT to Sagicor following closing.

Conditions

Sagicor's obligation to complete the transactions contemplated in each of the Scotia Agreements are subject to the satisfaction of certain conditions precedent, including, among others: obtaining certain required regulatory approvals, the Transaction closing, and the restructuring of BNS Jamaica and BNS TT, as applicable, operations to satisfy local regulatory requirements and enable to parties to execute the MPA Agreement. There can be no assurance that such conditions will be satisfied or waived. In the case of BNS TT, the restructuring of its operations may require the approval of BNS TT shareholders.

Indemnification

Under each of the Scotia Agreements, each of the applicable Vendors (i.e., BNS Jamaica in the Scotia Agreement between Sagicor and BNS Jamaica, and BNS TT in the Scotia Agreement between Sagicor and BNS TT) agrees to indemnify Sagicor against certain costs, claims, liabilities, expenses or demands (subject to certain exceptions) relating to or arising out of any breach of its respective representations, warranties or covenants. The Scotia Agreements contain certain monetary limitations respecting indemnity obligations for breaches of representations and warranties. In particular, breaches by the vendor of non-fundamental representations and warranties are capped at fifteen percent (15%) of the base purchase price, with a certain subset of non-fundamental representations (including general compliance with laws and regulatory compliance) having access for indemnity purposes to an additional ten per cent (10%) of the base purchase price, up to an amount equal to an aggregate amount of 25% of the base purchase price. Damages related to breaches by the vendor of fundamental representations and warranties have a cap equal to the base purchase price. Damages related to breaches by the vendor of fundamental representations and warranties have a cap equal to the base purchase price. Breaches of representations and warranties by Sagicor have similar monetary caps (15% of the base purchase price for non-fundamental representations, equal to the base purchase price for breaches of fundamental representations).

As well, under each of the Scotia Agreements, Sagicor has agreed to indemnify the applicable Vendor from losses suffered by the applicable Vendor in connection with a breach by Sagicor of its representations and warranties or covenants in the applicable Scotia Agreement.

No party is required to indemnify another party under the Scotia Agreements unless the damages suffered by the indemnified party exceed a certain materiality threshold. In the case of the Scotia Agreement with BNS Jamaica, that threshold is approximately US\$1.4 million, and in the case of the Scotia Agreement with BNS TT, that threshold is approximately US\$1 million. Once the total of the damages of an indemnified party exceeds such materiality threshold, the indemnifying party is liable for the damages in excess of such threshold.

Termination and Termination Fee

Each of the Scotia Agreements may be terminated: (a) by mutual agreement by the parties thereto; or (b) by any party upon the inability of the other party to satisfy conditions of closing. In the event that either Scotia Agreement is terminated as a result of the Transaction not occurring and, in such a circumstance, where either an “Expense Reimbursement Event” or a “Termination Fee Event” is paid under the Arrangement Agreement, then a termination fee is to be paid to the Vendors, as applicable, under the Scotia Agreements. Such a payment must also be made in the event that either Alignvest or Sagicor waives its right to an “Expense Reimbursement Event” or a “Termination Fee Event”. Under the Scotia Agreement with BNS Jamaica, the termination fee is approximately US\$4 million, and under the Scotia Agreement with BNS TT, the termination fee is approximately US\$3 million.

Master Program Agreement Term Sheet

Pursuant to the terms of the Scotia Agreements, each of the Vendors or such of their affiliates as may be appropriate (collectively, “**Scotiabank**”) agreed to enter into a distribution agreement (the “**MPA Agreement**”) with Sagicor or such of its affiliates as may be appropriate (the “**Sagicor Provider**”), in a mutually satisfactory form, having regard to a certain non-binding Master Program Agreement Term Sheet, which sets forth certain terms and conditions of the proposed agreement between the parties. The MPA Agreement is for the establishment of a strategic relationship with regard to Scotiabank’s distribution of creditor and non-creditor insurance policies underwritten by the Sagicor Provider to Scotiabank customers in Jamaica and Trinidad and Tobago. The MPA Agreement is proposed to have a 20-year term and is proposed to be entered into on the closing of the Scotia Agreements. The parties to the MPA Agreement have agreed to seek to launch the distribution program using an agency model.

Under the MPA Agreement, either party may propose that new products and services, including creditor life and health, creditor home and auto and non-creditor insurance products and services (the “**Products and Services**”), be developed and offered as part of a white-label bancassurance program pursuant to which the Products and Services will be marketed and promoted to Scotiabank customers, and which will be underwritten and provided by the Sagicor Provider but branded as Scotiabank Products and Services, to the extent permitted by applicable law. The Sagicor Provider will be required to perform its obligations under the MPA Agreement at or above a certain level of service standards.

Sagicor Provider will pay monthly commissions to the vendors in the following structure:

- Creditor insurance – 35% of premiums (new and renewals);
- Property insurance – 20% of premiums (new and renewals);
- Auto insurance – 15% of premiums (new and renewals);
- Term insurance and other long-term products – 40% of premiums on new business and 5% of premiums on renewals;
- Savings and deposit products – annual rate of 50 basis points, payable monthly, calculated on the average policyholder funds for any given month; and
- Annuities – one-time commission of a percentage of the amount paid for the annuity; such percentage to be determined between Scotiabank and Sagicor Provider such that the total commissions for savings, deposit and annuities products would have replicated the total agreed economics for the 0.50% of savings funds as agreed between the parties at signing of the letter of intent dated October 10, 2018, acting reasonably.

Additionally, the Sagicor Provider intends to commit a minimum of 3.0% of gross written premiums (excluding spread products) to the maintenance and development of technology in respect of the program and to marketing activities, on an annual basis over the term.

Under the MPA Agreement, the Sagicor Provider will have exclusivity, limited to program purposes, to underwrite certain policies and to implement certain insurance solutions offered under the program, and should Scotiabank propose to develop or offer to its customers something other than a Product or Service in Jamaica and Trinidad and Tobago during the term of the MPA Agreement, the Sagicor Provider will have a right of first offer. Scotiabank will be the Sagicor Provider's exclusive financial institution partner for the purposes of marketing or promoting such insurance solutions. Sagicor Provider and its affiliates will not be permitted to enter into any comparable program agreement in Jamaica and Trinidad and Tobago directly or indirectly with any Scotiabank competitor.

The MPA Agreement will provide for customary representations, warranties and indemnities for a transaction of this nature. In addition, Scotiabank may terminate the MPA Agreement upon a change of control of the Sagicor Provider, a ratings downgrade of the Sagicor Provider or a failure by the Sagicor Provider to meet certain service standards, among other termination events. Upon expiration, non-renewal or termination of the MPA Agreement, the Sagicor Provider is obligated to provide certain transition services to Scotiabank, and certain fees may be payable.

Transaction Rationale

Sagicor's management team believes that the transaction is highly attractive, from several perspectives.

- **Profitable base business at attractive valuation.** SLTT and SJLIC earned pre-tax net income of US\$18.8 million and US\$37.9 million, respectively, in fiscal year 2017. As an illustration, the figure below adjusts that pre-tax income for: (i) reinsurance premiums that SLTT would no longer cede following the transaction; (ii) intercompany commissions that SLTT would no longer pay following the transaction; (iii) foregone income on the excess capital to be extracted via pre-close dividend; (iv) the commissions that Sagicor management estimates would have been payable in 2017 under the agreed-upon commission structure; and (v) estimated taxes.

Adjusted Fiscal 2017 Net Income on Base Business			
	Trinidad and Tobago	Jamaica	Total
2017 Pre-Tax Income	18.3	36.6	54.9
Plus: Pre-Tax Reinsurance	6.8	-	6.8
Plus: Pre-Tax Commission Fee Arrangement	0.8	-	0.8
Less: Pre-Tax Foregone Income	(3.2)	(2.7)	(5.9)
Less: Pre-Tax Commissions to be Paid	(6.9)	(6.2)	(13.1)
Estimated Pre-Tax Net Income	15.8	27.7	43.5
			-
Tax Rate	30%	25%	27%
Less: Tax	(4.7)	(6.9)	(11.7)
After-Tax Net Income on Base Business	11.1	20.8	31.8

Based on up-front proceeds to BNS Jamaica and BNS TT of US\$240 million, Sagicor is paying an unlevered multiple of 7.5x adjusted 2017 net income. Depending on the interest rate of the borrowing, Sagicor management expects the levered multiple of net income to be considerably lower.

- **Improve penetration of current SJLIC and SLTT products among the existing customer base.** It is a policy of BNS Jamaica and BNS TT that prospective borrowers must take out creditor insurance to secure their loans. However, that creditor insurance is not required to come from SJLIC or SLTT. Indeed, as shown in the table below, a meaningful proportion of BNS Jamaica's and BNS TT's customers do not obtain creditor insurance from SJLIC or SLTT. Sagicor management believes that it can improve the rate of

sales of creditor insurance to BNS Caribbean customers using its proprietary technology and insurance expertise.

Creditor Health Protection – Penetration Rates			
	New Eligible Accounts	New Retail Insurance Sales	% Cross Sell
<u>SLTT</u>			
Auto Loans	1,820	1,324	72.7%
Credit Cards	7,097	4,407	62.1%
Credit Cards (Small Bus.)	239	130	54.4%
Mortgage	730	89	12.2%
ScotiaLine	720	540	75.0%
SPL	11,445	9,546	83.4%
Total	22,051	16,036	72.7%
<u>SJLIC</u>			
Auto Loans	2,186	1,192	54.4%
Credit Cards	5,348	2,716	50.8%
Credit Cards (Small Bus.)	329	183	55.6%
Mortgage	462	76	16.5%
ScotiaLine	483	380	78.7%
SPL	9,459	7,820	82.7%
Total	18,267	12,367	67.7%

Creditor Life Protection – Penetration Rates			
	New Eligible Accounts	New Retail Insurance Sales	% Cross Sell
<u>SLTT</u>			
Auto Loans	1,815	1,388	76.5%
Credit Cards	7,097	4,515	63.6%
Credit Cards (Small Bus.)	239	131	54.8%
Mortgage	726	184	25.3%
Sandpiper Line	720	559	77.6%
SPL	11,341	9,895	87.2%
Total	21,938	16,672	76.0%
<u>SJLIC</u>			
Auto Loans	2,179	1,262	57.9%
Credit Cards	5,348	2,843	53.2%
Credit Cards (Small Bus.)	329	184	55.9%
Mortgage	462	123	26.6%
ScotiaLine	483	386	79.9%
SPL	9,447	8,185	86.6%
Total	18,248	12,983	71.1%

- **Opportunity to sell incremental products to a large new customer base.** Sagicor has a highly diversified insurance product mix including individual and group life, health, annuity and pension, personal disability, and property and casualty insurance. Sagicor management believes that BNS Jamaica and BNS TT customers will find those products highly attractive, and that the bancassurance agreement will enable Sagicor management to generate revenue significantly in excess of that produced by SJLIC and SLTT on a standalone basis in 2017 and prior.

SJLIC/SLTT – Sagicor Product Comparison		
	SJLIC/SLTT	Sagicor
Individual Creditor	✓	✓
Other Traditional Life Insurance	✗	✓
Individual Annuities	✓	✓
Accidental Death & Dismemberment	✗	✓
Long-Term Disability	~	✓
Health Insurance	~	✓
Group Health	✗	✓
Group Creditor	✗	✓
Group Pension and Critical Illness	✗	✓
Property & Casualty Insurance	✗	✓

Note: Immaterial product categories denoted with a “~”

Financial Statements

The Scotia Audited Financial Statements and Scotia Interim Financial Statements are set forth in Appendix H. The New Sagicor Pro Forma Financial Statements are set forth in Appendix G.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

Pro Forma Consolidated Capitalization

As the Sagicor Arrangement constitutes Alignvest’s proposed qualifying acquisition, holders of Alignvest Class A Restricted Voting Shares can elect to redeem all or a portion of their Alignvest Class A Restricted Voting Shares provided that they deposit (and do not validly withdraw) their shares for redemption prior to the Redemption Deadline. A description of the redemption rights will be included in the management information circular to be mailed to Alignvest Shareholders in connection with the Alignvest Meeting. A redeeming Alignvest Shareholder is entitled (conditional on closing) to receive an amount per Alignvest Class A Restricted Voting Share, payable in cash, equal to the pro-rata portion of: (A) the escrowed funds available in Alignvest’s escrow account at the time of the Redemption Deadline, including interest and other amounts earned thereon; less (B) an amount equal to the total of (i) applicable taxes payable by Alignvest on such interest and other amounts earned in the escrow account, and (ii) actual and expected direct expenses related to the redemption, each as reasonably determined by Alignvest. This redemption amount is anticipated to be approximately C\$10.20 per Alignvest Class A Restricted Voting Share, assuming a late February 2019 redemption date.

The following table sets forth the consolidated capitalization of Sagicor as of September 30, 2018 adjusted to give effect to the Transaction assuming different levels of redemptions. Since September 30, 2018, other than in the normal course of business, there has been no material change in the equity and debt capital of Sagicor, on a consolidated basis.

Consolidated Capitalization				
(in thousands of US\$)	As of September 30, 2018	As of September 30, 2018 after giving effect to the Forward Purchase Agreements and the Transaction, and assuming certain levels of redemption of Alignvest Class A Restricted Voting Shares		
		0% redemptions	25% redemptions	Alignvest Delivers “Minimum Cash”
Debt⁽¹⁾	404,353	404,353	404,353	404,353
Shareholders' equity	598,107	813,507	734,614	611,745
Total Capitalization	1,002,460	1,217,860	1,138,967	1,016,098

⁽¹⁾ Pro-forma debt does not include any borrowings required to complete the acquisitions of SJLIC and SLTT.

This table should be read in conjunction with the Alignvest Audited Annual Financial Statements, the Sagicor Audited Annual Financial Statements, the Sagicor Interim Financial Statements and the New Sagicor Pro Forma Financial Statements included in Appendix A, Appendix E, Appendix F and Appendix G, respectively, to this prospectus.

Summary Historical and Pro Forma Consolidated Financial Information

The following table sets out unaudited historical and pro forma summary consolidated financial information of the Company, in each case, for the periods ended and as of the dates indicated. The selected consolidated financial information of the Company has been derived from the Sagicor Audited Annual Financial Statements, and the Sagicor Interim Financial Statements, appearing elsewhere in this prospectus.

The selected unaudited pro forma summary financial information as of and for the nine months ended September 30, 2018 and for the year ended December 31, 2017 has been derived from the unaudited pro forma condensed consolidated financial statements of the Company appearing elsewhere in this prospectus and give effect to the transactions described in the notes to those statements as if they had occurred on September 30, 2018 for the unaudited pro forma condensed consolidated statement of financial position as of September 30, 2018 and as if they

had occurred on January 1, 2017 for the unaudited pro forma condensed consolidated statement of income and comprehensive income for the nine months ended September 30, 2018 and for the year ended December 31, 2017.

The summary financial information should be read in conjunction with the Sagicor Audited Annual Financial Statements and the Sagicor Interim Financial Statements and the related notes as well as “*Management’s Discussion and Analysis of Sagicor*”, and the unaudited pro forma condensed consolidated financial statements of the Company.

The selected pro forma condensed financial information is unaudited, for informational purposes only, and not necessarily indicative of what the Company’s results of operations would have been had such transaction been completed as at the dates indicated and does not purport to represent what the Company’s results of operations might be for any future period. In addition to the pro forma adjustments that comprise this pro forma financial information, various other factors will have an effect on the financial condition and results of operations of New Sagicor following the completion of the Transaction, including an adjustment as it relates to the closing of the Sagicor Arrangement which assumes no redemption of Alignvest Class A Restricted Voting Shares. See “*Notes to the Pro Forma Condensed Consolidated Combined Financial Information*” included in Appendix G for a discussion of the pro forma adjustments. See also “*Caution Regarding Forward-Looking Statements*”.

(Amounts expressed in US\$000)	As of and for the nine months ended September 30			As of and for the year ended December 31			
	2018		2017	2017		2016	2015
	Pro- forma \$	Historical \$	Historical \$	Pro- forma \$	Historical \$	Historical \$	Historical \$
Operations							
Net premium revenue	778,145	720,000	558,804	827,426	745,632	663,956	673,925
Total revenue	1,162,139	1,068,704	910,929	1,346,370	1,220,869	1,134,147	1,104,219
Total benefits	579,846	537,381	475,149	714,723	660,761	560,359	552,943
Total expenses	465,768	442,958	329,148	481,410	436,362	424,191	427,714
Net income from continuing operations	78,848	55,774	77,605	120,944	105,169	107,897	98,443
Net income from continuing operations attributable to common shareholders	51,615	28,541	46,536	77,898	62,123	60,259	56,327
Net income attributable to common shareholders	54,806	31,732	54,561	88,008	72,233	61,671	34,679
Financial position							
Cash resources	391,015	365,170		360,064		279,070	
Total assets	7,627,554	6,821,394		6,814,642		6,531,920	
Total policy liabilities	4,131,664	3,590,893		3,553,997		3,361,060	
Total liabilities	6,516,301	5,925,541		5,882,314		5,736,506	
Shareholders' equity	813,507	598,107		623,374		536,149	

The historical financial information of Alignvest, SJLIC and SLTT has been translated to US dollars using the average and period end spot rates of exchange for the US dollar, expressed in Canadian dollars as follows:

	C\$ to US\$	J\$ to US\$	TTD to US\$
Pro Forma condensed consolidated statement of income and comprehensive income for the year ended December 31, 2017	0.782597	0.007712	0.145995

Pro Forma condensed consolidated statement of income and comprehensive income for the nine months ended September 30, 2018	0.776782	0.007736	0.147043
Pro Forma condensed consolidated statement of financial position as at September 30, 2018	0.774170	0.007390	0.146250

Non-historical financial information has been translated to U.S. dollars using the same period end spot rates as the pro forma condensed consolidated statement of financial position as at September 30, 2018.

DIVIDEND POLICY AND DIVIDEND REINVESTMENT PLAN

The declaration of dividends on New Sagicor Common Shares will be at the sole discretion of the New Sagicor Board.

New Sagicor currently intends to seek to pay an annual dividend of up to US\$0.225 per share, expected to be paid quarterly beginning in May 2019 on the New Sagicor Common Shares.

As part of a proposed dividend reinvestment plan, subject to applicable regulatory requirements, holders of New Sagicor Common Shares are expected to be provided with the right to acquire additional New Sagicor Common Shares at 95% of the then market price in lieu of cash dividends, net of applicable withholding taxes.

The Sponsor has agreed to receive its dividends in the form of additional New Sagicor Common Shares rather than cash until otherwise determined by the New Sagicor Board.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF SAGICOR

This Management's Discussion and Analysis ("MD&A") contains important information about Sagicor's business and its performance for the years ended, and as of, December 31, 2017, 2016 and 2015, and as of and for the nine months ended September 30, 2018 and 2017. The discussion and analysis of Sagicor's financial condition and results of operations covers periods prior to the completion of the Arrangement Agreement. This MD&A should be read in conjunction with the Sagicor Audited Annual Financial Statements and the Sagicor Interim Financial Statements, prepared in accordance with IFRS in effect on the date of such information, attached as Appendix E, and Appendix F to this prospectus, respectively.

The following discussion is based on the financial condition and results of operations of Sagicor, unless otherwise specified or indicated. Financial information for the years ended, and as of, December 31, 2017, 2016 and 2015 and as of and for the nine months ended September 30, 2018 and 2017 is presented in US\$. Amounts for subtotal, totals and percentage variances included in tables in this MD&A may not sum or calculate using the numbers as they appear in the tables due to rounding.

As discussed in the Sagicor Financial Corporation Limited, Interim Financial Statements for the nine-months ended September 30, 2018, as of January 1, 2018, the Group adopted IFRS 9 - Financial Instruments ("IFRS 9"). As a result of the application of this new standard, the Group changed its accounting policies. As permitted by the transition provisions in IFRS 9, the Group has elected not to restate comparative period results; accordingly, all comparative period information on financial instruments is presented in accordance with IAS 39 Financial Instruments, the accounting policies disclosed in notes 2.8, 2.12, 2.14 and 2.22 of the annual 2017 consolidated financial statements. Adjustments to the carrying amounts of financial assets and financial liabilities as of January 1, 2018 were recognised in equity. New or amended interim disclosures have been provided for in the current period, where applicable, and comparative period disclosures are consistent with those made in 2017. For further details on the impacts of the application of IFRS 9, including the description of accounting policies selected, refer to note 2 of the September 30, 2018 Interim Financial Statements. The annual financial statements as of December 31, 2017, December 31, 2016 and December 31, 2015 and the MD&A analysis thereon have not been adjusted for the adoption of IFRS 9.

Effective January 1, 2018, the Sagicor Group also adopted IFRS 15. This standard clarifies revenue recognition principles and provides a framework for recognising revenue and cash flows from service contracts from customers. IFRS 15 does not apply to the Group's primary activities of insurance and banking which are governed by IFRS 4 – 'Insurance Contracts' and IFRS 9 – 'Financial Instruments'. In accordance with the transition provisions in IFRS 15, the standard has been implemented using the modified retrospective method with no restatement of comparative information. There was no significant impact on the Group resulting from the implementation of the standard and consequently no transition adjustment has been recorded in the statement of equity. The standard introduces new disclosure requirements for interim financial statements which are set out in note 4.5 of the September 30, 2018 interim financial statements.

Restatements

Certain prior year restatements were made in the September 30, 2018 Interim Financial Statements. Note Appendix F attached. The MD&A analysis following in respect of December 31, 2017, December 31, 2016 and December 31, 2015 does not reflect these adjustments as their effect was not deemed to be material to the ability to properly assess the performance and/or the financial position of the company and the Group.

This MD&A is current as of September 30, 2018 and was approved by Sagicor's Board of Directors.

Forward-Looking Statements

Certain statements in this document are forward-looking statements within the meaning of certain securities laws, including applicable Canadian securities legislation. Additional information concerning forward-looking statements and important risk factors that could cause our assumptions, estimates, expectations and projections to be inaccurate

and our actual results or events to differ materially from those expressed in or implied by such forward-looking statements can be found in “*Cautionary Statement Regarding Forward-Looking Statements*” in this document.

Non-IFRS Financial Information

Sagicor reports its financial results and statements in accordance with International Financial Reporting Standards (IFRS). It also publishes certain financial measures that are not based on IFRS (non-IFRS). A financial measure is considered a non-IFRS measure for Canadian securities law purposes if it is presented other than in accordance with the generally accepted accounting principles used for the Company’s audited financial statements. These non-IFRS financial measures are often accompanied by and reconciled with IFRS financial measures. For certain non-IFRS financial measures, there are no directly comparable amounts under IFRS. The Company believes that these non-IFRS financial measures provide additional information to better understand the Company’s financial results and assess its growth and earnings potential, and that they facilitate comparison of the quarterly and full-year results of the Company’s ongoing operations. Since non-IFRS financial measures do not have standardized definitions and meaning, they may differ from the non-IFRS financial measures used by other institutions and should not be viewed as an alternative to measures of financial performance determined in accordance with IFRS. The Company strongly encourages investors to review its financial statements and other publicly filed reports in their entirety and not to rely on any single financial measure.

Non-IFRS financial measures published by the Company include, but are not limited to: return on shareholders’ equity, book value per Sagicor Common Share, MCCR ratio, debt to capital ratio, dividend payout ratio, and debt to shareholder’s equity ratio.

Market and Other Industry Data

This MD&A includes and refers to information and statistics regarding the economy of and the insurance and financial industries in Barbados, Jamaica, Trinidad and Tobago, the United States and the Eastern Caribbean, and regarding Sagicor’s competitors. Sagicor obtained this information and these statistics from various third-party and official Government sources and other publicly available publications and industry research reports. Specifically, one of Sagicor’s sources for data and information related to Jamaica’s insurance market is the Bank of Jamaica (<http://www.boj.org.jm/>), and one of Sagicor’s sources for data and information related to Trinidad and Tobago’s insurance market is the Central Bank of Trinidad and Tobago (<http://www.central-bank.org.tt/>). Some data is also based on Sagicor’s good faith estimates, which are derived from management’s knowledge of the industry and independent sources. Industry publications, surveys and projections generally state that the information contained therein has been obtained from sources believed to be reliable. Sagicor has not independently verified any of the data from third-party sources nor has it ascertained the underlying economic assumptions relied upon therein. Statements as to Sagicor’s market position are based on market data currently available to it. Sagicor’s estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed under the headings “*Risk Factors*” and “*Caution Regarding Forward-Looking Statements*” in this prospectus. Projections and other forward-looking information obtained from independent sources are subject to the same qualifications and uncertainties as the other forward-looking statements in this prospectus.

About Sagicor

Sagicor is a 178-year old financial services company focused on insurance operations in the Caribbean region mainly in Barbados, Jamaica, Trinidad and Tobago, and the United States. Established in 1840 as The Barbados Mutual Life Assurance Society, Sagicor is one of the oldest providers of insurance in the Americas. Sagicor offers a wide range of products and services including life and health insurance, annuities, pension administration, property and casualty insurance, asset management, investment and merchant banking, securities brokerage, mutual funds and real estate development, and commercial banking. Sagicor’s business grew organically with little change in product lines until 1969, when Sagicor introduced two unit trusts (a bond fund and an equity fund), to manage corporate pension funds, and in the 1970s, when Sagicor introduced group life insurance and health insurance products. Sagicor expanded its business through acquisitions in the 1980s and 1990s, transforming from a domestic to a regional and international company and from having a single line product to multi-line products. Sagicor demutualised in November 2002 and listed its shares on the Barbados Stock Exchange (BSE:SFC), with subsequent

listings on the Trinidad and Tobago Stock Exchange (TTSE:SFC) and, via depositary interests, the London Stock Exchange (LSE:SFI). Sagicor discontinued from Barbados and continued to Bermuda as an exempted company on July 20, 2016.

Sagicor currently operates in 22 countries and maintains a strong market position in most of the markets where it operates. Their primary business is the provision of insurance (life, health and property and casualty) and financial services, including pension management, asset management and banking.

Sagicor operates its business primarily through three reporting operating segments. These segments are (i) Sagicor Life, which comprises Group subsidiaries conducting the life, health and annuity insurance business, and pension administration services in Barbados, Eastern Caribbean, Dutch Caribbean, Bahamas, Central America and Trinidad and Tobago; and mutual funds and asset management in Barbados; (ii) Sagicor Jamaica, which comprises Group subsidiaries conducting the life, health, annuity, property and casualty insurance business, and pension administration services and financial services in Jamaica and Cayman Islands and banking services in Jamaica; and (iii) Sagicor Life USA, which comprises Sagicor's life insurance operations in the United States. Sagicor's objective is to be a leading insurance and financial services provider of world class products and services to better serve its customers and other stakeholders in its markets. Sagicor is expanding its banking and asset management business in the Caribbean, where it has strong brand recognition and market shares.

Result of Operations

An understanding of Sagicor's financial condition and the results and related risks of Sagicor's operations for the periods discussed in this prospectus requires an understanding of Sagicor's business. Accordingly, the following discussion should be read in conjunction with the discussion of these and related matters that appear elsewhere in this prospectus, including under the following headings: (i) Risk Factors; (ii) The Business of Sagicor; and (iii) Accounting and Control Measures.

Arrangement Agreement

On November 27, 2018, Sagicor and Alignvest announced that they had entered into the Arrangement Agreement to effect the Transaction. Pursuant to the Arrangement Agreement, Alignvest will acquire all of the outstanding Sagicor Common Shares by means of a scheme of arrangement under Section 99 of the BCA. Immediately following the implementation of the Alignvest Arrangement and Sagicor Arrangement, Alignvest shall, subject to certain conditions, discontinue as a corporation under the laws of Ontario and continue as an exempted company under the laws of Bermuda. See "*Arrangement Agreement*" elsewhere in this prospectus.

Financial Summary

The summary consolidated financial data is derived from the Sagicor Audited Annual Financial Statements, attached as Appendix E to this prospectus, for each of the periods indicated on the following table.

(US\$ millions, unless otherwise noted)		Nine months ended September 30, 2018	2017	2016	2015
Profitability	Net income (loss)				
	Attributable to Common Shareholders				
	From Continuing Operations	28.5	62.1	60.3	56.3
	Earnings Per Sagicor Common Share (US\$)				
	Basic EPS (from Continuing Operations)	0.093	0.204	0.195	0.182
	Diluted EPS (from Continuing Operations)	0.091	0.199	0.187	0.173
	Return on Shareholders' Equity (%)⁽¹⁾	6.4 %	11.3 %	12.3 %	11.7 %
Growth	Revenue				
	Individual Life, Health and Annuity	674.6	678.9	635.3	636.1
	Group Life, Health and Annuity	210.2	307.0	276.9	273.4
	Property and Casualty Insurance	34.7	42.0	36.6	32.7
	Banking and Investment Management	127.1	162.5	157.5	150.1
	Farming and Unallocated Revenues	22.1	30.5	27.8	11.9
	Total Revenue	1,068.7	1,220.9	1,134.1	1,104.2

	Net Premium Revenue				
	Life Insurance	302.1	389.2	357.4	352.8
	Annuity	269.2	178.4	138.7	152.6
	Health Insurance	122.4	149.1	149.6	150.3
	Property and Casualty Insurance	26.3	28.9	18.3	18.2
	Total Net Premium Revenue	720.0	745.6	664.0	673.9
	Assets from Continuing Operations	6,808.1	6,804.5	6,531.9	6,399.9
	Total Assets	6,821.4	6,814.6	6,531.9	6,399.9
	Operating Liabilities	5,519.9	5,466.3	5,339.9	5,183.6
	Non-Current Financial Liabilities⁽⁶⁾	405.6	416.0	396.6	477.1
	Book Value per Sagicor Common Share (US\$)⁽²⁾	1.96	2.038	1.770	1.660
Financial Strength	MCCSR ratio⁽³⁾⁽⁷⁾	248 %	258 %	249 %	301 %
	Debt to Capital⁽⁴⁾	31.1 %	30.7 %	33.2 %	39.2 %
	Dividend				
	Dividend payout ratio ⁽⁵⁾	27.5 %	25.1 %	24.1 %	23.1 %
	Dividends per Common Share (US\$)	0.025	0.050	0.045	0.040
	Total capital	1,300.2	1,346.1	1,190.6	1,214.7

1. Represents a non-IFRS financial measure. To determine Return on Shareholders' Equity, reported net income (loss) is divided by the total average common shareholders' equity for the period. The quarterly ROE is annualized.
2. Represents a non-IFRS financial measure. To determine the book value per share, shareholders' equity is divided by the number of shares outstanding at the period end, net of treasury shares.
3. Represents a non-IFRS financial measure. The MCCSR is a risk-based capital measure, with 150% being the minimum standard that was recommended by Canadian regulators when it was in effect; companies were expected to establish and meet an internal target greater than 150%. Refer to note 46.2 of the 2017 Sagicor Audited Annual Financial Statements, for details.
4. Represents a non-IFRS financial measure. To determine the debt to capital ratio, loans and notes payable (refer to note 16 to the Sagicor Audited Annual Financial Statements) is divided by total capital, where capital is defined as the sum of notes and loans payable and total equity.
5. Represents a non-IFRS financial measure. Dividend payout ratio is the ratio of dividends paid per share to diluted EPS for the period.
6. Includes Notes and Loans Payable and derivative financial liabilities.
7. For 2016 and 2017, the methodology to compute the MCCSR was updated.

Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017

Sagicor results

Net income for the Nine months ended September 30th

The table below summarises Sagicor's net income for the nine months ended September 30, 2018 and 2017.

	Nine months ended September 30,	
	2018	2017
	(in millions of US\$)	
Net income		
Net Income from continuing operations	55.8	77.6
Net Income from discontinued operations	3.2	8.2
Total.....	<u>59.0</u>	<u>85.8</u>

Net income, which comprises net income from continuing operations and net income from discontinued operation, totaled US\$59.0 million for the nine months ended September 30, 2018, compared to US\$85.8 million, for the same period in 2017.

Net income from continuing operations decreased to US\$55.8 million for the nine month period ended September 30, 2018 compared to US\$77.6 million for the same period ended September 30, 2017; a decrease of US\$21.8 million or 28.1%.

On September 7, 2018 the GoB entered into a staff-level agreement with the IMF to provide financial and technical assistance. As part of the programme, the GoB launched a debt exchange offer for GoB domestic Barbados-dollar debt holders on September 7, 2018. The GoB announced on October 15, 2018 that its debt exchange offer received unanimous support from the domestic creditors. A restructuring plan has not yet been announced for external US

dollar denominated debt. The Sagicor Group holds approximately US\$337.0 million in GoB debt, of which US\$278.0 million is domestic Barbados-dollar debt. Sagicor has determined the net impact of the credit events on GoB debt to shareholders at approximately US\$43.0 million for the nine months ended September 30, 2018 (gross expected credit losses of US\$101 million less actuarial offset), of which all have been reserved for as reflected in the September 30, 2018 financial statements, and which was the main factor causing the decrease in our results. Sagicor does not expect that there will be any incremental impact on Sagicor as it relates to the external US dollar denominated debt.

Income from our discontinued operation was US\$5.0 million lower for the nine month period ended September 30, 2018, closing at US\$3.2 million compared to US\$8.2 million for the same period in 2017. This decline in net income earned (US\$5.0 million), when compared to the same period in 2017, was due to lower income earned from the movement in the price adjustment of US\$4.6 million coupled with marginal foreign exchange losses of US\$0.4million. See “*The Business of Sagicor— Asset and Liability Management and Investments – Barbados Debt Restructuring*” elsewhere in this prospectus.

Consolidated income from continuing operations

The table below summarises Sagicor’s consolidated income from continuing operations for the nine months ended September 30, 2018 and 2017.

	Nine months ended September 30,	
	2018	2017
Consolidated income from continuing operations	(in millions of US\$)	
Revenue	1,068.7	910.9
Benefits.....	(537.4)	(475.1)
Expenses	(443.0)	(329.1)
Income taxes	(32.5)	(29.1)
Net income.....	<u>55.8</u>	<u>77.6</u>

Sagicor’s net income from continuing operations totaled US\$55.8 million for the nine month period ended September 30, 2018, a 28.1% decrease from US\$77.6 million reported for the nine month period ended September 30, 2017. This decrease was primarily as a result of a 34.6% increase in expenses paid, which includes the gross expected credit losses associated mainly with the restructuring of the GoB Domestic Barbados-dollar debt of US\$96.0 million and a 13.1% increase in benefits paid, which was offset by a 17.3% increase in revenue of US\$157.8 million and an 11.7% increase in income taxes.

Revenue

The sources of Sagicor’s revenue are insurance premiums from customers, investment income, fees and other revenues. Sagicor markets a range of life and annuity products, most of which are long-term contracts for which a monthly premium is paid by the customer. For some long-term contracts, however, a single premium (usually a lump sum) is paid at the beginning of the contract. There are also annual renewable contracts which are marketed largely to employers to provide coverage to their employees on a group basis. In addition, Sagicor markets annual renewable health insurance contracts to employers and associations, which provide benefits against medical costs incurred by insured persons. Sagicor also markets property and casualty insurance contracts to individuals and commercial enterprises in the Caribbean region. Income is also generated from Sagicor’s investments. Finally, Sagicor recognises income from fees and other revenue, which are comprised of commission income and portfolio and other management advisory and service fees. The following table summarises the main items of Sagicor’s revenue for the period ended September 30, 2018 and 2017:

Revenue	Nine months ended September 30,	
	2018	2017
	(in millions of US\$)	
Net insurance premiums:		
Life and annuity.....	571.3	425.0
Health	122.4	111.8
Property and casualty.....	26.3	22.0
	720.0	558.8
Net investment income ¹	259.4	281.5
Fees and other revenues.....	89.3	70.6
Gain arising on disposal	-	-
Total.....	1,068.7	910.9

(1) This includes US\$1.5 million and US\$8.5 million of the company's share of operating income from associated companies, for the nine month periods ended September 30, 2018 and September 30, 2017, respectively.

The following table summarises Sagicor's revenues by operating segment for the nine months ended September 30, 2018:

Nine months ended September 30, 2018	Sagicor Life	Sagicor Jamaica	Sagicor Life USA	Head office and other	Adjustments	Total
			(in millions of US\$)			
Net premium revenue	230.8	224.4	238.5	26.3	-	720.0
Interest income	59.4	119.8	41.2	5.8	-	226.2
Other investment income	3.6	22.5	7.0	0.7	(0.6)	33.2
Fees and other revenues.....	12.8	71.0	(8.5)	13.9	0.1	89.3
Gain arising on disposal	0.5	-	-	(0.5)	-	-
Inter-segment revenues.....	11.3	-	-	39.1	(50.4)	-
Total revenue	318.4	437.7	278.2	85.3	(50.9)	1,068.7

The following table summarises Sagicor's revenues by operating segment for the nine months ended September 30, 2017:

Nine months ended September 30, 2017	Sagicor Life	Sagicor Jamaica	Sagicor Life USA	Head office and other	Adjustments	Total
			(in millions of US\$)			
Net premium revenue	223.3	247.9	64.4	23.2	-	558.8
Interest income	58.8	119.0	36.6	6.7	-	221.1
Other investment income	6.2	37.0	17.0	0.4	(0.2)	60.4
Fees and other revenues	8.3	48.6	(1.4)	15.2	(0.1)	70.6
Gain arising on acquisition	-	-	-	-	-	-
Inter-segment revenues	9.6	-	-	48.2	(57.8)	-
Total revenue	<u>306.2</u>	<u>452.5</u>	<u>116.6</u>	<u>93.7</u>	<u>(58.1)</u>	<u>910.9</u>

Revenues from continuing operations reached US\$1,068.7 million as of September 30 2018, an increase of US\$157.8 million compared to US\$910.9 million as of September 30, 2017, for the reasons detailed below.

Net premium revenue from life insurance and annuity was US\$571.3 million as of September 30, 2018, a 34.4% increase from US\$425.0 million as of September 30, 2017. The increase in revenue was mainly due to growth in premiums in the USA segment.

Net premium revenue from health insurance totalled US\$122.4 million for the nine months ended September 30, 2018, an increase from the US\$111.8 reported for the nine months ended September 30, 2017. Net premium revenue from property and casualty insurance totalled US\$26.3 million for the nine months ended September 30, 2018, a 19.5% increase from US\$22.0 million recorded for the same period in 2017. Sagicor increased its retention of this business in the nine months ended September 30, 2018 when compared to the same period in the prior year.

Overall, Sagicor generated net insurance premiums that totalled US\$720.0 million for the nine month period ended September 30, 2018, a 28.8% increase from US\$558.8 million for the nine month period ended September 30, 2017.

Net investment income was US\$259.4 million for the nine months ended September 30, 2018 compared to US\$281.5 million for the same period in 2017, a decline of US\$22.1 million, primarily due to lower investment gains in our international investment portfolios.

Income from fees and other revenues totaled US\$89.3 million as of September 30, 2018, compared to US\$70.6 million, for the same period in 2017, an increase of US\$18.7 million largely due to increased other fees and commission and foreign exchange gains generated in the Jamaica segment.

Benefits

Insurance benefits comprise amounts payable to policyholders and beneficiaries, in accordance with the contract terms of insurance policies issued or assumed by us. Interest is payable to investment contract-holders or financial institutions which have placed funds with us and is treated as interest expense. Benefits from continuing operations totalled US\$537.4 million for the nine month period ended September 30, 2018, a 13.1% increase from US\$475.1 million for the nine months ended September 30, 2017. This increase was primarily driven by the growth in new business and changes in the interest rate environment.

The table below summarises Sagicor's expenses incurred in providing policy benefits and change in Sagicor's actuarial liabilities for the nine months ended September 30, 2018 and 2017.

	Nine months ended September 30,	
	2018	2017
Benefits and change in actuarial liabilities	(in millions of US\$)	
Net insurance benefits:		
Life and annuity.....	290.5	258.5
Health	94.2	85.4
Property and casualty.....	13.1	20.3
Changes in actuarial liabilities.....	102.1	69.1
	<u>499.9</u>	<u>433.3</u>
Interest expense	37.5	41.8
Total.....	<u>537.4</u>	<u>475.1</u>

Life insurance and annuity benefits are recognised on the notification of death, disability or critical illness of an insured person; on the maturity or surrender of a policy; on the declaration of a policy bonus or dividend; or on annuity payment date. Future life insurance and annuity benefits are recognised in the financial statements on in-force long-term insurance contracts based on reserving methodologies adopted by Sagicor in accordance with established Canadian accepted actuarial standards.

Life and annuity benefits totaled US\$392.1 million for the nine months ended in September 30, 2018, of which US\$290.5 million related to current benefits and US\$101.6 million related to future benefits. Life and annuity benefits for the same period in 2017 were a total of US\$328.3 million, of which US\$258.5 million related to current benefits and US\$69.8 million related to future benefits. The change in current benefits for the nine months ended September 30, 2018 compared to the same period in 2017 represented a 12.4% increase; changes in actuarial liabilities increased by US\$31.8 million largely due to new business growth from annuities from Sagicor Life USA over the same period.

Health and property and casualty insurance benefits are recognised either on the notification or settlement (for short notification periods) of a claim from policyholders and beneficiaries, in accordance with the contract terms of insurance policies issued or assumed by us. In addition, based on the methodologies adopted by Sagicor in accordance with established Canadian accepted actuarial standards, IBNR benefits are recognised in accordance with established or expected trends for claims incurred. The amount of future benefits recorded in the statement of income is a function of the policy contracts in-force and of the appropriate actuarial assumptions which are made to value them.

Total health insurance benefits were US\$94.2 million for the nine months ended September 30, 2018 representing an overall claims to premium ratio of 77.7%, compared to total health insurance benefits of US\$85.4 million and an overall claims to premium ratio of 77.1%, for the same period in 2017.

Property and casualty claims amounted to US\$13.1 million for the nine months ended September 30, 2018, lower than the US\$20.3 million reported for the same period in 2017

Interest expense totalled US\$37.5 million in for the nine month period ended September 30, 2018, a 10.3% decrease from US\$41.8 million for the same period in 2017. This decrease was primarily due to changes in the interest environment.

Expenses and taxes

The table below summarises Sagicor's expenses and taxes from continuing operations for the nine months ended September 30, 2018 and 2017

	Nine months ended September 30,	
	2018	2017
	(in millions of US\$)	
Expenses and taxes		
Administrative expenses.....	212.6	204.0
Commissions and related compensation.....	79.4	72.9
Finance costs, depreciation and amortization.....	43.3	41.7
Credit impairment losses	96.0	-
Premium, asset taxes and income taxes.....	44.2	39.5
Total.....	<u>475.5</u>	<u>358.1</u>

Expenses and taxes totalled US\$475.5 million for nine months ended September 30, 2018, an increase of 32.8% or US\$117.4 million compared to US\$358.1 million for the same period in 2017. This increase was mainly due to the inclusion of a provision for losses on all assets of US\$96.0 million from the adoption of IFRS 9 and was largely driven by the performance of the Government of Barbados securities, representing US\$91.8 million.

Sagicor is subject to a variety of direct taxes, with premium and income taxes comprising the main types of tax. Taxes are incurred in the jurisdiction in which the income is generated. Premium tax is customarily a percentage of gross premium revenue, while income tax is usually either a percentage of investment income or a percentage of profits.

Premium, assets and income taxes were US\$44.2 million for the nine months ended September 30, 2018, compared to US\$39.5 million reported for the same period in 2017, an increase of US\$4.7 million.

Discontinued operation

Sagicor's discontinued operation comprised the Sagicor at Lloyd's business, which consisted primarily of property and casualty insurance business written through Lloyd's of London Syndicate 1206. The Lloyd's of London franchise enabled the syndicate to write international business outside of the United Kingdom.

In December 2012, Sagicor made the decision to dispose of the Sagicor Europe Limited ("SEL") segment, which owns the Sagicor at Lloyd's operations. The disposal of this segment occurred on December 23, 2013. In accordance with IFRS, the results of SEL have been separated from Sagicor's continuing operations and presented as a discontinued operation.

The terms of the sale included:

- (i) The purchase by us for US\$1.2 million (prior to the sale) of the legal 7.0% shareholding interest held by the minority shareholders;
- (ii) Initial consideration of US\$91.9 million paid to us on the sale;
- (iii) The cancellation of the banker's letters of credit which formed part of the financing of SEL and the return to us of the associated collateral of US\$50.1 million; and
- (iv) Future price adjustment to the sale consideration, representing adjusted profits or losses from January 1, 2013 in the run-off of the 2011, 2012 and 2013 underwriting years of account of syndicate 1206 and 44. The total price adjustments are subject to a limit based on the terms of the agreement. As a result of movements in the price adjustments, amounts due to Sagicor closed at US\$13.3 million at September 30, 2018, compared to US\$8.2 million at September 30, 2017. The

price adjustments include underwriting, investment and foreign exchange results and are subject to a reasonable risk premium adjustment by the buyer.

Sagicor's discontinued operation comprised the Sagicor at Lloyd's business, which consisted primarily of property and casualty insurance business written through Lloyd's of London Syndicate 1206. The Lloyd's of London franchise enabled the syndicate to write international business outside of the United Kingdom.

The table below summarises Sagicor's discontinued operation for the nine months ended September 30, 2018 and 2017.

Discontinued operation	Nine months ended September 30,	
	2018	2017
	(in millions of US\$)	
Income		
Currency translation (loss)/gain.....	(0.4)	-
Expenses of sale and other items	-	-
Movement in price adjustment	3.6	8.2
Net income.....	<u>3.2</u>	<u>8.2</u>
Financial position		
Assets.....	<u>13.3</u>	<u>8.2</u>
Liabilities	<u>-</u>	<u>-</u>
Net assets receivable from buyer	<u>13.3</u>	<u>8.2</u>

The discontinued operation net income totalled US\$3.2 million for the nine months ended September 30 2018, a 61.0% decrease from US\$8.2 million, for the same period in 2017. This decline in net income of US\$5.0 million when compared to the same period in 2017, was due to a decrease of US\$4.6 million in income earned from the movement in the price adjustment coupled with the marginal foreign exchange losses incurred during the period under review of US\$0.4 million.

Shareholder returns

Sagicor's net income and comprehensive income are allocated to the equity owners of Sagicor's respective Group companies in accordance with their results. As some Group companies have minority shareholders, particularly in the Sagicor Jamaica operating segment, the net income is allocated accordingly between holders of Sagicor Common Shares and the minority interest shareholders. There is also an allocation to Sagicor Life Inc.'s policyholders who hold participating policies, an arrangement which was established at the demutualization of Barbados Mutual Life Assurance Society (now Sagicor Life).

For the nine months ended September 30, 2018, US\$28.5 million of net income from continuing operations was allocated to the holders of common shares of the Company, which corresponded to earnings per share for continuing operations of US 9.3 cents. The comparative amounts for the first nine months of the 2017 fiscal year were US\$46.5 million of net income from continuing operations allocated to the holders of common shares, which corresponded to earnings per share for continuing operations of US 15.3 cents, (fully diluted). The respective returns on average shareholders' equity (annualized) were 6.4% for September 30, 2018 and 11.4% for September 30, 2017.

The table below summarises Sagicor's common shareholder returns from continuing operations for the nine months ended September 30, 2018 and 2017.

	Nine months ended September 30,	
	2018	2017
Common shareholder returns ⁽¹⁾		
Net income – millions of US\$	28.5	46.5
Basic earnings per share – US\$	0.093	0.153
Diluted earnings per share – US\$	0.091	0.150
Return on equity – % ⁽²⁾	6.4	11.4

(1) From continuing operations except for dividends.

(2) Calculated as net income attributable to common shareholders divided by average shareholders' equity.

Comprehensive income

The table below summarises Sagicor's total comprehensive (loss) / income for the nine months ended September 30, 2018 and 2017.

	Nine months ended September 30,	
	2018	2017
	(in millions of US\$)	
Total comprehensive income / (loss)		
Net Income	59.0	85.8
Other comprehensive (loss)/income	(65.6)	22.5
Total comprehensive (loss)/ income for the period	(6.6)	108.3

Gains and losses recorded within other comprehensive income arise from fair value changes of certain classes of assets and from the retranslation of foreign currency operations.

Total comprehensive loss for the nine months ended September 30, 2018, was US\$6.6 million compared to total comprehensive income of US\$108.3 million for the nine months ended September 30, 2017, a decline of US\$114.9 million. This result was primarily due to marked to market declines on debt instruments in our international portfolio coupled with a reduction in net income to US\$59.0 million for the nine months ended September 30, 2018 from US\$85.8 million for the nine months ended September 30, 2017.

Other comprehensive losses from continuing operations totalled US\$65.6 million for the first nine months of 2018, a substantial decrease from the other comprehensive income of US\$22.5 million reported for the same period in 2017. The principal source of the decrease was marked to market declines in our international bond portfolio (US\$57.6 million), for the nine month period ended September 30, 2018, compared to increases of US\$42.7 million for the same period in 2017. The Company also reported losses of US\$34.9 million for the nine months ended September 30, 2018, as compared to US\$5.2 million for the same period in 2017, primarily representing the impact of the devaluation of the Jamaican dollar relative to the US dollar. Net change in actuarial liabilities reduced the impact of these movements with a positive movement of US\$27.3 million for the nine months ended September 30, 2018, compared to negative movement of US\$17.2 million for the same period in 2017.

Sagicor's revaluation of owner-occupied property totalled a net gain of US\$0.8 million in for the nine months ended September 30, 2018; no revaluation changes were reported for the same period in 2017.

Net income and other comprehensive income together result in total comprehensive income. Summarising Sagicor's results, total comprehensive losses were US\$6.6 million for the nine months ended September 30, 2018 compared to income of US\$108.3 million for the nine months ended September 30, 2017.

The table below summarises Sagicor's consolidated Statement of Financial position as at September 30, 2018 and 2017, respectively.

	<u>September 30, 2018</u>	<u>September 30, 2017</u>
	(in millions of US\$)	
ASSETS		
Financial investments	5,077.1	5,005.2
Other assets.....	1,731.0	1,766.5
Assets of discontinued operations	13.3	8.2
Total assets	<u>6,821.4</u>	<u>6,779.9</u>
LIABILITIES		
Policy liabilities.....	3,590.9	3,474.6
Other liabilities	2,334.6	2,416.7
Total liabilities.....	<u>5,925.5</u>	<u>5,891.3</u>
EQUITY		
Shareholders' equity.....	598.1	601.0
Participating accounts.....	(10.5)	0.6
Non-controlling interest.....	308.3	287.0
	<u>895.9</u>	<u>888.6</u>
Total liabilities and equity	<u>6,821.4</u>	<u>6,779.9</u>

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Sagicor results

Net income for the year

The table below summarises Sagicor's net income for the years ended December 31, 2017 and 2016.

	<u>Year ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
	(in millions of US\$)	
Net income		
Net income from continuing operations	105.2	107.9
Net income from discontinued operations	10.1	1.4
Total.....	<u>115.3</u>	<u>109.3</u>

Net income totalled US\$115.3 million in 2017, an increase from US\$109.3 million in 2016. This increase, as explained in more detail below, was primarily driven by a substantial increase in net income from discontinued operations of US\$10.1 million in 2017 compared with a net income of US\$1.4 million in 2016 and was offset by a 2.5% decrease in net income from continuing operations to US\$105.2 million in 2017 from US\$107.9 million in 2016.

Consolidated income from continuing operations

The table below summarises Sagicor's consolidated income from continuing operations for the years ended December 31, 2017 and 2016.

	Year ended December 31,	
	2017	2016
Consolidated income from continuing operations	(in millions of US\$)	
Revenue	1,220.9	1,134.1
Benefits.....	(660.8)	(560.4)
Expenses.....	(436.4)	(424.2)
Income taxes.....	(18.5)	(41.6)
Net income.....	<u>105.2</u>	<u>107.9</u>

Sagicor's net income from continuing operations totalled US\$105.2 million in 2017, a 2.5% decrease from US\$107.9 million in 2016. This decrease was primarily a result of a 17.9% increase in benefits paid and a slight increase in expenses of 2.9%, which was offset slightly by a 7.6% increase in revenue and a 55.5% decrease in income taxes.

Revenue

The following table summarises the main items of Sagicor's revenue for the periods ended December 31, 2017 and 2016:

	Year ended December 31,	
	2017	2016
Revenue	(in millions of US\$)	
Net insurance premiums:		
Life and annuity.....	567.6	496.2
Health	149.1	149.6
Property and casualty.....	28.9	18.2
	<u>745.6</u>	<u>664.0</u>
Net investment income ⁽¹⁾	379.2	353.3
Fees and other revenues.....	93.7	116.8
Gain arising on disposal	2.4	-
Total.....	<u>1,220.9</u>	<u>1,134.1</u>

(1) This includes US\$9.8 million and US\$5.4 million of operating income from associated companies in 2017 and 2016, respectively.

The following table summarises Sagicor's revenues by operating segment for the year ended December 31, 2017:

Year ended December 31, 2017	Sagicor Life	Sagicor Jamaica	Sagicor Life USA	Head office and other	Adjustments	Total
			(in millions of US\$)			
Net premium revenue	308.6	320.1	86.7	30.2	-	745.6
Interest income	77.5	159.4	48.8	9.0	-	294.7
Other investment income	10.3	47.4	26.2	0.7	(0.1)	84.5
Fees and other revenues	11.9	62.5	(2.5)	21.8	-	93.7
Gain arising on acquisition	-	2.4	-	-	-	2.4
Inter-segment revenues	12.9	-	-	71.2	(84.1)	-
Total revenue	421.2	591.8	159.2	132.9	(84.2)	1,220.9

The following table summarises Sagicor's revenues by operating segment for the year ended December 31, 2016:

Year ended December 31, 2016	Sagicor Life	Sagicor Jamaica	Sagicor Life USA	Head office and other	Adjustments	Total
			(in millions of US\$)			
Net premium revenue	299.6	268.5	74.4	21.5	-	664.0
Interest income	77.4	157.8	48.0	9.7	-	292.9
Other investment income	3.1	42.7	10.4	2.9	1.3	60.4
Fees and other revenues	19.1	55.0	16.1	26.7	(0.1)	116.8
Gain arising on acquisition	-	-	-	-	-	-
Inter-segment revenues	11.9	-	-	60.1	(72.0)	-
Total revenue	411.1	524.0	148.9	120.9	(70.8)	1,134.1

Revenues from continuing operations reached US\$1,220.9 million in 2017, an increase of US\$86.8 million from US\$1,134.1 million in 2016, for the reasons detailed below.

Net premium revenue from life insurance and annuity was US\$567.6 million in 2017, a 14.3% increase from US\$496.2 million in 2016.

Sagicor generated net insurance premiums that totalled US\$745.6 million in 2017, a 12.3% increase from US\$664.0 million in 2016. Life and annuity represented 76.1% of net premium revenue in 2017 and 74.7% in 2016. While premium income increased in all business segments, the issuance of a large single premium annuity relating to the Jamaica segment was the main contributing factor. Net premium revenue from health insurance totalled US\$149.1 million in 2017, a slight decrease from US\$149.6 million in 2016. Net premium revenue from property and casualty insurance totalled US\$28.9 million in 2017, a 58.7% increase from US\$18.2 million in 2016. Sagicor increased its retention of this business in 2017 when compared to the prior year.

Net investment income was US\$379.2 million in 2017 compared to US\$353.3 million in 2016, an improvement of US\$25.9 primarily due to higher investment gains in our international investment portfolios.

The interest yields achieved on financial investments were as follows:

	Year ended December 31,	
	2017	2016
Interest yields		
Debt securities	6.1%	6.2%
Mortgage loans	5.7%	6.1%
Policy loans	7.2%	6.9%
Finance loans and finance leases	11.6%	12.6%
Securities purchased for resale	5.1%	9.2%
Deposits	2.3%	1.0%

Income from fees and other revenues totalled US\$93.7 million compared to US\$116.8 million in the prior year, a decrease of US\$23.1 million. This reduction was primarily as a result of a reduction in commissions income on insurance and reinsurance contracts in our USA segment. Foreign exchange gains/(losses) also showed a loss of US\$4.1 million, compared to gains of US\$12.6 million in the prior year, a decrease of US\$16.7 million. Exchange movements were affected by a strengthening of the Jamaica dollar when compared to the United States dollar in 2017, resulting in foreign exchange declines in financial assets denominated in United States dollars in our Jamaica segment. In addition, the prior year included exchange gains relating to declines in the Trinidad and Tobago dollar when compared to the United States dollar, but there was no significant foreign exchange movement relative to this currency in 2017.

Benefits

Benefits from continuing operations totalled US\$660.7 million in 2017, a 17.8% increase from US\$560.4 million in 2016. This increase was primarily a result of the increases in life and annuity benefits, a change in actuarial liabilities and property and casualty benefits. This was partially offset by a decrease in health benefits.

The table below summarises Sagicor's expenses incurred in providing policy benefits and change in Sagicor's actuarial liabilities for the years ended December 31, 2017 and 2016.

	Year ended December 31,	
	2017	2016
Benefits and change in actuarial liabilities		
(in millions of US\$)		
Net insurance benefits:		
Life and annuity	465.5	375.8
Health	113.6	115.5
Property and casualty	26.7	7.7
	<u>605.8</u>	<u>499.0</u>
Interest expense	54.9	61.4
Total	<u><u>660.7</u></u>	<u><u>560.4</u></u>

Life and annuity benefits totalled US\$465.5 million in 2017, of which US\$343.2 million related to current benefits and US\$122.3 million related to future benefits. The corresponding amounts for 2016 were a total of US\$375.8 million, of which US\$330.5 million related to current benefits and US\$45.3 million related to future benefits. The change to current benefits from 2016 to 2017 represented a 3.9% increase. This increase in benefits occurred mainly as a result of strong growth in new business when compared to 2016.

Total health insurance benefits were US\$113.6 million representing an overall claims to premium ratio of 76.6%. The comparative 2016 amounts were US\$115.5 million and an overall claims to premium ratio of 77.6%.

Property and casualty claims amounted to US\$26.7 million in 2017, an increase of US\$19.0 million from US\$7.7 million in 2016. The Company decided to increase its retention of this business in 2017. Property and casualty claims also included US\$8.5 million relating to claims exposure from hurricane activity during the year.

Interest expense totalled US\$54.9 million in 2017, a 10.5% decrease from US\$61.4 million in 2016. This decrease was primarily due to a decrease in the interest expense related to securities sold for repurchase, which decreased from US\$18.5 million in 2016 to US\$14.2 million in 2017, a 23.2% change.

The interest returns that Sagicor has provided to investment contract-holders and financial institutions which have advanced funds are summarised in the following table:

	Year ended December 31,	
	2017	2016
Interest yields		
Investment contracts	5.6%	6.1%
Other funding instruments	2.1%	1.9%
Customer deposits.....	2.0%	2.1%
Securities sold for repurchase	3.6%	4.5%

Expenses and taxes

The table below summarises Sagicor's expenses and taxes from continuing operations for the years ended December 31, 2017 and 2016.

	Year ended December 31,	
	2017	2016
(in millions of US\$)		
Expenses and taxes		
Administrative expenses.....	267.4	255.3
Commissions and related compensation.....	98.7	98.6
Finance costs, depreciation and amortization	56.6	59.6
Premium, asset and income taxes	32.2	52.4
Total.....	<u>454.9</u>	<u>465.9</u>

Expenses and taxes totalled US\$454.9 million for 2017, down from US\$465.9 million for 2016. Expenses of administration represent the largest expense category and totalled US\$267.4 million in 2017 compared to US\$255.3 million in 2016, an increase of US\$12.1 million. The Jamaica segment incurred some non-recurring costs, together with higher administration costs relating to the expansion of its cards and payments business.

Sagicor is subject to a variety of direct taxes, with premium and income taxes comprising the main types of tax. Taxes are incurred in the jurisdiction in which the income is generated. Premium tax is customarily a percentage of gross premium revenue, while income tax is usually either a percentage of investment income or a percentage of profits. Sagicor is also subject to an asset tax in Jamaica and Barbados. In Jamaica, the asset tax is levied on insurance, securities dealers and deposit taking institutions at a percentage of adjusted assets held at the end of the year. In Barbados, the asset tax is levied on insurance, deposit taking institutions and credit unions at a percentage of adjusted assets held at the end of the period.

Premium, asset and income taxes were US\$32.2 million compared to US\$52.4 million in the prior year, a reduction of US\$20.2 million. Of the total taxes, income taxes were US\$18.5 million, compared to US\$41.7 million in the prior year, a reduction of US\$23.2 million. This was principally related to our USA segment. During 2017 the Tax Cuts and Jobs Act was signed into law in the United States, which reduced the effective corporation tax rate from 35% to 21%. This contributed to a decrease of US\$19.9 million in income taxes.

Discontinued operation

The table below summarises Sagicor's discontinued operation (SEL) for the years ended December 31, 2017 and 2016. Refer to the discontinued operations analysis at September 30, 2018 which provides details on the disposal agreement.

Discontinued operation

	Year ended December 31,	
	2017	2016
	(in millions of US\$)	
Income		
Currency translation gain realised on sale	-	1.8
Expenses of sale and other items	-	(0.9)
Movement in price adjustment	10.1	0.5
Net income.....	10.1	1.4
	2017	2016
	(in millions of US\$)	
Assets.....	10.1	-
Liabilities.....	-	-
Net assets.....	10.1	-

The discontinued operation net income totalled US\$10.1 million in 2017, a 621.4% increase from US\$1.4 million in 2016. This income was based on a receivable of US\$10.1 million due to Sagicor.

Shareholder returns

Sagicor's net income and comprehensive income are allocated to the equity owners of Sagicor's respective Group companies in accordance with their results. As some Group companies have minority shareholders, particularly in the Sagicor Jamaica operating segment, the net income is allocated accordingly between holders of Sagicor Common Shares and the minority interest shareholders. There is also an allocation to Sagicor Life Inc.'s policyholders who hold participating policies, an arrangement which was established at the demutualization of Barbados Mutual Life Assurance Society (now Sagicor Life).

For the 2017 financial year, US\$62.1 million of net income from continuing operations was allocated to the holders of Sagicor Common Shares, which corresponded to earnings per share for continuing operations of US\$0.204. The comparative amounts for the 2016 fiscal year were US\$60.3 million of net income from continuing operations allocated to the holders of common shares, which corresponded to earnings per share for continuing operations of US\$0.195. The respective annual returns on average shareholders' equity were 11.3% for 2017 and 12.3% for 2016.

The dividends declared and paid in respect of Sagicor Common Shares in respect of 2017 totalled US\$15.2 million and represented US\$0.05 per common share. Dividends of US\$0.045 per share were declared in 2016.

The table below summarises Sagicor's common shareholder returns from continuing operations for the years ended December 31, 2017 and 2016.

	Year ended December 31,	
	2017	2016
Common shareholder returns ⁽¹⁾		
Net income – millions of US\$	62.1	60.3
Dividends – millions of US\$	(15.2)	(13.6)
Earnings per share – US\$	0.204	0.195
Diluted earnings per share – US\$	0.199	0.187
Dividends per share – US\$	0.050	0.045
Return on equity – % ⁽²⁾	11.3	12.3

(1) From continuing operations except for dividends.

(2) Calculated as net income attributable to common shareholders divided by average shareholders' equity.

Comprehensive income

The table below summarises Sagicor's total comprehensive income / (loss) for the years ended December 31, 2017 and 2016.

	Year ended December 31,	
	2017	2016
	(in millions of US\$)	
Total comprehensive income / (loss)		
Net Income for the year	115.3	109.3
Other comprehensive income/(loss)	64.0	(12.6)
Total comprehensive income for the year.....	<u>179.3</u>	<u>96.7</u>

Gains and losses recorded within other comprehensive income arise from fair value changes of certain classes of assets and from the retranslation of foreign currency operations.

Total comprehensive income for 2017 totalled US\$179.3 million, a significant increase from US\$96.7 million loss in 2016. This improvement was primarily due to a gain of US\$64.0 million in 2017, a substantial increase in other comprehensive income from a loss of US\$12.6 million in 2016, and an increase in net income to US\$115.3 million in 2017 from US\$109.3 million in 2016. The improvement in net income is discussed in “– *Sagicor Results – Net Income for the Year.*”

Other comprehensive income from continuing operations totalled US\$64.0 million in 2017, a substantial increase from US\$12.6 million loss in 2016. The principal sources of the increase were an improvement in net gains on financial assets of US\$18.7 million, resulting from marked-to-market gains on financial assets in our international portfolios, a positive movement of US\$38.2 million on retranslation of foreign currency operations, resulting from a gain in the Jamaica dollar when compared to the United States dollar and a positive change in gains/(losses) on defined benefit plans for employees of US\$37.8 million.

Sagicor's revaluation of owner-occupied property totalled a net loss of US\$1.8 million in 2017, compared to a net gain of US\$5.1 million in 2016.

Net income and other comprehensive income together result in total comprehensive income. Summarising Sagicor's results from continuing operations, total comprehensive income was US\$179.3 million for 2017 compared to US\$96.7 million for 2016.

Operating segments

Sagicor's principal reporting operating segments, as defined by IFRS, are Sagicor Life, Sagicor Jamaica, Sagicor Life USA, The performance of these segments in 2017 is discussed below.

Sagicor Life segment

The Sagicor Life segment consists of Sagicor's life insurance subsidiaries, which conduct business in Barbados, Trinidad and Tobago, the Eastern and Dutch Caribbean islands, Belize, Bahamas and Panama. The main activities of this segment are the provision of life insurance, annuities, health insurance, pension investment and pension administration services.

The net segment income for the Sagicor Life segment totalled US\$63.7 million in 2017, a 1.9% decrease from US\$64.9 million in 2016. This decrease is mainly a result of the factors discussed below. After accounting for the income allocated to policyholders, the net income attributable to shareholders for the Sagicor Life segment totalled US\$64.8 million in 2017, substantially the same as the US\$64.8 million in 2016.

The table below summarises the results of the Sagicor Life segment for the years ended December 31, 2017 and 2016.

Sagicor Life	Year ended December 31,	
	2017	2016
	(in millions of US\$)	
Net premium revenue	308.6	299.6
Interest income	77.5	77.4
Other investment income	10.4	3.1
Fees and other revenues.....	11.8	19.1
Gains arising on acquisitions	-	-
Inter-segment revenues.....	12.9	11.9
Total revenue	421.2	411.1
Benefits and change in actuarial liabilities	(221.8)	(212.7)
Expenses and taxes	(113.8)	(113.1)
Depreciation and amortization.....	(6.4)	(6.5)
Inter-segment expenses.....	(5.6)	(5.7)
Segment income before taxes	73.6	73.1
Income taxes	(9.9)	(8.2)
Net segment income	63.7	64.9
Net segment income attributable to shareholders	64.8	64.8
	2017	2016
	(in millions of US\$)	
Financial investments	1,386.2	1,403.9
Other assets.....	566.6	524.4
Total assets	1,952.8	1,928.3
Policy liabilities.....	1,296.5	1,272.5
Other liabilities	116.9	126.3
Total liabilities.....	1,413.4	1,398.8
Net assets	539.4	529.5

The Sagicor Life segment generated revenue that totalled US\$421.2 million in 2017, a 2.5% increase from US\$411.1 million in 2016. This increase was primarily due to gains in the individual life portfolio and other investment income. There was a 3.0% increase in net premium revenue to US\$308.6 million in 2017 from US\$299.6 million in 2016, due to a combination of rate increase and growth in the number of policies. Fees and other revenue totalled US\$11.8 million in 2017, a 38.2% decrease from US\$19.1 million in 2016. This decrease was augmented by a significant increase in other investment income to US\$10.4 million in 2017 from US\$3.1 million in 2016.

The benefits and change in actuarial liabilities for the Sagicor Life segment totalled US\$221.8 million in 2017, an increase of US\$9.1 million or 4.3% from US\$212.7 million in 2016.

Total expenses and taxes for the Sagicor Life segment totalled US\$113.8 million in 2017, a 0.6% decrease from US\$113.1 million in 2016. There was a 3.2% increase in commissions and premium taxes to US\$45.6 million in 2017 from US\$44.2 million in 2016, which was partially offset by a 1.3% decrease in administrative expenses to US\$68.1 million in 2017 from US\$69.0 million in 2016.

The Sagicor Life segment had net assets of US\$539.4 million in 2017 compared to US\$529.5 million in 2016, an increase of 1.9%, which was largely a result of an increase in total assets representing organic growth in investment assets. Financial investments totalled US\$1,386.2 million and comprised 71.0% of the segment's total assets, and policy liabilities totalled US\$1,296.5 million and comprised 91.7% of the segment's total liabilities at the end of 2017.

Financial investments totalled US\$1,403.9 million and comprised 72.8% of the segment's total assets, and policy liabilities totalled US\$1,272.5 million and comprised 91.0% of the segment's total liabilities at the end of 2016.

Sagicor Jamaica segment

This segment comprises Sagicor's subsidiaries in Jamaica, Cayman Islands and Costa Rica. The principal activities of the segment are the provision of life, critical illness and health insurance, annuities, pension administration, investment management, securities dealing and commercial banking.

The net segment income for the Sagicor Jamaica segment totalled US\$94.1 million in 2017, a 4.4% increase from US\$90.1 million in 2016. This increase was mainly a result of significant increase in net premium revenue which was US\$320.1 million in net premium revenue in 2017 compared to US\$268.5 million in 2016. The net income attributable to shareholders for the Sagicor Jamaica segment totalled US\$46.2 million in 2017, an increase of 4.3% from US\$44.3 million in 2016.

The table below summarises the results of the Sagicor Jamaica segment for the years ended December 31, 2017 and 2016.

Sagicor Jamaica

	Year ended December 31,	
	2017	2016
	(in millions of US\$)	
Net premium revenue	320.1	268.5
Interest income	159.4	157.8
Other investment income	47.4	42.7
Fees and other revenue	62.5	55.0
Gain arising on acquisition	2.4	-
Inter-segment revenues	-	-
Total revenue	591.8	524.0
Benefits and change in actuarial liabilities	(291.9)	(248.7)
Expenses and taxes	(171.9)	(152.1)
Depreciation and amortization	(9.2)	(8.0)
Inter-segment expenses	(1.9)	(1.4)
Segment income before taxes	116.9	113.8
Income taxes	(22.8)	(23.7)
Net segment income	94.1	90.1
Net segment income attributable to shareholders ⁽¹⁾	46.2	44.3
Financial investments	2,291.2	2,212.2
Other assets	545.0	461.6
Total assets	2,836.2	2,673.8
Policy liabilities	766.6	675.0
Other liabilities	1,509.5	1,548.4
Total liabilities	2,276.1	2,223.4
Net assets	560.1	450.4

(1) Sagicor only owned 49.1% of Sagicor Jamaica in 2016 and 2017.

This segment generated revenue of US\$591.8 million in 2017, an increase of US\$67.8 million over the 2016 total. The main revenue component was premium income which totalled US\$320.1 million compared to US\$268.5 million in 2016, an increase of US\$51.6 million. The Jamaica segment benefited from the issuance of a significant single premium annuity during 2017.

Investment income totalled US\$206.8 million compared to US\$200.5 million in the prior year and benefited from significant investment gains.

Benefits totalled US\$291.9 million and was higher than the prior year amount of US\$248.7million, an increase of US\$43.2 million. This is consistent with the growth in premium revenue and represents partially the impact of the provision for future benefits on the single premium annuity.

Expenses and taxes incurred totalled US\$171.9 million in 2017 compared to US\$152.1 million in 2016, an increase of US\$15.8 million over the prior year. The Jamaica segment incurred some non-recurring costs, together with higher administration costs relating to the expansion of cards and payments business.

The Sagicor Jamaica segment had net assets of US\$560.1 million in 2017 compared to US\$450.4 million in 2016, an increase of 24.4%, which was largely a result of mark-to-market gains on financial instruments and a gain on defined benefits plan. Financial investments totalled US\$2,291.2 million and comprised 80.8% of the segment's total assets at the end of 2017. Policy liabilities totalled US\$766.6 million and other external liabilities totalled US\$1,509.5 million, comprising 33.7% and 66.3% of the segment's total liabilities at the end of 2017, respectively. In comparison, financial investments totalled US\$2,212.2 million and comprised 82.7% of the segment's total assets at the end of 2016. Policy liabilities totalled US\$675.0 million and other external liabilities totalled US\$1,548.4 million, comprising 30.4% and 69.6% of the segment's total liabilities at the end of 2016, respectively.

Sagicor Life USA segment

This segment consists of Sagicor's operations in the United States, which markets life insurance and annuity products to individuals.

The net segment income for the Sagicor Life USA segment totalled US\$13.5 million in 2017, a 28.6% increase from US\$10.5 million in 2016, mainly as a result of the factors described below.

The table below summarises the results of the Sagicor Life USA segment for the years ended December 31, 2017 and 2016.

Sagicor Life USA

	Year ended December 31,	
	2017	2016
	(in millions of US\$)	
Net premium revenue	86.7	74.4
Interest income	48.8	48.0
Other investment income	26.2	10.4
Fees and other revenues.....	(2.5)	16.1
Total revenue	<u>159.2</u>	<u>148.9</u>
Benefits and change in actuarial liabilities	(116.8)	(86.3)
Expenses and taxes	(43.5)	(48.3)
Depreciation and amortization.....	(2.5)	(1.6)
Inter-segment expenses.....	3.0	3.6
Segment income before taxes	<u>(0.6)</u>	<u>16.3</u>
Income taxes	14.1	(5.8)
Net segment income	<u>13.5</u>	<u>10.5</u>
Net segment income attributable to shareholders	13.5	10.5
	2017	2016
	(in millions of US\$)	
Financial investments	1,123.6	1,068.2
Other assets	858.8	832.6
Total assets	<u>1,982.4</u>	<u>1,900.8</u>
Policy liabilities	1,495.3	1,434.7
Other liabilities	246.4	247.7
Total liabilities.....	<u>1,741.7</u>	<u>1,682.4</u>
Net assets	<u>240.7</u>	<u>218.4</u>

The Sagicor Life USA segment generated revenue that totalled US\$159.2 million in 2017, a 6.9% increase from US\$148.9 million in 2016. The increase in revenue occurred mainly as a result of higher new annuity business written in the United States when compared to 2016, which resulted in a 16.5% increase in net premium revenue to US\$86.7 million in 2017 from US\$74.4 million in 2016 and a 115.5% decrease in fees and other revenues to a loss of US\$2.5 million in 2017 from US\$16.1 million in 2016. In 2016, fees and other revenues included commissions earned on the reinsurance of the new annuity business in the United States. There was also a 151.5% increase in other investment income to US\$26.2 million in 2017 from US\$10.4 million in 2016 due to higher investment gains resulting from market changes on index options.

The benefits and change in actuarial liabilities for the Sagicor Life USA segment totalled US\$116.8 million in 2017, a 35.3% increase from US\$86.3 million in 2016. This increase was primarily due to greater annuity business in 2017, which resulted in a 613.2% increase in net change in actuarial liabilities to US\$27.1 million in 2017 from US\$3.8 million in 2016. There was also a 10.0% increase in net policy benefits to US\$87.6 million in 2017 from US\$79.6 million in 2016.

Total expenses and taxes for the Sagicor Life USA segment totalled US\$43.5 million in 2017, a 9.9% decrease from US\$48.3 million in 2016. This decrease was primarily due to lower administrative expenses. Administrative expenses totalled US\$28.3 million in 2017 down from US\$31.8 million in 2016, a decrease of US\$4.5 million.

The Sagicor Life USA segment had net assets of US\$240.7 million in 2017 compared to US\$218.4 million in 2016, an increase of 10.2%, which was largely a result of an increase in the value of investments. Financial investments totalled US\$1,123.6 million and comprised 56.7% of the segment's total assets, and policy liabilities totalled US\$1,495.3 million and comprised 85.9% of the segment's total liabilities at the end of 2017. Financial investments totalled US\$1,068.2 million and comprised 56.2% of the segment's total assets, and policy liabilities totalled US\$1,434.7 million and comprised 85.3% of the segment's total liabilities at the end of 2016.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Sagicor results

Net income for the year

The table below summarises Sagicor's net income for the years ended December 31, 2016 and 2015.

	Year ended December 31,	
	2016	2015
Net income	(in millions of US\$)	
Net Income from continuing operations	107.9	98.4
Net Income (loss) from discontinued operations	1.4	(21.6)
Total.....	<u>109.3</u>	<u>76.8</u>

Net income totalled US\$109.3 million in 2016, a significant increase from US\$76.8 million in 2015. This increase, as explained in more detail below, was primarily driven by a 106.5% decrease in net loss from discontinued operations of US\$1.4 million in 2016 compared with a net loss of US\$21.6 million in 2015, and was augmented by a 9.6% increase in net income from continuing operations to US\$107.9 million in 2016 from US\$98.4 million in 2015.

Consolidated income from continuing operations

The table below summarises Sagicor's consolidated income from continuing operations for the years ended December 31, 2016 and 2015.

	Year ended December 31,	
	2016	2015
Consolidated income from continuing operations	(in millions of US\$)	
Revenue	1,134.1	1,104.2
Benefits.....	(560.4)	(552.9)
Expenses	(424.2)	(427.8)
Income taxes	(41.6)	(25.1)
Net income.....	<u>107.9</u>	<u>98.4</u>

Sagicor's net income from continuing operations totalled US\$107.9 million in 2016, a 9.7% increase from US\$98.4 million in 2015. This increase was primarily a result of a 2.7% increase in revenue, a 1.35% increase in benefits and a 65.7% increase in income taxes, offset in part by a 0.8% decrease in expenses.

Revenue

The following table summarises the main items of Sagicor's revenue for the periods ended December 31, 2016 and 2015:

	Year ended December 31,	
	2016	2015
Revenue	(in millions of US\$)	
Net insurance premiums:		
Life and annuity.....	496.2	505.4
Health	149.6	150.3
Property and casualty.....	18.2	18.2
	<u>664.0</u>	<u>673.9</u>
Net investment income	353.3	322.2
Fees and other revenue	116.8	109.1
Gain/(loss) arising on acquisition	-	(1.0)
Total.....	<u>1,134.1</u>	<u>1,104.2</u>

The following table summarises Sagicor's revenues by operating segment for the year ended December 31, 2016:

Year ended December 31, 2016	Sagicor Life	Sagicor Jamaica	Sagicor Life USA	Head office and other	Adjustments	Total
	(in millions of US\$)					
Net premium revenue	299.6	268.5	74.4	21.5	-	664.0
Interest income	77.4	157.8	48.0	9.7	-	292.9
Other investment income.....	3.1	42.7	10.4	2.9	1.3	60.4
Fees and other revenues.....	19.1	55.0	16.1	26.7	(0.1)	116.8
Gain arising on acquisition ...	-	-	-	-	-	-
Inter-segment revenues.....	11.9	-	-	60.1	(72.0)	-
Total revenue	<u>411.1</u>	<u>524.0</u>	<u>148.9</u>	<u>120.9</u>	<u>(70.8)</u>	<u>1,134.1</u>

The following table summarises Sagicor's revenues by operating segment for the year ended December 31, 2015:

Year ended December 31, 2015	Sagicor Life	Sagicor Jamaica	Sagicor Life USA	Head office and other	Adjustments	Total
	(in millions of US\$)					
Net premium revenue	291.2	278.3	81.0	23.4	-	673.9
Interest income	73.1	159.8	51.2	9.3	-	293.4
Other investment income.....	1.9	21.1	8.8	(0.1)	(2.9)	28.8
Fees and other revenues.....	12.6	53.3	20.1	23.1	-	109.1
Gain arising on acquisition.....	-	(1.0)	-	-	-	(1.0)
Inter-segment revenues.....	92.6	-	(82.9)	39.9	(49.6)	-
Total revenue	<u>471.4</u>	<u>511.5</u>	<u>78.2</u>	<u>95.6</u>	<u>(52.5)</u>	<u>1,104.2</u>

Sagicor's revenue from continuing operations totalled US\$1,134.1 million in 2016, an increase of 2.7% from US\$1,104.2 million in 2015. This increase was primarily the result of a 10.0% growth in net investment income, including share of operating income of associated companies, to US\$353.3 million in 2016 from US\$322.2 million in 2015 and a negative adjustment of US\$1.0 million in goodwill from the acquisition of the banking operation in Jamaica in 2014. The acquisition was recorded based on provisionally determined values in 2014. These balances were finalized during 2015. The adjustments were recognized in 2015 as they were not material to the Sagicor

Group. This increase in revenue from continuing operations was partially offset by a decrease in premium revenue, which is explained in more detail below.

Premium revenue from life insurance and annuity was US\$496.2 million in 2016, compared to US\$505.4 million in 2015, a 1.8% decrease. Premium revenue from life insurance and annuity represented 74.7% of total premium revenue in 2016 as opposed to 75.0% in 2015. This decrease was primarily due to lower annuity business written in Sagicor's USA segment, together with the impact of the depreciation of the Jamaica Dollar to the US dollar on translated premiums.

Net premium revenue from health insurance totalled US\$149.6 million in 2016, a decrease of 0.5% from US\$150.3 million in 2015. This decrease was primarily a result of lower organic growth. Net premium revenue from property and casualty insurance totalled US\$18.2 million in 2016, the same as in 2015.

Net investment income was US\$353.3 million in 2016, a 9.7% increase compared to US\$322.2 million in 2015 an improvement of US\$31.1 million. Investment income benefited from significant realised gains in the Jamaica segment. Net investment gains on securities amounted to US\$60.3 million in 2016 from US\$33.3 million in 2015 and interest income from finance loans and leases which increased by 11.5% to US\$56.2 million in 2016 from US\$50.4 million in 2015. This increase is primarily a result of the acquisition of RBC Jamaica.

The interest yields achieved on financial investments were as follows:

	Year ended December 31,	
	2016	2015
Interest yields		
Debt securities	6.2%	6.4%
Mortgage loans	6.1%	6.5%
Policy loans	6.9%	7.3%
Finance loans and finance leases	12.6%	12.7%
Securities purchased for resale	9.2%	2.4%
Deposits	1.0%	0.9%

Revenue from fees and other revenues totalled US\$116.8 million in 2016, a 7.0% increase from US\$109.1 million in 2015. Foreign exchange gains totalled US\$12.6 million in 2016 compared to US\$2.8 million in 2015, an increase of US\$9.8 million primarily due to the Trinidad and Tobago dollar decline against the United States dollar in the Sagicor Life segment. This was partially offset by a decline commission income on insurance and reinsurance which closed at US\$29.4 million in 2016 from US\$32.8 million in 2015, a decline of US\$3.4 million or 10.4%. This was primarily the result of a decrease in annuity business written in the United States as a result of Sagicor's change in strategy regarding this business.

Benefits

Benefits from continuing operations totalled US\$560.4 million in 2016, a 1.3% increase from US\$552.9 million in 2015. This increase was primarily a result of the decrease in life and annuity and property and casualty benefits, partially offset by the increases in health benefits and changes in actuarial liabilities. Life and annuity benefits totalled US\$330.5 million in 2016, a 4.6% decrease from US\$346.4 million in 2015.

The table below summarises Sagicor's expenses incurred in providing policy benefits and changes in Sagicor's actuarial liabilities for the years ended December 31, 2016 and 2015.

	Year ended December 31,	
	2016	2015
Benefits and change in actuarial liabilities	(in millions of US\$)	
Net insurance benefits:		
Life and annuity.....	330.5	346.4
Health	115.5	111.5
Property and casualty.....	7.7	9.7
Changes in actuarial liabilities.....	45.3	26.5
	<u>499.0</u>	<u>494.1</u>
Interest expense	61.4	58.8
Total.....	<u>560.4</u>	<u>552.9</u>

Life and annuity benefits totalled US\$330.5 million in 2016, a 4.6% decrease from US\$346.4 million in 2015. However, this was offset by a 70.9% increase in actuarial changes to US\$45.3 million in 2016 from US\$26.5 million in 2015. The reduction in these benefits occurred mainly as a result of lower annuity payments in the United States in 2016 when compared to 2015, coupled with Life insurance benefits for the same period in both the Sagicor Life and Sagicor USA segments.

Health insurance net benefits totalled US\$115.5 million in 2016, a 3.6% increase from US\$111.5 million in 2015.

Property and casualty insurance net benefits totalled US\$7.7 million in 2016, a decrease of 20.6% from US\$9.7 million in 2015. This decrease was primarily a result of a reduction in IBNR claims with the improvement in the settlement of outstanding claims.

Interest expense totalled US\$61.4 million in 2016, a 4.4% increase from US\$58.8 million in 2015. This increase was primarily due to increase in interest expenditure on customer deposits which increased from US\$11.8 million in 2015 to US\$16.2 million in 2016. The average customer deposit balances were higher in 2016.

The interest returns that Sagicor has provided to investment contract-holders and financial institutions which have advanced funds are summarised in the following table:

	Year ended December 31,	
	2016	2015
Interest yields		
Investment contracts.....	6.1%	5.2%
Other funding instruments	1.9%	2.2%
Customer deposits.....	2.1%	1.9%
Securities sold for repurchase.....	4.5%	3.7%

Expenses and taxes

The table below summarises Sagicor's expenses and taxes from continuing operations for the years ended December 31, 2016 and 2015.

	Year ended December 31,	
	2016	2015
	(in millions of US\$)	
Expenses and taxes		
Administrative expenses.....	255.3	251.9
Commissions and related compensation.....	98.6	105.0
Finance costs, depreciation and amortization.....	59.6	55.8
Premium and asset taxes and income taxes.....	52.4	39.9
Total.....	<u>465.9</u>	<u>452.6</u>

Sagicor's expenses from continuing operations totalled US\$465.9 million in 2016, a 2.9% increase from US\$452.6 million in 2015. This increase was primarily due to a 31.3% increase in taxes of US\$52.4 million in 2016 from US\$39.9 million in 2015, as there was a substantial increase in the taxable income for Corporation Taxes in our Jamaica segment. This impact was partially reduced by a reduction in asset taxes on Life Insurance Companies in the same segment. This increase was offset in part by a 6.1% decrease in commission and compensation related expenses to US\$98.6 million in 2016 from US\$105.0 million in 2015, which was mainly due to lower commission expense on lower annuity business written in the United States. Commissions represent compensation and benefits payable to insurance agents and brokers who generate new and renewal premium revenue.

As a result of the foregoing, Sagicor's net income from continuing operations before taxes totalled US\$149.6 million in 2016, a 21.0% increase from US\$123.6 million in 2015.

Premium, asset and income taxes from continuing operations totalled US\$52.4 million in 2016, a 31.3% increase from US\$39.9 million in 2015, which was primarily due to a substantial increase in the taxable income in our Jamaica segment.

Discontinued operation

For a description of Sagicor's discontinued operations see "Management's Discussion and Analysis of Sagicor — Financial Summary — Year Ended December 31, 2017 Compared to Year Ended December 31, 2016."

The table below summarises Sagicor's discontinued operation for the years ended December 31, 2016 and 2015.

Discontinued operation	Year ended December 31,	
	2016	2015
	(in millions of US\$)	
Income		
Currency translation gain	1.8	1.6
Other expenses	(0.9)	(0.2)
Movement in price adjustment.....	0.5	(23.0)
Net income/(loss).....	<u>1.4</u>	<u>(21.6)</u>
Financial position		
Assets.....	-	-
Liabilities.....	-	46.0
Net assets.....	<u>-</u>	<u>(46.0)</u>

The discontinued operation net operating gain totalled US\$1.4 million in 2016, a 106.5% increase in profit from the loss of US\$21.6 million in 2015. The gain in 2016 resulted mainly from movements in the price adjustments.

Shareholder returns

Sagicor's net income and comprehensive income are allocated to the equity owners of Sagicor's respective Group companies in accordance with their results. As some Group companies have minority shareholders, particularly in the Sagicor Jamaica operating segment, the net income is allocated accordingly between holders of Sagicor Common Shares and the minority interest shareholders. There is also an allocation to Sagicor Life Inc.'s policyholders who hold participating policies, an arrangement which was established at the demutualization of Barbados Mutual Life Assurance Society (now Sagicor Life).

For the 2016 financial year, US\$60.3 million of net income from continuing operations was allocated to the holders of common shares of the Company, which corresponded to earnings per share for continuing operations of US\$0.195. The comparative amounts for the 2015 fiscal year were US\$56.3 million of net income from continuing operations allocated to the holders of common shares, which corresponded to earnings per share for continuing operations of US\$0.182. The respective annual returns on average shareholders' equity were 12.3% for 2016 and 11.7% for 2015.

The dividends declared and paid in respect of Sagicor Common Shares in 2016 totalled US\$13.6 million, and represented US\$0.045 per common share.

The table below summarises Sagicor's common shareholder returns from continuing operations for the years ended December 31, 2016 and 2015.

	Year ended December 31,	
	2016	2015
Common shareholder returns⁽¹⁾		
Net income – millions of US\$	60.3	56.3
Dividends – millions of US\$	13.6	12.0
Earnings per share – US\$	0.195	0.182
Diluted earnings per share – US\$	0.187	0.173
Dividends per share – US\$	0.045	0.040
Return on average equity – % ⁽²⁾	12.3	11.7

(1) From continuing operations except for dividends.

(2) Calculated as net income attributable to common shareholders divided by average shareholders' equity.

Comprehensive income

The table below summarises Sagicor's total comprehensive income / (loss) for the years ended December 31, 2016 and 2015.

	Year ended December 31,	
	2016	2015
	(in millions of US\$)	
Total comprehensive income / (loss)		
Net Income for the year	109.3	76.8
Other comprehensive loss	(12.6)	(77.4)
Total comprehensive income / (loss) for the year	<u>96.7</u>	<u>(0.6)</u>

Gains and losses recorded within other comprehensive income arise from fair value changes of certain classes of assets and from the retranslation of foreign currency operations.

Total comprehensive income for 2016 totalled US\$96.7 million, a significant increase from a US\$0.6 million loss in 2015. This improvement was primarily due to a lower comprehensive loss of US\$12.6 million in 2016, a 83.7% improvement from the loss of US\$77.4 million in 2015, and a significant increase in net income to US\$109.3 million in 2016 from US\$76.8 million in 2015. The improvement in net income is discussed in “—*Sagicor Results—Net Income for the Year.*”

The table below summarises Sagicor’s other comprehensive income for the years ended December 31, 2016 and 2015.

	Year ended December 31,	
	2016	2015
	(in millions of US\$)	
Other comprehensive income		
Comprehensive loss from continuing operations.....	(12.6)	(77.4)
Comprehensive income from discontinued operations.....	-	-
Total.....	<u>(12.6)</u>	<u>(77.4)</u>

Other comprehensive loss from continuing operations totalled US\$12.6 million in 2016, an 84.7% improvement from a US\$77.4 million loss in 2015. The main contributor to the improvement in comprehensive income was an underlying improvement in net gains on financial assets of US\$142.3 million. Included in comprehensive income were net gains for the year on financial assets of US\$39.2 million, resulting from mark-to-market gains on financial assets associated with Sagicor’s international portfolio.

The Jamaican dollar declined against the US dollar by 6.7% while the Trinidad and Tobago dollar declined against the US dollar by 5.1%, resulting in retranslation losses of US\$28.5 million.

Sagicor’s revaluation of owner-occupied property totalled a net gain of US\$5.1 million in 2016, compared to a net loss of US\$0.3 million in 2015; this gain partially offset the net losses of Sagicor’s other comprehensive income items.

The discontinued operation (Sagicor at Lloyds) was sold on December 23, 2013. At the end of 2016 there were no amounts outstanding with respect to the discontinued operation.

Operating segments

The performance of Sagicor’s Sagicor Life, Sagicor Jamaica, Sagicor Life USA segments and the SEL discontinued operation in 2016 are discussed below.

Sagicor Life segment

The net segment income for the Sagicor Life segment totalled US\$64.9 million in 2016, an 8.3% decrease from US\$70.8 million in 2015. After accounting for the income allocated to policyholders, the net income attributable to shareholders for the Sagicor Life segment totalled US\$64.8 million in 2016, a decrease of 6.8% from US\$69.5 million in 2015.

The table below summarises the results of the Sagicor Life segment for the years ended December 31, 2016 and 2015.

Sagicor Life

	Year ended December 31,	
	2016	2015
	(in millions of US\$)	
Net premium revenue	299.6	291.2
Interest income	77.4	73.1
Other investment income.....	3.1	1.9
Fees and other revenues.....	19.1	12.6
Gains arising on acquisitions	-	-
Inter-segment revenues.....	11.9	92.6
Total revenue	411.1	471.4
Benefits and change in actuarial liabilities	(212.7)	(199.7)
Expenses and taxes	(113.1)	(105.7)
Depreciation and amortization.....	(6.5)	(5.8)
Inter-segment expenses.....	(5.7)	(82.6)
Segment income before taxes	73.1	77.6
Income taxes	(8.2)	(6.9)
Net segment income	64.9	70.7
Net segment income attributable to shareholders	64.8	69.5
	2016	2015
	(in millions of US\$)	
Financial investments	1,403.9	1,402.8
Other assets.....	524.4	501.3
Total assets	1,928.3	1,904.1
Policy liabilities	1,272.5	1,271.8
Other liabilities	126.3	115.9
Total liabilities.....	1,398.8	1,387.7
Net assets	529.5	516.4

The Sagicor Life segment generated revenue that totalled US\$411.1 million in 2016, a 12.8% decrease from US\$471.4 million in 2015. In 2015, Sagicor Life benefited from inter-segment revenues arising from a reinsurance arrangement with a related company, valued at US\$90.5 million; this did not repeat in 2016. Aside from inter-segment revenues, all other areas of revenue generation saw growth over the 2015 results. Interest income totalled US\$77.4 million in 2016, a 5.9% increase from US\$73.1 million in 2015. Fees and other revenues moved from US\$12.6 million in 2015 to US\$19.1 million in 2016 and includes exchange gains relating to declines in the Trinidad and Tobago dollar when compared to the United States dollar

The benefits and change in actuarial liabilities for the Sagicor Life segment totalled US\$212.7 million in 2016, a 6.5% increase from US\$199.7 million in 2015. Net changes in actuarial liabilities moved from a release of US\$1.5 million in 2015, to an increase of US\$3.2 million 2016, resulting in an increase of US\$4.7 million, mainly due to changes in actuarial assumptions. Net policy benefits totalled US\$196.1 million in 2016, up from US\$189.9 million in 2015, an increase of US\$6.2 million, due to higher policy surrenders. Interest expense totalled US\$13.4 million up from US\$11.2 million in 2015.

Total expenses and taxes for the Sagicor Life segment totalled US\$113.1 million in 2016, a US\$7.4 million increase from US\$105.7 million in 2015. This was primarily due to an increase in administrative expenses, which increased by US\$4.0 million to US\$69.0 million in 2016 from US\$65.0 million in 2015, coupled with increased commissions and premium and asset taxes of US\$3.4 million, moving from US\$40.7 million in 2015 to US\$44.2 million in 2016.

The Sagicor Life segment had net assets of US\$529.5 million in 2016 compared to US\$516.4 million in 2015, an increase of 2.5%. Financial investments totalled US\$1,403.9 million and comprised 72.8% of the segment's total assets, and policy liabilities totalled US\$1,272.5 million and comprised 91.0% the segment's total liabilities at the end of 2016. In comparison, financial investments totalled US\$1,402.8 million and comprised 73.7% the segment's total assets at the end of 2015, while policy liabilities totalled US\$1,271.8 million and comprised 91.6% the segment's total liabilities.

Sagicor Jamaica segment

The net segment income for the Sagicor Jamaica segment totalled US\$90.1 million in 2016, a 12.5% increase from US\$80.1 million in 2015. After accounting for the income allocated to non-controlling interest, the net income attributable to shareholders for the Sagicor Jamaica segment totalled US\$44.3 million in 2016, an increase of 12.7% from US\$39.3 million in 2015.

The table below summarises the results of the Sagicor Jamaica segment for the years ended December 31, 2016 and 2015.

Sagicor Jamaica

	Year ended December 31, ⁽¹⁾	
	2016	2015
	(in millions of US\$)	
Net premium revenue	268.5	278.3
Interest income	157.8	159.8
Other investment income	42.7	21.1
Fees and other revenues.....	55.0	52.2
Inter-segment revenues.....	-	-
Total revenue	524.0	511.4
Benefits and change in actuarial liabilities	(248.7)	(249.0)
Expenses and taxes	(152.1)	(159.3)
Depreciation and amortization.....	(8.0)	(6.5)
Inter-segment expenses.....	(1.4)	(0.9)
Segment income before taxes	113.8	95.7
Income taxes.....	(23.7)	(15.6)
Net segment income	90.1	80.1
Net segment income attributable to shareholders ⁽¹⁾	44.3	39.3
	2016	2015
	(in millions of US\$)	
Financial investments	2,212.2	2,087.1
Other assets.....	461.6	426.1
Total assets	2,673.8	2,513.2
Policy liabilities	675.0	646.9
Other liabilities	1,548.4	1,468.7
Total liabilities.....	2,223.4	2,115.6
Net assets	450.4	397.6

(1) Sagicor only owned 49.1% of Sagicor Jamaica in 2016 and 2015.

The Sagicor Jamaica segment generated revenue that totalled US\$524.0 million in 2016, a 2.5% increase from US\$511.4 million in 2015. This increase was primarily due to higher returns on other investment income.

The benefits and change in actuarial liabilities for the Sagicor Jamaica segment totalled US\$248.7 million in 2016, a slight decrease from US\$249.0 million in 2015. Net policy benefits totalled US\$168.8 million, a 3.2% increase, up

from US\$163.6 million in 2015. Interest expense moved from US\$40.8 million in 2015 to US\$41.5 million in 2016, a slight increase of US\$0.7 million due to changes in interest rates. These changes were partially offset by a decrease in the net change in actuarial liabilities which were US\$38.4 million in 2016 down from US\$44.6million in 2015, a decrease of US\$6.2 million. Both net policy benefits and changes in actuarial liabilities were impacted by an annuity contract.

Total expenses and taxes for the Sagicor Jamaica segment totalled US\$152.1 million in 2016, a 4.5% decrease from US\$159.3 million in 2015. The decrease was due to administrative expenses, which closed at US\$112.2 million in 2016, down 2.4% from US\$115.0 million in 2015. In the prior year, the Jamaica segment incurred restructuring and rebranding costs associated with the acquisition of RBC Jamaica.

The Sagicor Jamaica segment had net assets of US\$450.4 million in 2016 compared to US\$397.6 million in 2015, an increase of 13.3% which was largely a result of retranslation losses from the depreciation of the Jamaican dollar during this period. Financial investments totalled US\$2,212.2 million and comprised 82.7% of the segment's total assets at the end of 2016. Policy liabilities totalled US\$675.0 million and other external liabilities totalled US\$1,548.4 million, comprising 30.3% and 69.7% of the segment's total liabilities at the end of 2016, respectively. In comparison, financial investments totalled US\$2,087.1 million and comprised 83.0% of the segment's total assets at the end of 2015, while policy liabilities totalled US\$646.9 million and other external liabilities totaled US\$1,468.7 million, comprising 30.6% and 69.7% of the segment's total liabilities at the end of 2015, respectively.

Sagicor Life USA segment

The net segment income for the Sagicor Life USA segment totalled US\$10.5 million in 2016, a 59.1% increase from US\$6.6 million in 2015.

The table below summarises the results of the Sagicor Life USA segment for the years ended December 31, 2016 and 2015.

Sagicor Life USA

	Year ended December 31,	
	2016	2015
	(in millions of US\$)	
Net premium revenue	74.4	81.0
Interest income	48.0	51.2
Other investment income.....	10.4	8.9
Fees and other revenues.....	16.1	20.1
Inter-segment revenues	-	(82.9)
Total revenue	148.9	78.3
Benefits and change in actuarial liabilities	(86.3)	(88.1)
Expenses and taxes	(48.3)	(60.4)
Depreciation and amortization.....	(1.6)	(1.3)
Inter-segment expenses.....	3.6	81.2
Segment income before taxes	16.3	9.7
Income taxes	(5.8)	(3.1)
Net segment income	10.5	6.6
Net segment income attributable to shareholders	10.5	6.6
	2016	2015
	(in millions of US\$)	
Financial investments	1,068.2	1,061.6
Other assets	832.6	721.3
Total assets	1,900.8	1,782.9
Policy liabilities	1,434.7	1,309.9
Other liabilities	247.7	267.9
Total liabilities.....	1,682.4	1,577.8
Net assets	218.4	205.1

The Sagicor Life USA segment generated revenue that totalled US\$148.9 million in 2016, a 90.2% increase from US\$78.3 million in 2015. The 2015 amount reflected an US\$83.0 million reduction for the one-time ceding of an existing block of annuities to Sagicor Life. Net premium revenue of US\$74.4 million in 2016 represented a decrease from US\$81.0 million in 2015. There was also a 19.9% decrease in fees and other revenues to US\$16.1 million in 2016 from US\$20.1 million in 2015. Fees and other revenues include commissions and reinsurance ceding allowances and hedge option reimbursements to reinsurers. This decrease was partially offset by a 16.9% increase in other investments income to US\$10.4 million in 2016 from US\$8.9 million in 2015, due primarily to net gains on investments.

The benefits and change in actuarial liabilities for the Sagicor Life USA segment totalled US\$86.3 million in 2016, a 2.0% decrease from US\$88.1 million in 2015. Net changes in actuarial liabilities increased from a release of US\$16.6 million in 2015 to an increase of US\$3.7 million in 2016; an increase of US\$20.3 million or 122.2% and was due to changes in actuarial assumptions. Interest expense was slightly above 2015 levels totaling US\$2.9 million in 2016 compared to US\$2.7 million in 2015. Net policy benefits closed at US\$79.6 million, down from US\$101.9 million in 2015.

Total expenses and taxes for the Sagicor Life USA segment totalled US\$48.3 million in 2016, a 20.0% decrease from US\$60.1 million in 2015. This decrease was primarily due to lower new annuity business written when compared to 2015, which resulted in a 37.1% decrease in commissions and premium taxes to US\$15.6 million in 2016 from US\$24.8 million in 2015, and an 8.1% decrease in administration expenses to US\$32.8 million in 2016 from US\$35.7 million in 2015.

The Sagicor Life USA segment had net assets of US\$218.4 million in 2016 compared to US\$205.1 million in 2015, an increase of 6.5%. Financial investments totalled US\$1,068.2 million and comprised 56.2% of the segment's total assets; policy liabilities totalled US\$1,434.7million and comprised 85.3% of the segment's total liabilities at the end of 2016. In comparison, financial investments totalled US\$1,061.6 million and comprised 59.5% of the segment's total assets at the end of 2015, while policy liabilities totalled US\$1,309.9 million and comprised 83.0% of the segment's total liabilities.

Liquidity and Capital Resources

The following discussion is qualified by reference to Sagicor's statement of cash flows set forth in Sagicor's Audited Annual Financial Statements and the related notes thereto included elsewhere in this prospectus.

Liquidity sources immediately available to the Company include: (i) existing cash and cash equivalents; (ii) our portfolio of highly rated, highly liquid investments; (iii) cash flow from operating activities which include net premiums receipts, fee income and investment income; and (iv) bank loan facilities. These funds are used primarily to pay claims and operating expenses, service the Company's long-term debt, purchase investments to support claims reserves, and for distribution of dividends.

We expect to have sufficient liquidity to fund our operations and to meet our current business plans. However, should the need arise, additional liquidity sources include further bank loans and new issuances of debt or shares in the private or public markets.

Cash flow

For the nine months ended September 30, 2018, Sagicor's net cash from operating activities was US\$86.4 million compared to US\$77.3 million for the same period in 2017. This increase of US\$9.1 million, or 11.8%, was primarily due to operating cash inflows generated in the Company's USA segment in 2018.

Sagicor's net cash used in investing activities was US\$27.5 million compared to US\$21.3 million for the nine month period ended September 30, 2017, an increase of US\$6.2 million, or 29.1%. In 2017, investing outflows were impacted by a change in the share of ownership in an associate company in the Jamaica segment, of approximately US\$6.9 million, which did not recur in 2018.

Sagicor's net cash used in financing activities was US\$21.6 million for the nine months ended September 30, 2018, compared to US\$4.1 million for the same period in 2017, an increase of US\$17.5 million. Cash inflows from the issue of convertible preference shares of US\$15.8 million during the nine months ended September 30, 2017 reduced the impact of net cash outflows associated with financing activities for that period, conversely for the nine month period ended September 30, 2018, no preference shares were issued, which resulted in a decline in cash inflows, and redemptions totaled US\$5.0 million, thereby increasing cashflows for financing activities.

In the nine months ended September 30, 2018, the effect of exchange rate changes was a loss of US\$8.5 million compared to a loss of US\$1.3 million in the same period in 2017.

In 2017, Sagicor's net cash from operating activities was US\$52.5 million compared to US\$126.3 million in 2016. This decrease of US\$73.8 million, or 58.4%, was primarily due to higher levels of withdrawals from customer deposits held in the Company's Jamaica segment.

In 2017, Sagicor's net cash used in investing activities was US\$18.7 million compared to US\$22.5 million in 2016; a decrease of US\$3.8 million, or 16.9%. While investing outflows on property, plant and equipment, intangible assets as well as investments in associated companies remained relatively stable combined, these were off-set by investing inflows from a change in the share of ownership in an associated company in the Jamaica segment. This investing did not recur in 2017. Sagicor's net cash used in financing activities was US\$21.8 million compared to net cash used in financing activities of US\$127.4 million in 2016. This decrease of US\$105.6 million, or 83.8%, was primarily due to the redemption of Sagicor preference shares in 2016 for US\$120.0 million.

In 2017, the effect of exchange rate changes was US\$1.6 million compared to a loss of US\$4.6 million in 2016.

In 2016, Sagicor's net cash from operating activities was US\$126.3 million compared to a net cash outflow for operating activities of US\$92.0 million in 2015. This increase of US\$218.4 million, or 237.3%, was primarily due to lower investing in debt securities.

In 2016, Sagicor's net cash used in investing activities was US\$22.5 million compared to US\$60.8 million in 2015 a decrease of US\$38.3 million or 63.0%. In 2015, our Jamaica segment made an investment in an associated company to the tune of US\$28.5 million. This level of investment did not repeat in 2016. In addition, investing activities on intangible assets closed lower in the latter year.

In 2016, Sagicor's net cash used in financing activities was US\$127.4 million compared to net cash from financing activities of US\$121.8 million in 2015. This decrease of US\$249.2 million, or 204.6%, was primarily due to the fact that 2015 includes cash received from a new bond facility issued in August of that year. In addition, Sagicor preference shares were redeemed to the tune of US\$120.0 million, thereby contributing to the year on year variance.

In 2016, the effect of exchange rate changes was a loss of US\$4.6 million compared to a loss of US\$3.9 million in 2015.

The insurance policies Sagicor underwrites are long-term in nature. Sagicor's policy is to invest in assets to produce cash flows that are synchronised with the timing and the amounts of payments that must be paid to policyholders, while also managing reinvestment risks by reducing the need for reinvestment. Sagicor attempts to stay abreast of regulatory developments that may affect Sagicor's capital requirements as part of Sagicor's risk management by maintaining regular contact with the various regulators.

Debt funding and liquidity

Notes and loans payable

Sagicor had a debt to shareholders' equity ratio of 45.1% as of September 30, 2018 compared to 44.4% at December 31, 2017. To determine the debt to shareholders' equity, Loans and notes payable, as defined in note 16 to the Sagicor Audited Annual Financial Statements, is divided by total equity.

As of September 30, 2018, Sagicor had US\$404.3 million in notes and loans payable compared to US\$413.8 million at December 31, 2017. All of Sagicor's notes and loans payable are denominated in U.S. dollars.

As of September 30, 2018, and December 31, 2017, Sagicor had US\$311.2 million and US\$317.0 million, respectively, outstanding on Sagicor's 8.875% senior notes due 2022.

	As of September 30,		As of December 31,	
	2018		2017	
	Carrying value	Fair value	Carrying value	Fair value
	(in millions of US\$)			
8.875% senior notes due 2022	311.2	329.9	317.0	364.1
8.25% convertible redeemable preference shares due 2020 ⁽²⁾	10.5	10.5	11.3	11.9
7.75% convertible redeemable preference shares due 2018 ⁽²⁾	-	-	5.2	5.4
4.85%/5.0% notes due 2019 ⁽¹⁾	75.9	74.6	74.9	76.2
Bank loans and other funding instruments	6.7	6.7	5.4	5.4
Total.....	404.3	421.7	413.8	463.0

As of December 31, 2017, Sagicor had a debt to shareholders' equity ratio of 44.4%, compared to 49.7% and 64.3% as of December 31, 2016 and December 31, 2015, respectively.

As of December 31, 2017, Sagicor had US\$413.8 million in notes and loans payable compared to US\$395.2 million at December 31, 2016. All of Sagicor's notes and loans payable are denominated in U.S. dollars.

As of December 31, 2017, and 2016, Sagicor had US\$317.0 million and US\$315.4 million, respectively, outstanding on Sagicor's 8.875% senior notes due 2022.

	As of December 31,			
	2017		2016	
	Carrying value	Fair value	Carrying value	Fair value
	(in millions of US\$)			
8.875% senior notes due 2022	317.0	364.1	315.4	364.1
8.25% convertible redeemable preference shares due 2020 ⁽²⁾	11.3	11.9	-	-
7.75% convertible redeemable preference shares due 2018 ⁽²⁾	5.2	5.4	-	-
4.85%/5.0% notes due 2019 ⁽¹⁾	74.9	76.2	74.8	75.5
Bank loans and other funding instruments	5.4	5.4	5.0	5.0
Total.....	413.8	463.0	395.2	444.6

(1) On March 22, 2016, the Company repaid, before maturity, the US\$43.4 million eighteen-month 4.6% notes. On March 21, 2016, the Company issued fourteen-month notes with a par value of US\$75.0 million which were due in 2017 and carried a 5.0% annual rate of interest. Effective December 20, 2016, the notes were extended at an annual rate of interest of 4.85% with a maturity date of August 14, 2019. Financial covenants in respect of these notes are summarised in note 46.3 (b) of the 2017 Sagicor Audited Annual Financial Statements.

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

- i. Cumulative redeemable preference shares with a tenor of three (3) years at 8.25% interest per annum.
- ii. Cumulative redeemable preference shares with a tenor of eighteen (18) months at 7.75% interest per annum, which were repaid on September 2, 2018.

On August 11, 2015, Sagicor issued seven year senior notes in the amount of US\$320.0 million which mature in 2022. The notes carry a fixed annual rate of interest of 8.875% payable semi-annually. Financial covenants in respect of these notes are summarised in note 46.3(a) of the 2017 Sagicor Audited Annual Financial Statements.

On March 22, 2016, the Company repaid, before maturity, the US\$43.4 million of short term debt. On March 21, 2016, the Company issued a tranche of fourteen-month notes with par value of US\$75.0 million which were repayable in 2017 and carried a 5.0% annual rate of interest.

Effective December 20, 2016, the notes were extended at an annual rate of interest of 4.85% with a maturity date of August 14, 2019. Financial covenants in respect of these notes are summarised in note 46.3(b) of the 2017 Sagicor Audited Annual Financial Statements.

On July 18, 2016, the Company redeemed the 120,000,000 of the 6.5% convertible redeemable preference shares due 2016. See note 21 of the 2017 Sagicor Audited Annual Financial Statements.

A measure of financial stability is the debt (borrowings) to capital ratio which for the Sagicor Group was 30.7% in 2017, down slightly from 33.2% for the prior year. Despite a slight increase in debt outstanding at 2017, capital grew by US\$155.5 million or 13.1% due to higher profitability and increased gains on revaluation, thereby contributing to the decline in the debt to capital ratio.

Deposit and security liabilities

Deposit and security liabilities represent sources of funds for on-lending, leasing and portfolio investments. These liabilities comprised other funding instruments, which as of December 31, 2017 and 2016 were US\$279.9 million and US\$349.5 million, respectively; customer deposits, which as of December 31, 2017 and 2016 were US\$750.9 million and US\$915.2 million, respectively; securities sold under agreements to repurchase, which as of December 31, 2017 and 2016 were US\$476.0 million and US\$320.6 million, respectively; and bank overdrafts, which as of December 31, 2017 and 2016 were US\$2.6 million and US\$1.9 million, respectively.

The increases in 2017 compared to 2016 in other funding instruments were primarily a result of financing for Sagicor's lending activity.

	Year ended December 31,			
	2017		2016	
	Carrying value	Fair value	Carrying value	Fair value
	(in millions of US\$)			
At amortised cost:				
Other funding instruments	279.9	285.0	349.5	346.2
Customer deposits.....	750.9	749.8	915.2	915.4
Securities sold for re-purchase.....	476.0	473.8	320.6	320.6
Bank overdrafts	2.6	2.6	1.9	1.9
Total.....	1,509.4	1,511.2	1,587.2	1,584.1
At fair value through income:				
Structured products.....	47.6	47.6	34.8	34.8
Derivative financial instruments.....	2.2	2.2	1.4	1.4
Sub total.....	49.8	49.8	36.2	36.2
Total.....	1,559.2	1,561.0	1,623.4	1,620.3

Contractual obligations

The following table shows Sagicor's contractual obligations as of December 31, 2017:

	Payments due by period			
	Total	Less than one year	One to five years	More than five years
	(in millions of US\$)			
Policy liabilities				
Actuarial liabilities ⁽¹⁾	2,950.8	208.2	696.5	2,046.1
Investments contracts liabilities ⁽²⁾	385.9	320.8	53.9	11.2
Other policy liabilities ⁽³⁾	191.6	118.6	20.9	52.1
Total.....	3,528.3	647.6	771.3	2,109.4
Loans payable ⁽⁴⁾	567.4	41.0	526.4	-
Accounts payable.....	266.5	173.7	91.7	1.0
Purchase obligations ⁽⁵⁾	141.3	116.8	11.1	13.4
Total.....	975.2	331.5	629.2	14.4

(1) Actuarial liabilities account for US\$2,950.8 million in liabilities. Amounts making up this obligation generally comprise policies or contracts for which no current disbursements are incurred and for which the determination of potential payments is dependent on assumptions like mortality and persistency. In the absence of a specific contractual disbursement schedule, these amounts have been classified as long term in nature. Sagicor conducted a specific analysis of the contracts in force, particularly the endowments and the accumulation funds, for their maturity dates in order to classify them according to their payment due date. The payments due in the less

than one year column, will generally relate to IBNR claims which Sagicor anticipates will be settled in the year immediately following. Amounts included in the actuarial liabilities, within the contractual obligations table, represent the AA's best estimate, with additional margins, of the present value of all future cash flow obligations related to the current policies and contracts in force within Sagicor.

- (2) Deposit administration contracts are held for the benefit of employees participating in pension schemes developed by their employer. Sagicor's experience has been that these deposits are typically held for more than five years.
- (3) This liability is made of policyholders' dividends left on deposit which Sagicor considers demand deposits, benefits in the course of settlement as well as the unearned premiums reserves which the Company assumes will be either disbursed or released in the course of the following year.
- (4) Interest to be paid over the maturity period is included in these amounts.
- (5) Purchase obligations include commitments to advance loans of US\$79.0 million, non-cancellable operating lease and rental payments of US\$13.3 million, capital commitments of US\$17.8 million and guarantees, acceptances and other financial liabilities of US\$31.2 million.

Capital adequacy

Sagicor Life

Capital adequacy is managed at the operating company level. It is calculated by the company's AA and reviewed by executive management, the audit committee and the board of directors of the company. In addition, Sagicor seeks to maintain internal capital adequacy at levels higher than the regulatory or internationally recognised requirements.

To assist in evaluating the current business and strategy opportunities, a risk-based capital approach is a core measure of financial performance. The risk-based assessment measure which has been adopted is the Canadian MCCR standard. The minimum standard recommended by the Canadian regulators for companies is an MCCR of 150.0%. A number of jurisdictions in the Caribbean region have no internationally recognised capital adequacy requirements, and in accordance with its objectives for managing capital, Sagicor has adopted the Canadian MCCR standard. Jamaica and the United States have recognised capital adequacy standards.

Sagicor's consolidated MCCR as of September 30, 2018 has been estimated at 248%, compared to 258% and 249% at December 31, 2017 and December 31, 2016, respectively. This is the principal standard of capital adequacy used to assess Sagicor's overall strength. However, because of the variations in capital adequacy standards across jurisdictions, the consolidated result should be regarded as applicable to the life insurers of the Sagicor Group as a whole and not necessarily applicable to each individual segment, insurance subsidiary or insurance subsidiary branch.

Sagicor Life Jamaica

Sagicor Life Jamaica is governed by the Jamaican MCCR regime (based on Canadian standards in effect in 2001), which requires an insurer to maintain a minimum ratio of 150.0%. For the years ended December 31, 2017 and 2016, this ratio was 186.0% and 156.5%, respectively. At September 30, 2018, the ratio was 190.2%.

Sagicor Life Insurance Company (USA)

A risk-based capital formula and model were adopted by the NAIC of the United States. Risk-based capital is designed to assess minimum capital requirements and raise the level of protection that statutory surplus provides for policyholder obligations. The risk-based capital formula for life insurance companies measures four major areas of risk: (i) underwriting, which encompasses the risk of adverse loss developments; (ii) declines in asset values arising from credit risk; (iii) declines in asset values arising from investment risks, including concentrations; and (iv) off-balance sheet risk arising from adverse experience from non-controlled assets such as reinsurance guarantees for affiliates or other contingent liabilities and reserve and premium growth. If an insurer's statutory surplus is lower than required by the risk-based capital calculation, it will be subject to varying degrees of regulatory action, depending on the level of capital inadequacy.

The risk-based capital methodology provides for four levels of regulatory action. The extent of regulatory intervention and action increases as the ratio of surplus to risk-based capital falls. The least severe regulatory action is the "Company Action Level" (as defined by the NAIC) which requires an insurer to submit a plan of corrective actions to the regulator if surplus falls below 200% of the risk-based capital amount.

Sagicor Life USA looks to maintain at least 300% of the Company Action Level and has maintained these ratios as of September 30, 2018 and December 31, 2017 and 2016, respectively.

Sagicor Investments and Sagicor Bank

The capital adequacy and the use of regulatory capital are monitored monthly by management employing techniques based on the guidelines developed by the FSCJ, the Bank of Jamaica, Basel II and the Risk Management and Compliance Unit. The required information is filed with the respective regulatory authorities at stipulated intervals. The Bank of Jamaica and the FSCJ require each regulated entity to hold the minimum level of regulatory capital, and to maintain a minimum ratio of total regulatory capital to the risk-weighted assets.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of each asset and counterparty, taking into account, any eligible collateral or guarantees. A similar treatment is adopted for off financial statements exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the capital adequacy ratios. During 2018, 2017 and 2016, all applicable externally imposed capital requirements were complied with.

	Sagicor Investments			Sagicor Bank		
	September 2018	December 2017	December 2016	September 2018	December 2017	December 2016
Actual capital base to risk weighted assets	14%	16%	13%	13%	15%	14%
Required capital base to risk weighted assets	10%	10%	10%	10%	10%	10%

Significant Transactions

Sagicor’s results of operations during the last three fiscal years were affected by a number of significant transactions. The following is a description of those transactions.

Senior notes issued

On August 11, 2015, Sagicor issued seven year senior notes in the amount of US\$320.0 million which mature in 2022 (the “**2022 Notes**”). The notes carry a fixed annual rate of interest of 8.875% payable semi-annually. The 2022 Notes were issued to refinance the existing senior notes, convertible redeemable preference shares and short-term Notes which were due to mature in May 2016. Financial covenants in respect of the 2022 Notes are summarised in note 46.3(a) of the 2017 Sagicor Audited Annual Financial Statements.

Preferred shares issued to the International Finance Corporation

On July 18, 2016, the Company redeemed the 120,000,000 convertible redeemable preference shares which were originally issued on July 18, 2011.

Short term debt repayment

On March 22, 2016, the Company repaid, before maturity, the US\$43.4 million of short term debt. On March 21, 2016, the Company issued a tranche of fourteen-month notes with par value of US\$75.0 million which were repayable in 2017 and carried a 5.0% annual rate of interest. Effective December 20, 2016, these notes were extended at an annual rate of interest of 4.85% with a maturity date of August 14, 2019. Financial covenants in respect of these notes are summarised in note 46.3(b) of the 2017 Sagicor Audited Annual Financial Statements.

Barbados Debt Restructuring

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 launched a debt exchange offer for GoB domestic Barbados dollar debt holders on September 7, 2018. The GoB announced on October 15, 2018 that its exchange offer received unanimous support from the domestic creditors. This concluded the domestic debt restructuring. A restructuring plan has not yet been announced for the external US dollar denominated debt. The Sagicor Group holds approximately US\$337 million in GoB debt, of which US\$278 million is Domestic Barbados-dollar denominated debt. The Sagicor Group has determined the net impact of the credit events on GoB debt to shareholders at approximately US\$43.0 million for the nine months ended September 30, 2018 (gross expected credit losses of US\$101 million less actuarial offset), of which all have been reserved for as reflected in the September 30, 2018 financial statements, and which was the main factor causing the decrease in our results. Sagicor does not expect that there will be any incremental impact on Sagicor as it relates to the external US dollar denominated debt.

Ratings

Three of Sagicor’s subsidiaries (Sagicor Life, Sagicor Life USA, and Sagicor General) have an “A-” (Stable) Financial Strength Rating from A.M. Best and one of Sagicor’s subsidiaries (Sagicor Jamaica) has a “B++” (Stable) Financial Strength Rating from A.M. Best. The “A-” (Stable) rating is assigned to insurance companies which in A.M. Best’s opinion have an excellent ability to meet their ongoing obligations to their policyholders and is the fourth highest rating assigned by A.M. Best. The “B++” (Stable) rating is assigned to insurance companies which in A.M. Best’s opinion have a good ability to meet their ongoing obligations to their policyholders and is the fifth highest rating assigned by A.M. Best. Each rating is an independent opinion, based on a comprehensive quantitative and qualitative evaluation of a company’s balance sheet strength, operating performance and business profile. A rating is not a guarantee of performance or financial strength.

	A.M. Best ⁽¹⁾	S&P ⁽²⁾	Fitch ⁽³⁾
Sagicor Life Insurance Company			
Financial Strength	A- (Stable)		
Issuer Credit Rating	a- (Stable)		
Sagicor Life Jamaica Limited			
Financial Strength	B++ (Stable)		
Issuer Credit Rating	bbb+ (Stable)		
Sagicor Life Inc.			
Financial Strength	A- (Stable)		
Issuer Credit Rating	a- (Stable)		
Sagicor Financial Corporation Limited			
Issuer Credit Rating	bbb- (Stable)	BB- (Developing)	B (Stable) (Long term issuer default rating)
Sagicor Finance (2015) Limited			
Senior Unsecured	bbb (Stable)	BB- (Developing)	
Sagicor General Insurance Inc.			
Financial Strength	A- (Stable)		
Issuer Credit Rating	a- (Stable)		

(1) Updated August 31, 2018, except Sagicor Finance (2015) Limited, which was updated April 11, 2015, and Sagicor General, which was updated August 10, 2018;

(2) Updated June 7, 2018 (event driven regarding Barbados debt).

(3) Updated June 6, 2018.

Outstanding Share Data

A description of Sagicor’s share data at September 30, 2018 is presented in the table below.

	Number of Shares	Amount (in thousands of US\$)
Common shares	305,872,015	303,530

Additional Financial Disclosure

Selected Quarterly Financial Information

The following table provides a summary of Sagicor's results for the eight most recently completed quarters.

(US\$ millions, unless otherwise noted)	Quarterly Results							
	Q3'18	Q2'18	Q1'18	Q4'17	Q3'17	Q2'17	Q1'17	Q4'16
Total revenue	430.1	342.0	296.6	309.9	348.3	280.2	282.5	283.7
Net income (loss)								
Attributable to Common Shareholders from Continuing Operations	7.0	2.0	19.5	14.4	28.6	5.6	12.4	10.1
From Continuing Operations	19.7	(2.4)	38.5	27.6	37.5	17.5	22.7	19.9
Earnings Per Sagicor Common Share (US\$)								
Diluted EPS (from Continuing Operations) (US\$)	0.02 2	0.00 7	0.06 2	0.05 1	0.09 2	0.01 8	0.04 0	0.03 3
Basic EPS (from Continuing Operations) (US\$)	0.02 3	0.00 7	0.06 4	0.05 3	0.09 4	0.01 8	0.04 1	0.03 3
Net income (loss) by segment								
Sagicor Life	1.1	5.2	27.8	14.1	30.3	7.0	13.3	9.9
Sagicor Jamaica	12.6	11.7	10.6	11.1	13.3	11.5	10.1	6.7
Sagicor Life USA	12.1	2.8	(3.2)	4.1	2.9	2.8	2.8	6.5
Head office and other	(17.2)	19.4	(15.1)	7.5	(17.7)	21.9	(5.0)	13.8
Corporate eliminations	(1.6)	(37.1)	(0.6)	(22.4)	(0.2)	(37.6)	(8.8)	(26.8)
Net income (loss)	7.0	2.0	19.5	14.4	28.6	5.6	12.4	10.1

Third Quarter 2018

Net income from continuing operations attributable to shareholders was US\$7.0 million in the three month period ended September 30, 2018. The Company benefited from increased new business growth through the sale of annuities, compared to the previous quarter (June 2018). Total benefits also exceeded the prior quarter's levels (June 2018) due to new business growth and refinements made to the actuarial assumptions in response to changes in the interest rate environment.

On September 7, 2018 the 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 launched a debt exchange offer for GoB Domestic Barbados-dollar debt holders on September 7, 2018. The GoB announced on October 15, 2018 that its debt exchange offer received unanimous support from the domestic creditors. A restructuring plan has not been announced for external US dollar denominated debt. The Sagicor Group holds approximately US\$337 million in GoB debt, of which US\$278 million is Domestic Barbados-dollar debt. Consequently, expenses for the September

2018 quarter (three-month period), include an additional US\$38.2 million in credit impairment losses. The year to date total gross credit impairment losses amount to US\$96.0 million.

Second Quarter 2018

Net income from continuing operations attributable to shareholders was US\$2.0 million in the second quarter of 2018, down from US\$19.5 million reported for the first quarter of 2018. Revenue reported for the three-month period ended June 30, 2018 grew over that reported for the three months ended March 31, 2018, however this was negated by increased benefits driven by new business growth, primarily due to acquired annuities, and changes in the interest rate environment. Expenses for the June 2018 quarter, also included credit impairment losses totaling US\$57.8 million, as the GoB signaled its intention to suspend all payments to creditors of external commercial debt. Of the US\$57.8 million reported, US\$56.0 million related to the GoB debt.

First Quarter 2018

Net income from continuing operations, attributable to shareholders, was US\$19.5 million in the first quarter of 2018 (first quarter March 2017 – US\$12.4 million). The Company benefited from net premium growth and lower net benefits when compared to the same period in 2017, however net investment fell short of that reported for the same period in 2017. The first quarter results also included a one-time gain of US\$5.3 million on the acquisition of the British American insurance portfolio from the GoB. Compared to the prior quarter (three-month period ended December 31, 2017), premium growth was marginal but was expected to grow as the year progressed. Benefits were however substantially lower than the previous quarter's resulting in a higher profitability reported for the first quarter of 2018.

Fourth Quarter 2017

Net income from continuing operations attributable to shareholders was US\$14.4 million in the fourth quarter of 2017, closing US\$14.2 million lower the previous quarter (third quarter of 2017). The quarter's results included net benefits of US\$8.5 million relating to claims exposure from hurricane activity during the year as well as impairment losses to the tune of US\$6.7 million which were not incurred in the previous quarter.

Third Quarter 2017

Net income from continuing operations attributable to shareholders was US\$28.6 million for the three-month period ended September 30, 2017. During the quarter the Company benefited from the issuance of a significant single premium annuity relating to our Jamaica segment. This transaction generated higher premiums and benefits reported than in the prior three-month period (ended June 30, 2017). During this three-month period, the Company also benefitted from higher net investment income of US\$21.9 million, when compared to the previous quarter (ended June 30, 2017) due to higher investments gains generated on our international portfolio.

Second Quarter 2017

Net income from continuing operations attributable to shareholders was US\$5.6 million for the three-month period ended June 30, 2017. While net premium revenue grew moderately over the prior quarter (three-months ended March 30, 2017), net investment income and fees and other revenue fell short when compared to the prior quarter (ended March 30, 2017) due to lower gains earned on the international market. Our Jamaica segment also continued to incur non-recurring costs associated with the expansion of cards and payments business

First Quarter 2017

Net income from continuing operations attributable to shareholders was US\$12.4 million for the first three months of 2017. Total revenue closed the period at US\$282.5 million, (first quarter of 2016 – US\$264.4 million), largely due to net premium growth and increased revenue earned on our investment portfolio. Benefits totaled US\$137.2 million and were marginally above the US\$134.0 million reported for the same period in 2016. The level of expenses incurred during the first quarter of 2017 three-month period was higher than that reported for the same

period in the prior year as a result of the expansion of cards and payments business in our Jamaica segment along with the incurrence of some non-recurring costs also relating to our Jamaica Segment.

Key Factors Affecting Results

A variety of factors affect Sagicor's results, including: sales of Sagicor's core products and services; Sagicor's policy experience; the Sagicor Group's claims experience; Sagicor's expansion into new geographic markets (in the United States) and product markets (in Jamaica) through the acquisition of portfolios of policies or of companies; and the continuing availability of appropriately priced reinsurance treaties for life, health and property and casualty insurance.

Investments and Interest Rates

Sagicor's results of operations are significantly affected by the returns it realises on its investment portfolio. The financial services sector in the Caribbean has been impacted by excess liquidity in some regions. This excess liquidity has resulted in the trend towards lower prevailing interest rates. In 2017, interest rates started to show modest increases in some regions and these trends have largely continued into 2018.

Movements in both short and long-term interest rates affect Sagicor's gains and losses on fixed income securities. Generally, a sustained period of lower interest rates will reduce the investment income yield of Sagicor's investment portfolio over time as higher-yielding investments are called, mature or are sold and proceeds are reinvested at lower rates. However, declining interest rates will generally increase unrealised gains, as well as realised gains to the extent fixed income securities are sold. Conversely, a sustained period of rising interest rates will increase the investment income yield on the portfolio over time but will generally lead to a reduction in the value of the portfolio.

Sagicor is subject to extensive regulation and supervision by the regulatory authorities of the jurisdictions in which it operates. Existing regulations governing insurance companies in the region require Sagicor's subsidiaries to establish and maintain insurance funds generally equivalent to insurance liabilities and contingency reserves within the countries where it operates. In addition, in certain countries, Sagicor's subsidiaries are subject to further administrative or legislative regulation and restrictions imposed on the conversion and movement of foreign exchange. Sagicor's insurance activities in the region are significant and, consequently, it must make substantial investments in the region to comply with domestic investment and reserve rules. Sagicor invests in securities issued by government or government-related entities. These securities include Treasury Bills, Bonds, Statutory Deposits and loans and are for terms of up to 50 years.

A portion of Sagicor's investment portfolio is also held in equity securities. Equities markets in the United States and around the world can produce highly volatile and significantly varied results. Sagicor also maintains equity investments in issuers in Barbados and other emerging market countries. Such equity markets are small and developing and may be affected by regional economic and market conditions. The volatility of the investment markets impacts Sagicor's investment performance. The impact of interest rates and equity market fluctuations may be reduced through the diversification of Sagicor's investment portfolio, principally developed as a result of the geographic spread of Sagicor's insurance businesses and the corresponding strategy of matching assets and liabilities to the extent possible by currency and maturity. Sagicor's current strategy is to reduce Sagicor's equity investments to more closely align Sagicor's current and projected cash flows with Sagicor's projected obligations.

Sagicor's investment returns are also susceptible to changes in general economic conditions, including changes that impact the general creditworthiness of the issuers of debt securities and equity securities held in Sagicor's portfolio. The value of Sagicor's fixed income securities may be affected by changes in the issuer's credit rating. Where the credit rating of the issuer of the debt securities drops, the value of the fixed income security may also decline. Should the credit rating of an issuer whose debt securities Sagicor holds fall substantially, Sagicor may realise a significant loss on investment upon its disposal.

Financial Instruments and Other Instruments

The Group's derivative activities give rise to open positions in portfolios of derivatives. These positions are managed to seek to ensure that they remain within acceptable risk levels, with matching deals being utilised to

achieve this where necessary. When entering into derivative transactions, the Group employs its credit risk management procedures to assess and approve potential credit exposures.

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

(in thousands of US\$)	Contract / notional amount	Fair Value	
		Assets	Liabilities
September 2018			
Derivatives held for trading:			
Equity indexed options	722,505	27,015	1,237
	<u>722,505</u>	<u>27,015</u>	<u>1,237</u>
December 2017			
Derivatives held for trading:			
Equity indexed options	713,452	32,477	2,232
	<u>713,452</u>	<u>32,477</u>	<u>2,232</u>
December 2016			
Derivatives held for trading:			
Equity indexed options	673,264	28,980	1,364
	<u>673,264</u>	<u>28,980</u>	<u>1,364</u>

Equity Indexed Options

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

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

Related Party Transactions

Notes 47 and 48 of the 2017 Sagicor Audited Annual Financial Statements provide additional information on related party transactions.

As at December 31, 2017, balances owed to Sagicor Life Jamaica Limited exceeded the regulated 5% maximum of related party balances to total assets of the Company. Management is in discussions with the regulator, FSCJ, in relation to this matter. The regulator has given certain exemptions and not imposed any penalty.

Financial Outlook

Alignvest and Sagicor see a clear path to substantial equity value creation for all New Sagicor Shareholders. We believe that we have an opportunity to grow Sagicor's net income from US\$62 million, for the year ended December 31, 2017, to a target of US\$115 million in 2020, based on the following:

- Sagicor estimates that net income from continuing operations to shareholders for the twelve months ended September 30, 2018, excluding a \$43 million net loss due to the restructuring of the Government of Barbados debt, would have been \$87 million, and that net of both the \$43 million loss and certain positive one-time net income figures, sustainable net income from continuing operations to shareholders for 2018 would be approximately \$70 million; and
- Alignvest and Sagicor expect that the acquisition of SLTT and SJLIC will contribute annual run-rate net income of approximately US\$30 million following the anticipated closing in 2020, subject to regulatory approval. The completion of these transactions is not cross-conditional on each other, but both are conditional on the close of the Sagicor Arrangement, and they may close at different times. See "*Proposed Acquisitions – Proposed Acquisitions of SJLIC and SLTT*".

Alignvest and Sagicor are targeting the following contributions to net income in 2019 and 2020:

Sagicor's Continuing Operations

2019	US\$77 million
2020	US\$85 million

SJLIC Acquisition and SLTT Acquisition

2020	US\$30 million (annualized run-rate)
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Alignvest and Sagicor are accordingly targeting 2019 net income of approximately US\$77 million and 2020 net income of approximately US\$115 million.¹¹

Importantly, Alignvest and Sagicor believe that Sagicor trades at an unwarranted discount to its Canadian and Caribbean peers in large part due to the Company's disaggregated shareholder base and muted price discovery on its current stock exchanges. Alignvest and Sagicor expect that the discount at which the Company currently trades on the Barbados and Trinidad and Tobago stock exchanges compared to Canadian peers should be reduced or eliminated over time as a result of Alignvest's listing on the TSX.

In developing the targets set forth above, Alignvest and Sagicor have made the following assumptions and relied on the following factors and considerations:

- The targets are based on discussions with the management and historical results, particularly in respect of 2018 year to date results.
- The acquisitions of SJLIC and SLTT will close in Q4, 2019, but the completion of these transactions is not cross-conditional on each other, but both are conditional on the close of the Sagicor Arrangement.

¹¹ Excluding one-time Transaction Costs.

- Organic revenue growth has been assumed as 6% per annum for Sagicor’s continuing operations in 2019 and 5% in 2020.
- Revenue growth has been assumed to be 14% in 2020 for the SJLIC and SLTT acquisitions as new product penetration of the BNS Jamaica and BNS TT customer base increases.
- Investment returns in each of the three core segments have been assumed to be consistent with historical experience, excluding the GoB debt.
- Product mixes have been assumed to be stable in the core business of Sagicor, and to move to a mix consisting of 12% life insurance starting in 2020 in the case of the SJLIC and SLTT acquisitions.
- Head office costs are assumed to remain stable in 2019 and 2020.
- The acquisition of SJLIC and SLTT are assumed to be financed with \$100 million of new borrowing at after-tax 6% per annum and \$140 million of Alignvest capital.
- Policy lapses, maturities and renewals, and claims histories are assumed to be consistent with the year 2017.

Alignvest and Sagicor have also assumed that business and economic conditions affecting the businesses will continue substantially in the ordinary course, including, without limitation, with respect to general industry conditions, foreign exchange rates, interest rates, competition, regulations, reserve requirements, taxes, that there will be no catastrophic events or pandemics that are not adequately covered by reinsurance, and that there will be no material changes in customer or employee relations.

Deal pricing was based primarily on 2019 targets, and, accordingly, these targets have been presented to provide investors with the information that was used by Alignvest and Sagicor in negotiating the purchase prices of the various businesses.

These targets, and the related assumptions, involve known and unknown risks and uncertainties that may cause actual results to differ materially. Alignvest and Sagicor approved these targets on November 26, 2018 and, while they believe that there is a reasonable basis for these targets, such targets may not be met.

These targets represent forward-looking information. Actual results may vary and differ materially from the targets. Furthermore, there can be no assurance that foreign currency exchange rates, taxation rates, level of indebtedness, or interest expense will be consistent with our assumptions, as actual rates and levels may vary in the future, or that we will be able to successfully complete or integrate acquisitions.

The foregoing description of our potential growth opportunities is based on Alignvest’s and Sagicor’s current strategies, our assumptions and expectations concerning our growth opportunities, and our assessment of the opportunities for the business and the industry as a whole, and has been calculated using accounting policies that are generally consistent with our current accounting policies.

The purpose of disclosing our financial outlook is to provide investors with more information concerning the financial impact that Alignvest and Sagicor currently believe is achievable based on Sagicor growth strategies described above and elsewhere in this prospectus. The foregoing description of our potential growth opportunities is forward-looking information for purposes of applicable securities laws in Canada and readers are therefore cautioned that actual results may vary from those described above. See “*Caution Regarding Forward-Looking Statements*” and “*Risk Factors*” elsewhere in this prospectus for a description of the assumptions underlying the forward-looking information and of the risks and uncertainties that impact our business and that could cause actual results to vary.

Accounting and Control Measures

Critical Accounting Estimates and Judgments

Impairment of financial assets

In determining ECL, management is required to exercise judgement in defining what is considered a significant increase in credit risk and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions. Further information about the judgements involved is included in the earlier sections 'Measurement' and 'Forward-looking information'.

(a) Establishing staging for debt securities and deposits

The Group's internal credit rating model is a 10-point scale which allows for distinctions in risk characteristics and is referenced to the rating scale of international credit rating agencies. The scale is set out in the following table:

Category		Sagcor Risk Rating	Classification	S&P	Moody's	Fitch	AM Best
Non-default	Investment grade	1	Minimal risk	AAA, AA	Aaa, Aa	AAA, AA	aaa, aa
		2	Low risk	A	A	A	a
		3	Moderate risk	BBB	Baa	BBB	bbb
	Non-investment grade	4	Acceptable risk	BB	Ba	BB	bb
		5	Average risk	B	B	B	b
	Watch	6	Higher risk	CCC, CC	Caa, Ca	CCC, CC	ccc, cc
		7	Special mention	C	C	C	c
Default	8	Substandard	D	C	DDD	d	
	9	Doubtful			DD		
	10	Loss			D		

The Group uses its internal credit rating model to determine which of the three stages an asset is to be categorized for the purposes of ECL.

Once the asset has experienced a significant increase in credit risk the investment will move from Stage 1 to Stage 2. Sagcor has assumed that the credit risk of a financial instruments has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial asset that is investment grade or Sagcor risk rating of 1-3 is considered low credit risk.

Stage 1 investments are rated (i) investment grade, or (ii) below investment grade and have not been downgraded more than 2 notches since origination. Stage 2 investments are assets which (i) have been downgraded from investment grade to below investment grade, or (ii) are rated below investment grade and have been downgraded more than 2 notches since origination. Stage 3 investments are assets in default.

(b) Establishing staging for other assets measured at amortised cost, lease receivables, loan commitments and financial guarantee contracts

Exposures are considered to have resulted in a significant increase in credit risk and are moved to stage 2 when:

Qualitative test

- accounts that meet the portfolio's 'high risk' criteria and are subject to closer credit monitoring.

Backstop Criteria

- accounts that are 30 calendar days or more past due. The 30 days past due criteria is a backstop rather than a primary driver of moving exposures into stage 2.

(c) Forward looking information

When management determines the macro-economic factors that impact the portfolios of financial assets, they first determine all readily available information within the relevant market. Portfolios of financial assets are segregated based on product type, historical performance and homogenous country exposures. There is often limited timely macro-economic data for Barbados, Eastern Caribbean, Trinidad and Jamaica. Management assesses data sources from local government, International Monetary Fund and other reliable data sources. A regression analysis is performed to determine which factors are most closely correlated with the credit losses for each portfolio. Where projections are available, these are used to look into the future up to three years and subsequently the expected performance is then used for the remaining life of the product. These projections are re-assessed on a quarterly basis.

Recognition and measurement of intangible assets

The recognition and measurement of intangible assets, other than goodwill, in a business combination involve the utilisation of valuation techniques which may be very sensitive to the underlying assumptions utilised. These intangibles may be, among other things, marketing related, customer related, contract based or technology based. For significant amounts of intangibles arising from a business combination, Sagicor uses independent professional advisors to assist management in determining the recognition and measurement of these assets.

Impairment of intangible assets

Goodwill

Goodwill arises from past acquisitions and is allocated to cash generating units ("CGUs"). Goodwill is tested annually for impairment. The recoverable amount of a CGU is determined as the higher of its value in use or its fair value less costs to sell. For those CGUs for which the fair value less costs to sell methodology is used, the financial projections are used as inputs to determine maintainable earnings over time to which an appropriate earnings multiple is applied. For those CGUs for which the value in use methodology is used, cash flows are estimated to which are applied appropriate discount factors and residual growth rates, or alternatively, the cash flows are estimated for 50 years using an actuarial appraisal value technique which incorporates appropriate discount rates and solvency capital requirements. Sagicor obtains independent professional advice in order to select the relevant discount factors, residual growth rates and earnings multiples.

Goodwill impairment is calculated on a yearly basis. No impairment charges were recognized for the year ended December 31, 2017. Sagicor had a carrying value of US\$44.2 million in goodwill for the year ended December 31,

2017. Additional information on goodwill can be found in note 8 of our 2017 Sagicor Audited Annual Financial Statements.

Other intangible assets

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

Actuarial liabilities

Canadian asset liability method

The objective of the valuation of policy liabilities is to determine the amount of the insurer's assets that, in the opinion of the AA of the insurer and taking into account the other pertinent items in the financial statements, will be sufficient without being excessive to provide for the policy liabilities over their respective terms. The amounts set aside for future benefits are dependent on the timing of future asset and liability cash flows.

The actuarial liabilities are determined as the present value of liability cash flows discounted at effective interest rates resulting in a value equivalent to the market value of assets supporting these policy liabilities under an adverse economic scenario.

The AA identifies a conservative economic scenario forecast, and together with the existing investment portfolio as of the date of the actuarial valuation and assumed reinvestment of net asset and policy liability cash flows, calculates the actuarial liabilities required at the date of valuation to seek to ensure that sufficient monies are available to meet the liabilities as they become due in future years.

The methodology produces the total reserve requirement for each policy group fund. In general, the methodology is used to determine the net overall actuarial liabilities required by the insurer. Actuarial liabilities are computed by major group of policies and are used to determine the amount of reinsurance balances in the reserve, the distribution of the total reserve by country (for statutory reporting), and the distribution of the reserve by policy, and other individual components in the actuarial liabilities.

Best estimate reserve assumptions and provisions for adverse deviations

Actuarial liabilities include two major components: a best estimate reserve and a provision for adverse deviations. The latter provision is established in recognition of the uncertainty in computing best estimate reserves, to allow for possible deterioration in experience and to provide greater comfort that reserves are adequate to pay future benefits.

For the respective reserve assumptions for mortality and morbidity, lapse, future investment yields, operating expenses and taxes, best estimate reserve assumptions are determined where appropriate. The assumption for operating expenses and taxes is in some instances split by participating, non-participating and universal life/unit linked business.

Provisions for adverse deviations are established in accordance with the risk profiles of the business, and are, as far as is practicable, standardised across geographical areas. Provisions are determined within a specific range established by the Canadian Standards of Practice.

The following is a discussion of the assumptions used in calculating the reserves:

Process used to set actuarial assumptions and margins for adverse deviations

At each date for valuation of actuarial liabilities, the AA of each insurer reviews the assumptions made at the last valuation date. The AA reviews the validity of each assumption by referencing current data, and where appropriate,

changes the assumptions for the current valuation. A similar process of review and assessment is conducted in the determination of margins for adverse deviations. Any changes in actuarial standards and practice are also incorporated in the current valuation.

Assumptions for mortality and morbidity

Mortality rates are related to the incidence of death in the insured population. Morbidity rates are related to the incidence of sickness and disability in the insured population. Annually, insurers update studies of recent mortality experience. The resulting experience is compared to external mortality studies including tables from the CIA. Appropriate modification factors are selected and applied to underwritten and non-underwritten business respectively. Annuitant mortality is determined by reference to CIA tables or to other established scales. Assumptions for morbidity are determined after taking into account insurer and industry experience.

Assumptions for lapse

Policyholders may allow their policies to lapse prior to the maturity date either by choosing not to pay premiums or by surrendering their policy for its cash value. Lapse studies are updated annually by insurers to determine the persistency of the most recent period. Assumptions for lapse experience are generally based on moving averages.

Assumptions for investment yields

Returns on existing variable rate securities, shares, investment property and policy loans are linked to the current economic scenario. Yields on reinvested assets are also tied to the current economic scenario. Returns are, however, assumed to decrease and it is assumed that at the end of twenty years from the valuation date, all investments, except policy loans, are reinvested in long-term, default free government bonds.

Assumptions for operating expenses and taxes

Policy acquisition and policy maintenance expense costs for the long-term business of each insurer are measured and monitored using internal expense studies. Policy maintenance expense costs are reflected in the actuarial valuation after adjusting for expected inflation. Costs are updated annually and are applied on a per policy basis. Taxes reflect assumptions for future premium taxes and income taxes levied directly on investment income. For income taxes levied on net income, actuarial liabilities are adjusted for policy related recognised deferred tax assets and liabilities.

Asset default

The AA of each insurer includes a provision for asset default in the modelling of the cash flows. The provision is based on industry and Sagicor's experience and includes specific margins, where appropriate, for assets backing the actuarial liabilities, e.g. for investment property, equity securities, debt securities, mortgage loans and deposits.

Margins for adverse deviations

Margins for adverse deviations are determined for the assumptions in the actuarial valuations. The application of these margins resulted in provisions for adverse deviations being included in the actuarial liabilities as set out in the following table:

	As of December 31,		
	2017	2016	2015
	(in millions of US\$)		
Mortality and morbidity	96.1	90.0	82.4
Lapse.....	69.4	63.9	59.6
Investment yields and asset default	68.9	69.1	68.8
Operating expenses and taxes	10.8	11.1	11.1
Other	10.8	10.5	10.0
Total.....	<u>256.0</u>	<u>244.6</u>	<u>231.9</u>

(1) Unaudited.

Property and casualty insurance contracts

Reserves for claims and loss adjustment expenses fall into two categories: case reserves for reported claims and reserves for unreported claims.

Case reserves for reported claims are based on estimates of future payments that will be made in respect of claims, including loss adjustment expenses related to such claims. Such estimates are made based on the facts and circumstances available at the time the reserves are established. The estimates reflect the judgment of knowledgeable claims personnel and analysis of the nature and maximum value of the claim. These case reserves are regularly re-evaluated in the ordinary course of the settlement process and adjustments are made as new information becomes available.

Reserves for unreported claims are established to recognise losses that have occurred but where Sagicor has not yet been notified. These reserves are established to recognise the estimated costs, including expenses, necessary to bring claims to final settlement. Sagicor relies on past experience, adjusted for current trends and statistical projections.

Qualitative and Quantitative Disclosure About Market Risk

Sagicor is in the business of taking risks and must manage those risks effectively to generate profitable growth, safeguard Sagicor's reputation and protect Sagicor's solvency. Sagicor's activities are related principally to the use of financial instruments and insurance contracts. Therefore, in Sagicor's daily activities it is exposed to a number of risks, the most significant of which include product risk, credit risk, foreign exchange risk, interest rate risk, liquidity risk, insurance risk, reinsurance risk and fiduciary risk. These risks can result in direct financial loss, damage to reputation, inability to conduct business or service customers, each of which can impact shareholder value. The effective identification and management of these risks is critical to Sagicor's profitability. In Sagicor's risk management, the Company seeks to optimize the relationship between risk and reward and to limit possible losses resulting from Sagicor's risk exposure. A discussion of the risks associated with these risk management techniques is included in note 41 to the 2017 Sagicor Audited Annual Financial Statements included elsewhere in this prospectus.

Product risk

Product risk is the risk of loss due to actual experience emerging differently than assumed when the product was designed and priced. Sagicor manages product risk by regularly reviewing emerging experience against predicted losses and then re-pricing and redesigning products when necessary. In addition, we share Sagicor's product risk on large exposures through reinsurance.

Credit risk

Sagicor takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risks are primarily associated with financial investments and reinsurance contracts held. Credit

risk is the possibility that counterparties may not be able to meet payment obligations when they become due. As premiums, deposits and other receivables are received; these funds are invested to pay for future policyholder and other obligations. We typically bear the risk for investment performance—return of principal and interest. Although we have not experienced any significant credit defaults with respect to any of Sagicor’s counterparties in recent years, any such defaults or other reductions in the value of their securities or loans could have a material adverse effect on Sagicor’s business, results of operations and financial condition.

The investment committees of Sagicor’s operating companies set policies to manage credit risk. Specific limits are set for concentration by asset class and issuer, in addition to minimum standards for asset quality. Further, we deal only with highly rated reinsurers in an effort to manage counterparty risk. We minimize credit risk from financial investments through holding a diversified portfolio of investments, purchasing securities and advancing loans only after careful assessment of borrowers, and placing deposits with financial institutions that have a strong capital base. Sagicor’s policy is to not invest more than 10% of funds in the debt of a single borrower. However, many jurisdictions mandate that the operating companies invest a portion of the assets supporting the policy liabilities in government instruments such as treasury bills and bonds.

Sagicor has significant concentrations of credit risk with respect to Sagicor’s holding of bonds and treasury bills issued by the governments of Jamaica, Barbados and Trinidad and Tobago, reinsurance treaties entered into with Swiss Re and Munich Re and cash resources held by FirstCaribbean International Bank. In the United States, Sagicor has significant exposure to United States Government issued and/or government-backed investments (including state and local governments). Sagicor’s current panel of reinsurers includes Guggenheim Partners, Heritage Life Insurance Company, Washington National, SCOR Global Life USA Reinsurance Co, Hanover Life Reinsurance Co of America, and Swiss Re Life and Health America.

In Sagicor Jamaica’s banking business, we are exposed to credit risk in both Sagicor’s securities and lending activities. In connection with securities activities, Sagicor Investments trades on a “delivery versus payment” policy where Government of Jamaica securities are accepted on a mark-to-market basis with its counterparties. Exposure limits are also established and monitored. In its lending activities, Sagicor Jamaica seeks to adequately collateralise its loans, particularly where they exceed certain thresholds. Loan applicants undergo a thorough screening and credit analysis process.

Foreign exchange risk

Sagicor is exposed to foreign exchange risk as a result of fluctuations in exchange rates since Sagicor’s financial assets and liabilities are denominated in a number of different currencies. In order to manage the risk associated with movements in currency exchange rates, Sagicor seeks to maintain investments and cash in each operating currency sufficient to match liabilities denominated in the same currency. Sagicor also invests limited amounts in United States dollar assets, which are held to pay liabilities in operating currencies. Management believes that this strategy adequately meets Sagicor’s asset and liability management goals with respect to currencies and in the long-term is likely to either maintain capital value or provide satisfactory returns.

Sagicor Jamaica seeks to manage its exposure to currency risks (primarily U.S. and Caribbean currencies) through assessing the trade-off between interest rate spreads and currency movements, adherence to stop-loss limits and frequent monitoring of positions. Sagicor Jamaica measures, monitors and attempts to manage liquidity and price risks in these major currencies in determining currency strategy.

The following table shows currency conversion rates to US\$ for currencies to which Sagicor has foreign exchange risk for the periods indicated:

	Nine months ended		Year ended	
	September 2018		December 2017	
	Closing Rate	Average Rate	Closing Rate	Average Rate
Bahamas dollar.....	1.0000	1.0000	1.0000	1.0000
Barbadian dollar.....	2.0000	2.0000	2.0000	2.0000
Belize dollar.....	2.0000	2.0000	2.0000	2.0000
Canadian dollar.....	1.29680	1.27820	1.25280	1.29640
Cayman Islands dollar....	0.8350	0.8350	0.8350	0.8350
Eastern Caribbean dollar	2.7000	2.7000	2.7000	2.7000
Jamaica dollar	134.5434	128.1390	124.5754	128.0938
Netherlands Antillean guilder	1.8000	1.8000	1.8000	1.8000
Trinidad and Tobago dollar	6.7522	6.7442	6.7628	6.7428
United States dollar	1.0000	1.0000	1.0000	1.0000

	Year ended		Year ended		Year ended	
	December 2017		December 2016		December 2015	
	Closing Rate	Average Rate	Closing Rate	Average Rate	Closing Rate	Average Rate
Bahamas dollar	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
Barbadian dollar	2.0000	2.0000	2.0000	2.0000	2.0000	2.0000
Belize dollar.....	2.0000	2.0000	2.0000	2.0000	2.0000	2.0000
Cayman Islands dollar	0.8350	0.8350	0.8350	0.8350	0.8350	0.8350
Eastern Caribbean dollar	2.7000	2.7000	2.7000	2.7000	2.7000	2.7000
Jamaica dollar	124.5754	128.0938	127.9824	124.7554	119.9758	116.7122
Netherlands Antillean guilder.	1.8000	1.8000	1.8000	1.8000	1.8000	1.8000
Trinidad and Tobago dollar	6.7628	6.7428	6.7458	6.6190	6.4196	6.3412
United States dollar	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

Source: Central banks of the relevant countries and Sagicor 2017 audited financial results.

The exchange rates above are provided solely for information and convenience. No representation is made that the US dollar could have been, or could be, converted into Canadian dollars, or any other represented currency, at all or at the exchange rates stated. The exchange rates set forth above demonstrate trends in exchange rates, but the actual exchange rates used throughout this prospectus may vary.

The following table shows Sagicor's significant foreign exchange exposure by presenting Sagicor's assets and liabilities by the currency in which they are denominated for Sagicor's continuing operations:

2017 equivalents of balances denominated in

	Barbados	Jamaica	Trinidad	Eastern Caribbean	U.S.	Other currencies	Total
	\$	\$	\$	\$	\$		
	(in millions of US\$)						
Assets							
Financial investments ⁽¹⁾	444.5	942.7	430.7	140.7	2,598.4	150.8	4,707.8
Reinsurance assets	5.0	0.3	7.6	8.5	762.7	1.7	785.8
Receivables ⁽¹⁾	16.3	124.2	7.9	16.9	15.3	6.0	186.6
Cash resources	30.5	103.3	28.5	16.0	122.9	58.9	360.1
Total monetary assets	496.3	1,170.5	474.7	182.1	3,499.3	217.4	6,040.3
Other assets ⁽²⁾	203.7	360.6	72.8	20.2	109.0	(2.0)	764.3
Total assets of continuing operations	700.0	1,531.1	547.5	202.3	3,608.3	215.4	6,804.6
Liabilities							
Actuarial liabilities	401.4	351.9	337.7	54.4	1,710.2	95.2	2,950.8
Other insurance liabilities ⁽¹⁾	69.2	23.1	30.4	19.8	38.6	10.5	191.6
Investments contract	34.3	71.6	149.4	44.7	70.1	8.9	379.0
Notes and loans payable	-	16.5	-	-	397.3	-	413.8
Deposit and security liabilities....	82.3	547.8	1.3	15.7	895.4	16.8	1,559.3
Provisions	29.4	28.4	12.9	0.7	1.8	6.8	80.0
Accounts payable and accruals...	43.0	133.3	16.9	4.6	42.9	6.4	247.1
Total monetary liabilities	659.6	1,172.6	548.6	139.9	3,156.3	144.6	5,821.6
Other liabilities ⁽²⁾	14.8	1.2	15.7	4.1	22.8	2.2	60.8
Total liabilities of continuing operations	674.4	1,173.8	564.3	144.0	3,179.1	146.8	5,882.4
Net position	25.6	357.3	(16.8)	58.3	429.2	68.6	922.2

(1) Monetary balance only.

(2) Non-monetary balances, income tax balances and retirement plan assets.

Interest rate risk

Sagicor is exposed to interest rate risk, which arises when the returns earned from invested assets decrease.

The return on investments may be variable, fixed for a term or fixed to maturity. Upon reinvestment of a matured investment, the returns available on new investments may be significantly different from the returns formerly achieved. Sagicor guarantees minimum returns on the cash values of certain types of policies, for example universal life and annuity contracts, and decreased investment returns may be insufficient to pay these guaranteed returns.

Sagicor is thereby exposed to the effects of fluctuations in the prevailing levels of market interest rates on Sagicor's financial position and cash flows. Interest margins may increase or decrease as a result of such changes. Interest rate changes may also result in losses if asset and liability cash flows are not closely matched with respect to timing and amount.

Movements in short-term and long-term interest rates affect the level and timing of recognition of gains and losses on securities Sagicor holds, and cause changes in realised and unrealised gains and losses. Generally, Sagicor's investment income will be reduced during sustained periods of lower interest rates as higher yielding fixed income securities are called, mature, or are sold and the proceeds reinvested at lower rates. During periods of rising interest rates, the market value of Sagicor's existing fixed income securities will generally decrease and Sagicor's realised

gains on fixed income securities will likely be reduced. Realised losses will be incurred following significant increases in interest rates only if the securities are sold; otherwise the losses will be unrealised as assets are fairly matched to similar duration liabilities so may be held to maturity. Conversely, declining interest rates result in unrealised gains in the value of fixed income securities Sagicor continues to hold, as well as realised gains to the extent the relevant securities are sold.

Sagicor's primary interest rate exposures relate to Sagicor's long term insurance and annuities liabilities as well as funds on deposit. Sagicor may incur a loss on certain contracts where the investment return does not exceed the interest credited to the policyholder.

The effective interest rates for Sagicor's financial assets and liabilities as of December 31, 2017 and 2016 are set out below:

	<u>As of December 31,</u>	
	<u>2017</u>	<u>2016</u>
Assets		
Debt securities	6.1%	6.2%
Mortgage loans	5.7%	6.1%
Policy loan	7.2%	6.9%
Finance loans and finance leases	11.6%	12.6%
Securities purchased under agreements to resell.....	5.1%	9.2%
Deposits	2.3%	1.0%
Liabilities		
Other funding instrument.....	2.1%	1.9%
Deposits	2.0%	2.1%
Securities	3.6%	4.5%

(1) Unaudited.

Given Sagicor's exposure to fixed income securities at December 2017 of US\$4,533.2 million, if interest rates were to rise by ten basis points the fair value of the fixed income portfolio would fall by approximately US\$23.0 million.

Liquidity risk

Liquidity risk is inherent in much of Sagicor's business. Liquidity risk is risk stemming from a lack of marketability in Sagicor's assets. Some liabilities are surrenderable while some assets have low liquidity such as mortgage loans and real estate. In order to manage liquidity risks, Sagicor seeks to maintain levels of cash and short-term deposits in each of Sagicor's operating currencies that are sufficient to meet Sagicor's expected short-term obligations.

Sagicor is exposed to daily demands on Sagicor's available cash resources for payment of policy benefits and withdrawals, operating expenses and taxes, loan draw-downs, repayment of borrowings, maturing deposit liabilities and other security obligations. Sagicor maintains cash resources to meet what Sagicor predicts it will have to pay as policy benefits. Demands on Sagicor's cash resources may exceed Sagicor's projections.

Sagicor seeks to diversify Sagicor's liability portfolio by limiting concentrations of liabilities in each market segment. Where practical, given Sagicor's operating environment, Sagicor seeks to match maturities of assets and liabilities while maintaining a portfolio of short-term, highly liquid securities to meet funding gaps. Sagicor monitors its daily, weekly and monthly liquidity risk and manages Sagicor's maturing asset and liability portfolios.

The Company purchases custom options (hedges) that are selected to materially replicate the policy benefits that are associated with the equity indexed components of certain of our products. These options are appropriate to reduce or minimize the risk of movements in the equity market (market risk). The hedging transactions are accounted for as

call options and are originally valued at the premium paid, with the statement carrying value being adjusted to fair value. To minimize potential counterparty risk from the purchase of these customized contracts from broker dealers, the Company limits its transactions to only banks and brokers carrying an unsecured debt rating of at least A or P-1 by either Standard and Poor's or Moody's. See note 41.6 of the 2017 Sagicor Audited Annual Financial Statements.

Underwriting risk

Sagicor is exposed to underwriting risk on Sagicor's insurance contracts, which is the risk that Sagicor may underestimate the magnitude or probability of the risks Sagicor assumes when issuing Sagicor's policies. In establishing the amount of premium, Sagicor assesses the benefits that may be payable under the contract considering the nature and amount of the risk assumed and recent experience and industry statistics of the benefits payable. Sagicor also establishes deductibles to limit potential losses. For long-term insurance contracts, Sagicor assesses the cash flows attributable to the contract. Sagicor also may include specific medical tests and other inquiries that affect Sagicor's assessment of the risk. Sagicor then assesses the likely benefits and cash flows, determines the premium payable under the contract and estimates the balance sheet liability arising from the contract.

For long-term contracts in force, Sagicor invests in assets with cash flow characteristics that closely match the cash flow characteristics of the related policy liabilities. The primary purpose of this matching is to seek to ensure that cash flows from these assets are synchronised with the timing and the amounts of payments that must be paid to policyholders.

Policy benefits payable under short-term contracts are generally triggered by an insurable event, i.e., a property or casualty claim, a medical expense or a death claim. Settlement of these benefits is expected generally within one month. However, some benefits are settled over a longer duration.

Policy benefits payable under long-term contracts may be triggered by an insurable event (such as a death, disability or critical illness claim) a specified time (such as for an annuity settlement or a policy maturity) or on the exercise of a surrender or withdrawal request by the policyholder. While settlement of these benefits is therefore expected over the remaining lives of the insureds and annuitants, Sagicor remains subject to uncertainty related to the timing of future benefit cash outflows.

For Sagicor's property and casualty insurance business, significant risk exposures arise from low-frequency, high-severity events such as hurricanes. Single events, such as major fires and accidents may also generate significant claims.

For Sagicor's health insurance contracts, significant risk exposures arise from mortality and morbidity experience.

For Sagicor's long-term life insurance contracts, significant risks arise from mortality and morbidity experience. Worsening mortality and morbidity will increase the incidence of death and disability claims. Improving mortality will lengthen the payout period of annuities.

Sagicor carries significant underwriting risks concentrated in certain countries within the Caribbean, namely Antigua, Barbados, Cayman Islands, Jamaica, Netherlands Antilles, St. Lucia and Trinidad and Tobago. In these countries, Sagicor insures a substantial proportion of the insured population (life, annuity, health). See note 42 of the 2017 Sagicor Audited Annual Financial Statements included elsewhere in this prospectus.

Reinsurance risk

To limit Sagicor's loss exposure on insurance policies, Sagicor may cede some risk to reinsurers that have well-established capability to meet their contractual obligations and that generally have high credit ratings, which ratings Sagicor monitors, or Sagicor requires that a trust account be maintained as collateral for the obligations.

Under reinsurance contracts, Sagicor retains some part of the risk (amounts below the "retention limit") and coverage in excess of these limits is ceded to reinsurers. The retention programs used by us may be found in notes

42.3 and 43.3 to the 2017 Sagicor Audited Annual Financial Statements included elsewhere in this prospectus. Sagicor also maintains catastrophic reinsurance coverage whereby reinsurance coverage is obtained for multiple claims arising from one event or occurring within a specified time period.

Fiduciary risk

Sagicor provides investment management, administration and corporate trust services as a fiduciary for pension and mutual funds and other corporate entities. This requires Sagicor to make allocation, purchase and sale decisions in relation to a wide range of investments on behalf of those funds. These services may expose us to claims for maladministration or underperformance of these investments. As of September 30, 2018, Sagicor administered US\$3,173.6 million in assets on behalf of these funds, a decrease from US\$3,205.2 million at December 31, 2017.

Cautionary Statement Regarding Forward-Looking Information

This MD&A includes “forward-looking information” and “forward looking statements” within the meaning of applicable securities laws (collectively “forward-looking information”) and assumptions about, among other things, Sagicor’s business, operations, and financial performance and condition approved by the board of directors of Sagicor on the date of this MD&A.

This forward-looking information and these assumptions include, but are not limited to, statements about Sagicor’s objectives and strategies to achieve those objectives, and about its beliefs, plans, expectations, anticipations, estimates, or intentions. Information included in this MD&A that is not a statement of historical fact is forward-looking information. When used in this MD&A, words such as “believes,” “may,” “will,” “estimate,” “should,” “shall,” “plans,” “assumes,” “continue,” “outlook,” “could,” “anticipates,” “intends,” “expects,” and words of similar import, are intended to identify statements containing forward-looking statements. These statements appear in a number of places throughout the document. Such forward-looking statements are based on Sagicor’s estimates, assumptions, strategies and projections and subject to known and unknown risks, uncertainties and other factors, all of which are difficult to predict and many of which are beyond its control and which may cause actual results, events or developments to be significantly different from any future results, events or developments expressed or implied by such forward-looking statements.

These factors include, but are not limited to, the following: fluctuations in the fixed income markets may adversely affect New Sagicor’s profitability and financial condition; the success of New Sagicor’s operations in the United States depends on New Sagicor’s ability to grow its business; New Sagicor’s financial targets may prove materially inaccurate or incorrect; New Sagicor’s exposure to the credit risk of its counterparties could adversely affect its profitability; differences between actual claims experience and estimated claims at the time the product was priced may result in increased losses, and so New Sagicor’s reserves may be insufficient to cover actual policy benefits; New Sagicor could be forced to sell investments at a loss to cover policyholder withdrawals; New Sagicor’s risk management policies and procedures could leave New Sagicor exposed to unidentified or unanticipated risk, which could negatively affect New Sagicor’s business or result in losses; illiquidity of certain investment assets may prevent New Sagicor from selling investments at fair prices in a timely manner; New Sagicor’s fiduciary relationship with certain counterparties could adversely affect its profitability; a prolonged labour dispute could hurt New Sagicor’s business; a failure to successfully integrate New Sagicor’s acquisitions could adversely affect New Sagicor’s operations and profitability; a high level of redemptions of Alignvest Class A Restricted Voting Shares may necessitate sourcing of additional debt or equity to fund the proposed SJLIC and SLTT acquisitions; a failure to successfully execute current and future strategic acquisitions could adversely affect New Sagicor’s profitability; if the conditions to the Transaction are not met, the Transaction may not occur; New Sagicor may be required to make an offer to purchase all of the 2022 Notes and Short Term Notes, but may not be financially able to repurchase the notes upon a change of control; New Sagicor’s business is highly regulated and subject to numerous laws and regulations; litigation and regulatory proceedings outcomes could adversely affect New Sagicor’s business; companies in the financial services industry are sometimes the target of law enforcement investigations and the focus of increased regulatory scrutiny; there may be adverse consequences if the status of New Sagicor’s independent contractors is successfully challenged; failures to implement or comply with legally required anti-money laundering practices could subject New Sagicor to sanctions and/or criminal and civil penalties; the amount of statutory capital that New Sagicor’s insurance subsidiaries have and the amount of statutory capital that they must hold to maintain their financial strength and credit ratings and meet other requirements can vary significantly from

time to time and are sensitive to a number of factors outside of New Sagicor's control; a failure to maintain adequate levels of surplus capital may result in increased regulatory scrutiny or a downgrade by the private rating agencies; New Sagicor's financial condition may be adversely affected by geopolitical events; a change of control of New Sagicor may be difficult to effect under applicable laws; New Sagicor operates in a highly competitive industry; New Sagicor faces significant competition mainly from national and regional insurance companies and from self-insurance, and New Sagicor also faces competition from global companies – this competition could limit New Sagicor's ability to gain or maintain its position in the industry and could materially adversely affect its business, financial condition and results of operations; brokers that sell New Sagicor's products may sell insurance products of New Sagicor's competitors and such brokers may choose not to sell New Sagicor's products; computer viruses, network security breaches, disasters or other unanticipated events could affect New Sagicor's data processing systems or those of its business partners and could damage New Sagicor's business and adversely affect its financial condition and results of operations; a financial strength downgrade in New Sagicor's A.M. Best ratings or any other negative action by a rating agency may increase policy surrenders and withdrawals, adversely affect relationships with advisors and negatively affect New Sagicor's financial condition and results of operations; the unpredictable nature of the property and casualty insurance industry, or the impact of IFRS on the cashless exercise feature of Alignvest Warrants (unless removed), may cause fluctuations in New Sagicor's results; New Sagicor may be unable to reinsure risks on terms that are commercially reasonable or satisfactory to New Sagicor, or New Sagicor's reinsurers may fail to meet assumed obligations, increase rates, or be subject to adverse developments, negatively affecting New Sagicor's business, financial condition and result of operations; New Sagicor's business model depends on the performance of various third parties including actuarial consultants and other service providers; negative publicity in the insurance industry could adversely affect New Sagicor; New Sagicor depends on key personnel, and if they were to leave New Sagicor, New Sagicor might have an insufficient number of qualified employees; New Sagicor is highly dependent upon economic, political and other conditions and developments in Barbados, Jamaica, Trinidad and Tobago, the United States and the other jurisdictions in which it operates; New Sagicor's financial condition and operating results may be adversely affected by foreign exchange fluctuations; foreign exchange controls may restrict New Sagicor's ability to receive distributions from its subsidiaries and any such distributions may be subject to foreign withholding taxes; catastrophes and weather-related events, such as hurricanes, may adversely affect New Sagicor; the performance of New Sagicor's group life insurance may be adversely affected by the characteristics of the employees insured or through unexpected catastrophic events such as natural disasters; New Sagicor's credit ratings may be reduced, which may adversely affect New Sagicor; New Sagicor may be subject to Bermuda tax; Bermuda's compliance with the Organization for Economic Cooperation and Development international tax standards could subject New Sagicor to additional taxes; tax on corporate emigration under the Income Tax Act (Canada) could adversely affect New Sagicor; if New Sagicor were subject to Canadian federal income taxation, New Sagicor's after-tax returns and the value of New Sagicor Common Shares could be materially reduced; any additional taxes resulting from changes to tax regulations or the interpretation thereof in countries in which it does business could negatively impact New Sagicor's financial condition; New Sagicor is a Bermuda company and it may be difficult to enforce judgments against New Sagicor or its directors and executive officers; Bermuda law differs from the laws in effect in Canada and may afford less protection to shareholders; New Sagicor may not pay dividends; potentially adverse tax consequences may result from the receipt of dividends on New Sagicor Common Shares; New Sagicor is a holding company that has no material assets other than its interest in Sagicor and, accordingly, it is dependent upon distributions from Sagicor to pay taxes and other expenses; the market price of the New Sagicor Common Shares may be highly volatile; redemptions of a significant number of Alignvest Class A Restricted Voting Shares could adversely affect New Sagicor; sales of a substantial number of New Sagicor Common Shares may cause the price of New Sagicor Common Shares to decline; further equity financing may dilute the interests of shareholders of New Sagicor and depress the price of New Sagicor Common Shares; the trading market for New Sagicor Common Shares is influenced by securities industry analyst research reports; if New Sagicor is unable to implement and maintain effective internal control over financial reporting, New Sagicor might not be able to report financial results accurately and on a timely basis or prevent fraud, and/or investors may lose confidence in the accuracy and completeness of New Sagicor's financial reports and the market price of New Sagicor Common Shares may be negatively affected.

In light of these risks, uncertainties and assumptions, readers should not place undue reliance on any forward-looking statements, which speak only as of the date hereof, as actual results could differ materially. Please note that a cautionary discussion of risks and uncertainties is provided under the heading "*Risk Factors*", as well as the heading "*Caution Regarding Forward-Looking Statements*". These risk factors, as they relate to Sagicor, could cause Sagicor's actual results to differ materially from expected results. Readers are cautioned that other factors

discussed in this MD&A, although not enumerated here, also could materially affect Sagicor's future results. Sagicor disclaims any obligation to update any such factors or publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future results, events or developments, except as expressly required by law.

DESCRIPTION OF SECURITIES

The following is a summary of the expected rights, privileges, restrictions and conditions attaching to the New Sagicor Common Shares after giving effect to the Transaction, which are subject to change. Following completion of the Transaction, it is expected that New Sagicor will be authorized to issue 10,000,000,000 New Sagicor Common Shares of par value US\$0.01 each. The summary does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all of the provisions of New Sagicor's memorandum of continuance and by-laws. New Sagicor's memorandum of continuance and by-laws will be made available on New Sagicor's SEDAR profile at www.sedar.com.

The number of New Sagicor Common Shares expected to be issued and outstanding upon completion of the Transaction will be approximately 115 million (assuming (i) an exchange rate of US\$1.00 to C\$1.33 and (ii) no Alignvest Shareholders elect to redeem any of their Alignvest Class A Restricted Voting Shares). Assuming redemption levels of Alignvest Class A Restricted Voting Shares of 25% and the "minimum cash" threshold, it is expected that there will be approximately 105 million and 90.5 million New Sagicor Common Shares, respectively, outstanding upon completion of the Transaction.

Common Shares of New Sagicor

The following rights, restrictions and conditions will attach to the New Sagicor Common Shares following New Sagicor's discontinuance from Ontario and continuance to Bermuda.

Notice of Meeting and Voting Rights

The holders of New Sagicor Common Shares shall be entitled to receive notice of and to attend all general meetings of the New Sagicor Shareholders. The holders of New Sagicor Common Shares shall be entitled to one vote per New Sagicor Common Share on all matters submitted to a vote by New Sagicor Shareholders.

Dividend and Liquidation Entitlements

The holders of New Sagicor Common Shares shall be entitled, as such, to receive dividends and New Sagicor shall pay dividends thereon, as and when declared by New Sagicor Board, in their absolute discretion, in such amount and in such form as the New Sagicor Board may from time to time determine, and all dividends which New Sagicor may declare on New Sagicor Common Shares shall be declared and paid in equal amounts per share on all New Sagicor Common Shares at the time issued and outstanding. Any payment of a dividend will at all times be subject to a solvency test such that New Sagicor must not declare or pay a dividend if there are reasonable grounds for believing that New Sagicor is, or would after the payment be, unable to pay its liabilities as they become due or that the realizable value of New Sagicor's assets would thereby be less than its liabilities.

In the event of New Sagicor's liquidation, dissolution or winding up, the New Sagicor Shareholders shall be entitled to share equally and ratably in New Sagicor's assets, if any, remaining after the payment of all of New Sagicor's debts and liabilities, subject to any liquidation preference on any issued and outstanding preference shares at the time of such liquidation, dissolution or winding up. No preference shares are currently authorized for issuance.

Advance Notice Requirements for Director Nominations

It is anticipated that New Sagicor's bye-laws will contain an advance notice provision pertaining to New Sagicor Shareholders (who meet the necessary qualifications to be outlined in the bye-laws) seeking to nominate a candidate for election as a director at any annual meeting of New Sagicor Shareholders, or at any special meeting of New Sagicor Shareholders if one of the purposes for which the special meeting was called was the election of directors (the "**Advance Notice Provisions**"). The following description is a summary only and is qualified in its entirety by the full text of the applicable provisions of New Sagicor's bye-laws which will be made available on New Sagicor's SEDAR profile at www.sedar.com.

In addition to any other applicable requirements, for a nomination of a director for election to be made, New Sagicor Shareholders will be required to give timely notice thereof in proper written form to the Secretary of New Sagicor at

its registered office. Where a director is to be nominated at an annual general meeting, such nomination must be made by written notice delivered to the registered office of the Company not more than sixty (60) days after the end of the financial year and shall be signed by New Sagicor Shareholders holding in aggregate not less than 5% of the issued and outstanding share capital of New Sagicor, together with a letter of consent signed by the person nominated confirming his or her willingness to be appointed and to serve as a director if elected, provided however that no New Sagicor Shareholder may nominate more than one director for election. Where a director is to be elected or appointed at a special general meeting, such nomination must be made by written notice delivered to the registered office of the Company not later than ten (10) days following the earlier of the date on which notice of the special general meeting was posted to the New Sagicor Shareholders or the date on which public disclosure of the date of the special general meeting was made and shall be signed by the New Sagicor Shareholders holding in the aggregate not less than 5% of the issued and outstanding share capital of New Sagicor.

The chairperson of the general meeting shall have the power to determine whether any proposed nomination was made in accordance with Advance Notice Provisions and, if any proposed nomination is not in compliance with such provisions, must declare that such defective nomination shall not be considered at any meeting of New Sagicor Shareholders.

Notwithstanding the foregoing, the New Sagicor Board may, in its sole discretion, waive any requirement in the Advance Notice Provisions.

EQUITY INCENTIVE PLAN DESCRIPTIONS

Subject to receipt of all required approvals (including approval by the TSX), New Sagicor expects to adopt a restricted share unit plan (the “**RSU Plan**”) and an employee share purchase plan. New Sagicor intends to adopt the RSU Plan and the employee share purchase plan following the completion of the Transaction. New Sagicor expects the employee share purchase plan will be on terms mutually acceptable to Alignvest and Sagicor, each acting reasonably. The following is a summary of the anticipated material terms of the RSU Plan.

RSU Plan

Eligible Participants

The RSU Plan will be administered by the C&HR Committee. Employees, directors and eligible consultants of New Sagicor and its designated subsidiaries are eligible to participate in the RSU Plan. In accordance with the terms of the RSU Plan, New Sagicor, under the authority of the New Sagicor Board through the C&HR Committee, will approve those employees, directors and eligible consultants who are entitled to receive restricted share units (“**RSUs**”) and the number of RSUs to be awarded to each participant. RSUs awarded to participants are credited to them by means of an entry in a notional account in their favour on the books of New Sagicor. Each RSU awarded conditionally entitles the participant to receive one New Sagicor Common Share (or the cash equivalent) upon attainment of the RSU vesting criteria. In certain circumstances, the New Sagicor may grant options to purchase New Sagicor Common Shares in lieu of RSUs and such grants of options will be governed by the terms and conditions of the RSU Plan, except that the New Sagicor Board may, in its sole discretion, amend the terms and conditions of the RSU Plan as they apply to grants of options to provide for an exercise price that is at least equal to the fair market value of a New Sagicor Common Share at the time of the grant, to provide that a participant will have the right to exercise their options for New Sagicor Common Shares and to impose different expiry dates and conditions in respect of options than are provided for RSUs under the RSU Plan.

Vesting

The vesting of RSUs is conditional upon the expiry of time-based or performance-based vesting criteria, provided that in the event a participant’s employment is terminated without cause within 12 months of a Change of Control (as defined in the RSU Plan), all outstanding RSUs will immediately vest. The duration or conditions of the vesting period and other vesting terms applicable to the grant of the RSUs shall be determined at the time of the grant by the C&HR Committee.

Once the RSUs vest, the participant is entitled to receive the equivalent number of underlying New Sagicor Common Shares or cash equal to the Market Value (as defined in the RSU Plan) of the equivalent number of New Sagicor Common Shares. The vested RSUs may be settled through the issuance of New Sagicor Common Shares, by the delivery of New Sagicor Common Shares purchased in the open market, in cash or in any combination of the foregoing (at the discretion of New Sagicor). If settled in cash, the amount shall be equal to the number of New Sagicor Common Shares to which the participant is entitled multiplied by the Market Value of a New Sagicor Common Share on the payout date. “Market Value” per share is defined in the RSU Plan and means, as at any date the arithmetic average of the closing price of the New Sagicor Common Shares traded on the TSX for the five (5) trading days on which a board lot was traded immediately preceding such date (or on any such other stock exchange on which the New Sagicor Common Shares are then listed and posted for trading as may be selected for such purpose by the New Sagicor Board). The RSUs shall be settled on the payout date, which shall be the vesting date or such other date as the C&HR Committee may determine at the time of the grant, which in any event shall be no later than the expiry date for such RSUs. The expiry date of RSUs will be determined by the C&HR Committee at the time of grant. However, unless otherwise determined by the C&HR Committee at the time of grant, the maximum term for all RSUs is two years after the participant ceases to be an employee, director or eligible consultant of New Sagicor or any designated subsidiary. All vested or expired RSUs are available for future grants.

Maximum Number of New Sagicor Common Shares Issued

RSUs may be granted in accordance with the RSU Plan provided the aggregate number of RSUs outstanding pursuant to the RSU Plan from time to time shall not exceed 10% of the number of issued and outstanding New

Sagikor Common Shares from time to time. The maximum number of New Sagikor Common Shares which may be reserved, set aside and made available for issuance under the RSU Plan is a variable number equal to 10% of the issued and outstanding New Sagikor Common Shares as of the date of the grant on a non-diluted basis. All of the New Sagikor Common Shares covered by settled, cancelled or terminated RSUs will automatically become available New Sagikor Common Shares for the purposes of RSUs that may be subsequently granted under the RSU Plan.

The RSU Plan provides that the maximum number of New Sagikor Common Shares issuable to insiders (as that term is defined by the TSX) pursuant to the RSU Plan, together with any New Sagikor Common Shares issuable pursuant to any other security-based compensation arrangement of New Sagikor, will not exceed 10% of the total number of issued and outstanding New Sagikor Common Shares. In addition, the maximum number of New Sagikor Common Shares issued to insiders under the RSU Plan, together with any New Sagikor Common Shares issued to insiders pursuant to any other security-based compensation arrangement of New Sagikor within any one year period, will not exceed 10% of the total number of issued and outstanding New Sagikor Common Shares.

Adjustments to Shares Subject to Plan

The RSU Plan also provides that appropriate adjustments, if any, will be made in connection with a dividend or subdivision of shares, consolidation or other capital reorganization, merger, amalgamation, take-over bid, compulsory acquisition or arrangement or other similar corporate transaction in connection therewith.

Cessation of Entitlement

Unless otherwise determined by New Sagikor in accordance with the RSU Plan, RSUs which have not vested on a participant's termination date shall terminate and be forfeited. If a participant who is an employee ceases to be an employee as a result of termination of employment without cause, in such case, at New Sagikor's discretion (unless otherwise provided in the applicable grant agreement), all or a portion of such participant's RSUs may be permitted to continue to vest, in accordance with their terms, during any statutory or common law severance period or any period of reasonable notice required by law or as otherwise may be determined by New Sagikor in its sole discretion. All forfeited RSUs are available for future grants.

Transferability

RSUs are not assignable or transferable other than by operation of law, except, if and on such terms as New Sagikor may permit, to a current or former spouse or minor children or grandchildren or a personal holding company or family trust controlled by a participant, the sole shareholders or beneficiaries of which, as the case may be, are any combination of the participant, the participant's current or former spouse, minor children or minor grandchildren, and after the participant's lifetime shall enure to the benefit of and be binding upon the participant's designated beneficiary.

Amendments to the RSU Plan

The New Sagikor Board may, without notice, at any time and from time to time, without shareholder approval, amend the RSU Plan or any provisions thereof in such manner as the New Sagikor Board, in its sole discretion, determines appropriate including, without limitation:

- (a) for the purposes of making formal minor or technical modifications to any of the provisions of the RSU Plan;
- (b) to correct any ambiguity, defective provision, error or omission in the provisions of the RSU Plan;
- (c) to change the vesting provisions of RSUs;
- (d) to change the termination provisions of RSUs or the RSU Plan that does not entail an extension beyond the original expiry date of the RSU;

- (e) to preserve the intended tax treatment of the benefits provided by the RSU Plan, as contemplated therein; or
- (f) any amendments necessary or advisable because of any change in applicable laws;

provided, however, that:

1. no such amendment of the RSU Plan may be made without the consent of each affected participant if such amendment would adversely affect the rights of such affected participant(s) under the RSU Plan; and
2. shareholder approval shall be obtained in accordance with the requirements of the TSX for any amendment that results in:
 - (i) an increase in the maximum number of New Sagicor Common Shares issuable pursuant to the RSU Plan other than as already contemplated in the RSU Plan;
 - (ii) an extension of the expiry date for RSUs granted to insiders under the RSU Plan;
 - (iii) other types of compensation through New Sagicor Common Share issuance;
 - (iv) expansion of the rights of a participant to assign RSUs beyond what is currently permitted in the RSU Plan; or
 - (v) the addition of new categories of participants, other than as already contemplated in the RSU Plan.

Pursuant to the RSU Plan, for purposes of compliance with Section 409A of the *U.S. Internal Revenue Code of 1986*, certain terms of the RSUs held by U.S. taxpayers may differ from those described above.

New Sagicor will have the ability to grant RSUs and, in limited circumstances, options under the RSU Plan until three years from the date it is approved.

RIGHTS TO PURCHASE SECURITIES

Warrants

31,175,000 Alignvest Warrants were issued as part of the 2017 initial public offering of Alignvest and are outstanding as of the date of this prospectus. 3,766,659 Forward Purchase Warrants are expected to be outstanding at the completion of the Transaction, which are to be issued immediately prior to, but in connection with, the completion of the Sagicor Arrangement. Pursuant to the Alignvest Arrangement, the terms of both the Alignvest Warrants and of the Forward Purchase Warrants shall represent share purchase warrants to acquire New Sagicor Common Shares following 30 days after the Effective Date, at an exercise price of C\$11.50 per share, but otherwise unamended.

The 31,175,000 Alignvest Warrants and the 3,766,659 Forward Purchase Warrants are governed by the terms of the Warrant Agreement. It is expected that in connection with the completion of the Alignvest Arrangement, subject to the receipt of the required approval of the warrant holders, New Sagicor will adopt a supplemental warrant agency agreement pursuant to which, among other things, the cashless exercise feature of the Warrant Agreement will be eliminated. If the cashless exercise feature is eliminated pursuant to the adoption of the supplemental warrant agency agreement, the Alignvest Warrants may only be exercised by a warrant holder in the event the warrant holder pays to New Sagicor the exercise price of C\$11.50, in accordance with the terms of the Warrant Agreement. If not, the cashless exercise feature could result in more volatile financial results because, with the cashless exercise feature, the Alignvest Warrants are classified as a liability and are therefore recorded at fair value. As the fair value of an Alignvest Warrant fluctuates, the changes would be reflected in income.

Options

The following table sets forth the aggregate number of options to purchase New Sagicor Common Shares that are expected to be outstanding upon completion of the Transaction:

Option Table			
Category	Number of Options to acquire New Sagicor Common Shares	Exercise Price⁽¹⁾	Expiration Date
All of our executive officers and past executive officers, as a group (13 in total)	3,363,267	US\$5.07	From 2019 to 2028
All of our directors and past directors who are not also executive officers, as a group (0 in total)	Nil	Nil	Nil
All other of our employees and past employees, as a group (27 in total)	1,350,616	US\$5.06	From 2019 to 2028
All other of our consultants and past consultants, as a group (0 in total)	Nil	Nil	Nil
Total	4,713,883	US\$5.07	From 2019 to 2028

(1) Represents the weighted average exercise price of all outstanding options to purchase New Sagicor Common Shares, whether vested or unvested.

Restricted Share Table		
Category	Number of Restricted Shares Unvested	Total Number of Restricted Shares
All of our executive officers and past executive officers, as a group (23 in total)	512,755	3,845,774
All of our directors and past directors who are not also executive officers, as a group (0 in total)	Nil	Nil
All other of our employees and past employees, as a group (53 in total)	216,923	1,337,754
All other of our consultants and past consultants, as a group (0 in total)	Nil	Nil
Total	729,678	5,183,528

For a description of our equity-based incentive compensation plans, see “*Equity Incentive Plan Descriptions*”.

SECURITIES SUBJECT TO CONTRACTUAL RESTRICTION ON TRANSFER

The following sets out the anticipated number of securities of New Sagicor that will be subject to a contractual restriction on transfer upon the completion of the Transaction. To the knowledge of Alignvest and Sagicor, no other securities of New Sagicor will be held in escrow or will be subject to contractual restrictions on transfer.

<u>Designation of Class</u>	<u>Number of Securities Subject to Contractual Restriction</u>	<u>Percentage of Class</u>
New Sagicor Common Shares ⁽¹⁾	15,493,667 ⁽²⁾	13.5% ⁽³⁾

-
- (1) See “*Lock-Up Agreements*”; “*Founders’ Shares*” and “*Forward Purchasers’ Shares*” below for a summary of the contractual restrictions on transfer.
- (2) Assumes an exchange rate of US\$1.00 to C\$1.33 for the purposes of computing New Sagicor Common Shares held by the Locked-Up Shareholders.
- (3) Assumes no redemptions of Alignvest Class A Restricted Voting Shares. Assuming redemption levels of Alignvest Class A Restricted Voting Shares of 25% and the “minimum cash” threshold, the percentage of New Sagicor Common Shares that would be subject to contractual restrictions on transfer would be approximately 14.8% and 17.1%, respectively.

Lock-Up Agreements

In accordance with the Arrangement Agreement, it is expected that each of Dodridge D. Miller, Ravi C. Rambarran, Anthony O. Chandler, Althea C. Hazzard, Ronald B. Blitstein, J. Andrew Gallagher, Bart F. Catmull, J. Edward Clarke, Keston D. Howell, Robert J. L. Trestrail, Sir Hilary Beckles, Peter Clarke, Monish Dutt and Stephen McNamara (each, a “**Locked-Up Shareholder**”) will enter into a lock-up agreement (a “**Lock-Up Agreement**”) with Alignvest. Pursuant to the Lock-Up Agreements, each Locked-Up Shareholder shall not, without the prior written consent of New Sagicor:

- (i) sell, assign, pledge, dispose of, or transfer any equity securities of New Sagicor Common Shares or securities convertible into or exchangeable for New Sagicor Common Shares, or any rights associated therewith, in each case as held immediately following the Effective Time (collectively, the “**Specified Securities**”);
- (ii) enter into any swap, forward or other arrangement that transfers all or a portion of the economic consequences associated with the ownership of the Specified Securities (regardless of whether any such arrangement is to be settled by the delivery of securities of New Sagicor, securities of another person and/or otherwise); or
- (iii) agree to do any of the foregoing,

(collectively, the “**Lock-Up Restrictions**”).

The Lock-Up Restrictions shall remain in place from the Effective Date until the earliest of: (i) with respect to 50% of the New Sagicor Common Shares held by each Locked-Up Shareholder immediately following the Effective Time, one year following the Effective Date; (ii) with respect to the remaining 50% of the New Sagicor Common Shares held by each Locked-Up Shareholder immediately following the Effective Time, 24 months following the Effective Date; (iii) with respect to 100% of the New Sagicor Common Shares held by each Locked-Up Shareholder immediately following the Effective Time, the date following the Effective Date on which New Sagicor completes a liquidation, amalgamation, merger, scheme of arrangement, share exchange, take-over bid or other similar transaction (except an internal reorganization) that results in all of the holders of New Sagicor Common Shares receiving in exchange for or having the right to exchange their New Sagicor Common Shares for cash, securities or other property; and (iv) with respect to 100% of the New Sagicor Common Shares held by each Locked-Up Shareholder immediately following the Effective Time, the date on which the closing share price of the New Sagicor Common Shares equals or exceeds C\$12.00 per share (as adjusted for share splits, share capitalizations, reorganizations, Extraordinary Dividends, recapitalizations and the like) for any 20 trading days within a 30-trading

day period at any time following the Effective Date.

The Lock-Up Restrictions are subject to certain exemptions, including: transfers to wholly-owned affiliates (that remain as such and are similarly bound), any family members of the Locked-Up Shareholder (who are similarly bound), or company, trust or other entity owned by or maintained for the benefit of the Locked-Up Shareholder or any family member of the Locked-Up Shareholder (who are similarly bound); transfers occurring by operation of law or in connection with transactions arising as a result of death or incapacitation; the exercise of securities granted under any of the Sagicor Share Plans; pledges to a financial institution as security for *bona fide* indebtedness; and transfers made pursuant to a *bona fide* take-over bid.

Founders' Shares

On the closing of Alignvest's initial public offering, the Alignvest Founders (the "**Restricted Parties**") entered into the transfer restrictions agreement and undertaking (the "**Transfer Restrictions Agreement and Undertaking**") with the co-lead underwriters for the initial public offering of Alignvest (the "**Co-Lead Underwriters**") pursuant to which each Restricted Party agreed to certain transfer restrictions in respect of their aggregate 12,887,500 founders' Alignvest Class B Shares (which were acquired for nominal consideration) and 11,050,000 Alignvest Warrants (which were acquired for C\$1.00 per Alignvest Warrant). These restrictions will continue to apply to the New Sagicor Common Shares following closing but will cease to apply to the Alignvest Warrants.

Pursuant to the Transfer Restrictions Agreement and Undertaking, the Restricted Parties agreed not to transfer any of their founders' New Sagicor Common Shares, without prior consent of Alignvest and the Co-Lead Underwriters, until the earliest of: (i) with respect to 50% of the founders' New Sagicor Common Shares, one year following completion of the Sagicor Arrangement; (ii) with respect to the remaining 50% of the founders' New Sagicor Common Shares, two years following completion of the Sagicor Arrangement; (iii) with respect to 100% of the founders' New Sagicor Common Shares, the date following the completion of the Sagicor Arrangement on which New Sagicor completes a liquidation, merger, amalgamation, arrangement, share exchange or other similar transaction that results in all of the holders of New Sagicor Common Shares receiving in exchange for or having the right to exchange their New Sagicor Common Shares for cash, securities or other property; and (iv) with respect to 100% of the founders' New Sagicor Common Shares, the date on which the closing price of New Sagicor Common Shares equals or exceeds C\$12.00 per share (as adjusted for share splits, share capitalizations, reorganizations, Extraordinary Dividends, recapitalizations and the like) for any 20 trading days within any 30-trading day period at any time following the closing of the Sagicor Arrangement; in each case, subject to applicable securities laws and TSX rules. Any New Sagicor Common Shares of New Sagicor resulting from Alignvest Class A Restricted Voting Shares held by the Restricted Parties are not subject to the forfeiture or transfer restrictions set out in the Transfer Restrictions Agreement and Undertaking.

As a condition to the completion of the Transaction, each of the Restricted Parties must agree to deposit approximately 50% of their founder's Alignvest Class B Shares held by it (which will be converted into New Sagicor Common Shares the completion of the Transaction) with a third party escrow agent, which will be held by such escrow agent, in accordance with the terms of an escrow agreement, for a period of up to five years following the last day of the calendar quarter immediately following the completion of the Transaction, subject to earlier release. In the event the founder's New Sagicor Common Shares are not released from escrow prior to the expiry of such five (5) year period as described below, such shares will be purchased for cancellation for nominal consideration on the business day immediately following the expiry of such five (5) year period.

Approximately twenty five percent (25%) of the Restricted Parties' founder's New Sagicor Common Shares will be released from escrow prior to the expiry of such five (5) year period on the date on which the closing share price of the New Sagicor Common Shares has exceeded C\$12.00 (as adjusted for share splits or combinations, share dividends, New Sagicor Extraordinary Dividends, reorganizations and recapitalizations) for any 20 trading days within a 30-trading day period during such five (5) year period. In addition, approximately twenty five percent (25%) of the Restricted Parties' founder's New Sagicor Common Shares will be released from escrow prior to the expiry of such five (5) year period on the date on which aggregate Book Value of New Sagicor, as measured at the end of any calendar quarter during such five (5) year period, has increased by at least the Required Minimum Book Value Increase from its value on the date that is the last day of the calendar quarter ending immediately after the Effective Time. One-hundred percent (100%) of the Restricted Parties' founder's New Sagicor Common Shares

will be released from escrow prior to the expiry of such five (5) year period on the date of completion of certain change in control transactions involving New Sagikor. While each Restricted Party's New Sagikor Common Shares are deposited in escrow, such Restricted Party will not be entitled to exercise voting rights or receive dividends in respect of such shares.

In the event that any Restricted Party does not agree to the provisions described above, Alignvest II LP will subject the same number of its founder's Alignvest Class B Shares to the escrow and repurchase provisions described above in lieu of such Restricted Party.

Forward Purchasers' Shares

On the closing of Alignvest's initial public offering, the Alignvest Forward Purchasers entered into Forward Purchase Agreements pursuant to which each Forward Purchaser agreed to certain transfer restrictions in respect of their Alignvest Class B Shares and Alignvest Warrants. These restrictions will continue to apply to the New Sagikor Common Shares following closing but will cease to apply to the Alignvest Warrants.

Pursuant to the Initial Forward Purchase Agreements, the Forward Purchasers agreed not to transfer any of their Alignvest Class B Shares and New Sagikor Common Shares into which such Alignvest Class B Shares are convertible until the earlier of: (i) one year following completion of the Sagikor Arrangement; (ii) the date following the completion of the Sagikor Arrangement on which New Sagikor completes a liquidation, merger, amalgamation, arrangement, share exchange or other similar transaction that results in all of New Sagikor Shareholders receiving in exchange for or having the right to exchange their shares of New Sagikor for cash, securities or other property.

Notwithstanding the foregoing, if, subsequent to completion of the Sagikor Arrangement, the closing price of New Sagikor Common Shares equals or exceeds C\$12.00 per share (as adjusted for share splits, share capitalizations, reorganizations, extraordinary dividends (being any dividend that, together with all other dividends payable in the same calendar year, has an aggregate dollar value which is greater than C\$0.25 per share), recapitalizations and the like) for any 20 trading days within any 30 trading day period commencing at least 150 days after the completion of the Sagikor Arrangement, the New Sagikor Common Shares shall be released from the transfer restrictions in the Initial Forward Purchase Agreements.

The transfer restrictions in the Initial Forward Purchase Agreements are subject to certain exemptions, including: (i) to New Sagikor's officers or directors, any affiliates or family members of any of New Sagikor's officers or directors, any members of the Sponsor or their affiliates, or any affiliates of the Sponsor; (ii) in the case of an individual, by gift or transfer to a member(s) of the individual's immediate family or to a trust, the beneficiary of which is a member of one of the individual's immediate family, an affiliate of such person, or in the case of any person, by gift or transfer to a charitable organization; (iii) in the case of an individual, by virtue of laws of descent and distribution upon death of the individual; (iv) in the case of an individual, pursuant to a qualified domestic relations order; (v) in the event of completion of a liquidation, merger, amalgamation, arrangement, share exchange or other similar transaction which results in all of New Sagikor's Shareholders receiving in exchange for or having the right to exchange their shares of New Sagikor any for cash, securities or other property subsequent to the completion of the Sagikor Arrangement; (vi) as a bona fide gift or gifts; (vii) as a distribution to limited partners, members or stockholders of the Forward Purchaser; (viii) to the Forward Purchaser's affiliates, to any investment fund or other entity controlled or managed by the Purchaser, or to any investment manager or investment advisor of the Purchaser or an affiliate of any such investment manager or investment advisor, (ix) to a nominee or custodian of a person or entity to whom a disposition or transfer would be permissible under clauses (i) through (viii) above, and (x) pursuant to an order of a court or regulatory agency; provided, however, that in the case of clauses (i) through (iv) and (vi) through (ix) these permitted transferees must enter into a written agreement agreeing to be bound by these transfer restrictions.

As a condition to the completion of the Transaction, each of the Alignvest Forward Purchasers party to an Initial Forward Purchase Agreement will deposit approximately 50% of their Alignvest Class B Shares acquired pursuant to such Initial Forward Purchase Agreement (which will be converted into New Sagikor Common Shares upon the completion of the Transaction) with a third party escrow agent, which will be held by such escrow agent, in accordance with the terms of an escrow agreement, for a period of up to five years following the last day of the calendar quarter immediately following the completion of the Transaction, subject to earlier release. In the event

such Alignvest Forward Purchasers' New Sagicor Common Shares are not released from escrow prior to the expiry of such five (5) year period as described below, such shares will be purchased for cancellation for nominal consideration on the business day immediately following the expiry of such five (5) year period.

Approximately twenty five percent (25%) of each such Alignvest Forward Purchaser's New Sagicor Common Shares will be released from escrow prior to the expiry of such five (5) year period on the date on which the closing share price of the New Sagicor Common Shares has exceeded C\$12.00 (as adjusted for stock splits or combinations, stock dividends, New Sagicor Extraordinary Dividends, reorganizations and recapitalizations) for any 20 trading days within a 30-trading day period during such five (5) year period. In addition, approximately twenty five percent (25%) of the each such Alignvest Forward Purchaser's New Sagicor Common Shares will be released from escrow prior to the expiry of such five (5) year period on the date on which aggregate Book Value of New Sagicor, as measured at the end of any calendar quarter during such five (5) year period, has increased by at least the Required Minimum Book Value Increase value on the date that is the last day of the calendar quarter ending immediately after the Effective Time. One-hundred percent (100%) of the Restricted Parties' founder's New Sagicor Common Shares will be released from escrow prior to the expiry of such five (5) year period on the date of completion of certain change in control transactions involving New Sagicor. While each Forward Purchaser's New Sagicor Common Shares are deposited in escrow, such Forward Purchaser will not be entitled to exercise voting rights or receive dividends in respect of such shares.

In the event that any Alignvest Forward Purchaser does not complete the transactions contemplated by its Initial Forward Purchase Agreement and the obligations of any such Alignvest Forward Purchaser thereunder are not otherwise satisfied in full, then its Alignvest Class B Shares acquired pursuant to such Initial Forward Purchase Agreement shall be automatically repurchased by Alignvest for nominal consideration and the number of shares subject to the provisions above shall be reduced by 50% of the Alignvest Class B Shares repurchased by Alignvest from such Alignvest Forward Purchaser.

Additional Subscriptions

Pursuant to subscription agreements entered into on or prior to the date of the Arrangement Agreement, certain third party investors have agreed to subscribe for Alignvest Class B Shares at a price of C\$10 per Alignvest Class B Share, which are expected to provide additional cash proceeds to Alignvest of C\$50 million. See also "*Principal Shareholders – Loan Arrangements*".

One such third party investor is Alignvest Partners, which has subscribed for C\$17 million of the C\$50 million in additional subscriptions. Alignvest Partners is an affiliated entity of AMC; AMC also indirectly controls the Sponsor. Accordingly, Alignvest Partners' subscription could be seen as a non-arm's length transaction. In connection therewith, Alignvest has determined that the fair market value of the subscription is less than 25% of Alignvest's market capitalization and that the subscription agreement is on arm's length terms.

PRIOR SALES

Alignvest has not issued any shares or securities convertible into shares during the 12-month period before the date of this prospectus.

The Alignvest Class A Restricted Voting Shares are listed on the TSX and trade under the symbol “AQY.A”. The following table sets forth, for the periods indicated, the reported high and low prices and the aggregate volume of trading of the Class A Restricted Voting Shares on the TSX:

Period	High (C\$)	Low (C\$)	Volume
November 2018.....	9.96	9.91	418,841
October 2018.....	9.94	9.85	665,041
September 2018.....	9.84	9.72	1,404,101
August 2018.....	9.79	9.73	47,540
July 2018.....	9.78	9.72	654,523
June 2018.....	9.78	9.70	253,203
May 2018.....	9.79	9.67	1,112,691
April 2018.....	9.82	9.67	1,914,200
March 2018.....	9.80	9.65	1,144,292
February 2018.....	9.80	9.70	2,279,709
January 2018.....	9.80	9.71	440,438
December 2017.....	9.82	9.71	124,550
November 2017.....	9.85	9.71	408,300

The Alignvest Warrants are listed on the TSX and trade under the symbol “AQY.WT”. The following table sets forth, for the periods indicated, the reported high and low prices and the aggregate volume of trading of the Alignvest Warrants on the TSX:

Period	High (C\$)	Low (C\$)	Volume
November 2018.....	0.50	0.38	553,550
October 2018.....	0.44	0.44	500
September 2018.....	0.43	0.40	355,638
August 2018.....	0.42	0.40	7,053
July 2018.....	0.49	0.40	467,577
June 2018.....	0.54	0.40	129,679
May 2018.....	0.60	0.45	373,190
April 2018.....	0.65	0.56	455,068
March 2018.....	0.62	0.55	138,100
February 2018.....	0.65	0.55	1,002,800
January 2018.....	0.68	0.65	97,551
December 2017.....	0.75	0.63	26,200
November 2017.....	0.80	0.51	54,500

PRINCIPAL SHAREHOLDERS

The following table discloses the names of the persons or companies who, upon completion of the Transaction and assuming that no Alignvest Shareholders elect to redeem their Alignvest Class A Restricted Voting Shares, will, to Alignvest and Sagicor’s knowledge, beneficially own or control, directly or indirectly, more than 10% of the combined voting rights attached to the New Sagicor Common Shares (including those subject to the forfeiture restrictions).

Name	Number and Type of Securities ⁽¹⁾	Type of Ownership	Percentage of Class ⁽¹⁾⁽²⁾	Total Voting Power ⁽¹⁾⁽²⁾
Alignvest Management Corporation ⁽⁵⁾	14,454,126 New Sagicor Common Shares ⁽³⁾	Registered	12.6%	12.6% ⁽⁴⁾

- (1) Assumes an exchange rate of US\$1.00 to C\$1.33, and includes all forfeitable shares.
(2) Based on approximately 115,037,745 New Sagicor Common Shares outstanding upon completion of the Transaction.
(3) AMC’s holdings are subject to forfeiture as further described below in this section under the headings “Bonuses” and “Loan Transactions”.
(4) Assuming levels of redemptions of Alignvest Class A Restricted Voting Shares of 25% and the “minimum cash” threshold, “Total Voting Power” would be 13.8% and 16%, respectively.
(5) Includes AMC, Sponsor, and Alignvest Partners.

Bonuses

Following closing, AMC, intends to pay the following bonuses to certain of its personnel who have been instrumental in sourcing and completing the Transaction (with all Alignvest Founder’s New Sagicor Common Shares to be reduced proportionately by any forfeiture thereof), and in all cases subject to similar anti-dilution provisions which apply to the warrants:

- (i) to Mr. Sanjil Shah, an officer of AMC, an amount equal to the value, determined once all contractual resale and forfeiture restrictions have expired, of (i) 138,125 Alignvest Warrants, plus (ii) 138,903 New Sagicor Common Shares;
- (ii) to Mr. Andy Moysiuk, a director of AMC, an amount equal to the value, determined once all contractual resale and forfeiture restrictions have expired, of (i) 29,835 Alignvest Warrants, plus (ii) 30,003 New Sagicor Common Shares;
- (iii) to Mr. Andre Mousseau, an employee of AMC and a proposed officer of New Sagicor, an amount equal to the value, determined once all contractual resale and forfeiture restrictions have expired, of (i) 138,125 Alignvest Warrants, plus (ii) 156,403 New Sagicor Common Shares; and
- (iv) to certain other employees or consultants of AMC or affiliated entities who will not be officers or directors of either AMC or New Sagicor, an amount equal to the value, determined once all contractual resale and forfeiture restrictions have expired, of (i) 497,250 Alignvest Warrants, plus (ii) 513,051 New Sagicor Common Shares.

In the case of Alignvest Founder’s New Sagicor Common Shares which are subject to forfeiture, if the recipient is not actually engaged by AMC for any reason at the date of forfeiture, no bonus shall be payable in respect thereof (in certain cases, death or disability are excluded events). As well, if at any time prior to the date of payment either (I) there is a termination for cause, or (II) the individual in question breaches any material obligation owed to AMC or its affiliates which is not cured within 10 days following written notice thereof, then no bonus shall be owing to the terminated individual. Despite the foregoing, all of Mr. Mousseau’s entitlements will vest on closing, except that he will receive no value in respect of any forfeited shares.

The bonus will be payable in cash and net of withholding or other taxes. The bonus will be generally be due in whole or in part following the sale by AMC of New Sagicor Common Shares, provided that after a specified term AMC will have the option to pay in kind.

Alignvest has consented to these arrangements.

Loan Arrangements

AMC owes the following individuals the amounts specified below on a non-interest bearing basis:

- (i) C\$138,403 to Mr. Sanjil Shah, an officer of AMC;
- (ii) C\$138,403 to Mr. Nadir Mohamed, a director of AMC;
- (iii) C\$19,930 to Mr. Andy Moysiuk, a director of AMC;
- (iv) C\$138,403 to Mr. Andre Mousseau, an employee of AMC and a proposed officer of New Sagicor;
- (v) a total of C\$9,965 to various other employees of AMC or affiliated entities who will not be officers or directors of either AMC or New Sagicor.

The loans in question may be required to be repaid in the discretion of each individual on 30 days' prior written notice following the expiry of all contractual resale and forfeiture restrictions applicable to the New Sagicor Common Shares owned by AMC (or on a pro rata basis as any such restrictions expire in part).

Following closing, the individuals intend to permit AMC (subject to any required approvals) to repay the loans as follows. For each C\$10,000 owing, the loan could be repaid either by way of (I) the transfer to the individual of (i) approximately 9,980 Alignvest Warrants, plus (ii) approximately 10,000 New Sagicor Common Shares (reduced proportionately by any forfeiture thereof), and with (i) and (ii) subject to similar anti-dilution provisions which apply to the warrants, or (II) the cash equivalent thereof determined as of the date of payment (grossed up for any additional tax payable as a result of paying in cash rather than in securities).

In certain cases, if an individual has not required repayment within five years following the closing of the Sagicor Arrangement then AMC may in its discretion elect to repay the loans on the same terms.

In certain cases, if an individual receives securities, 50% of the securities received shall be subject to resale restrictions for a 12 month period, which shall be accelerated, on a pro rata basis, in proportion to sales of similar securities by AMC from its holdings.

Certain restrictive covenants apply to the individuals in question.

Alignvest has consented to these arrangements.

DIRECTORS AND EXECUTIVE OFFICERS

The names, municipality of residence and positions with New Sagicor of the persons who are expected to serve as directors and executive officers of New Sagicor after giving effect to the Transaction are set out below. Each of the twelve (12) proposed members of the New Sagicor Board will be formally appointed to the New Sagicor Board at or immediately prior to the closing of the Transaction. The current directors of Alignvest, with the exception of Reza Satchu and Timothy Hodgson, intend to resign at or immediately prior to the closing of the Transaction, and their replacements plus three (3) new directors are expected to be appointed at that time.

The composition of the New Sagicor Board is dependent upon the cash retained that Alignvest has available immediately prior to the Effective Time, as further outlined in Section 5.03 of the Arrangement Agreement. It is expected that the New Sagicor Board shall be comprised as follows:

Directors

Name and Province/State and Country of Residence	Present Principal Occupation
Dodridge Miller Florida, USA	President and Chief Executive Officer of Sagicor
Stephen McNamara Castries, St. Lucia	Senior Partner of McNamara & Company, Attorney-at-Law of St. Lucia
Sir Hilary Beckles St. Thomas, Barbados	Vice Chancellor of the University of the West Indies
Peter Clarke Maraval, Trinidad	Chairman of Guardian Media Ltd. and former Chairman of the Trinidad and Tobago Stock Exchange
Stephen Facey Kingston, Jamaica	Chairman and CEO of PanJam Investment Limited
Monish Dutt Washington D.C., USA	Former Chief Credit Officer for Global Financial Institutions & Private Equity Funds at IFC
Reza Satchu Ontario, Canada	Managing Partner, Alignvest Management Corporation
Timothy Hodgson ⁽¹⁾ Ontario, Canada	Managing Partner, Alignvest Management Corporation
Alister Campbell ⁽²⁾ Ontario, Canada	Former CEO of The Guarantee and Zurich Insurance Canada
Rik Parkhill Ontario, Canada	Former CEO of CIBC FirstCaribbean
Mahmood Khimji New York, United States	Founding Principal of Highgate

Notes:

- (1) Proposed Chairman of the New Sagicor Board
- (2) Proposed Chair of the Investment and Risk Committee

It is expected that the twelfth director will be mutually agreed upon by Alignvest and Sagicor prior to the Effective Time.

As all of the proposed directors of New Sagicor set forth above, other than Reza Satchu and Timothy Hodgson, who are currently directors of Alignvest, are not current directors of Alignvest and will not become directors of New

Sagikor until the completion of the Transaction, they will not be subject to liability as directors for any misrepresentation in this prospectus.

Each new director of New Sagikor will thereafter be elected by New Sagikor Shareholders at each annual meeting of shareholders, and will hold office until the termination of the next annual meeting of New Sagikor, unless: (i) his or her office is earlier vacated in accordance with the bye-laws of New Sagikor; or (ii) he or she becomes disqualified to act as a director.

Executive Officers

Name and Residence	Proposed Position with New Sagikor	Present Principal Occupation
Dodridge Miller Florida, USA	President and Chief Executive Officer	President and Chief Executive Officer of Sagikor
Ravi Rambarran Kingston, Jamaica	Group Chief Operating Officer	Chief Operating Officer of Sagikor
Andre Mousseau Ontario, Canada	Group Chief Financial Officer ¹²	Chief Operating Officer of Alignvest
Chris Zacca Kingston, Jamaica	President of Sagikor Jamaica	President and Chief Executive Officer of Sagikor Group Jamaica Limited
Bart Catmull Florida, USA	President of Sagikor USA	President and Chief Operating Officer of Sagikor USA

Based on the expected shareholdings following completion of the Transaction, the proposed directors and executive officers of New Sagikor, as a group, are expected to beneficially own, or control or direct, directly or indirectly, approximately 18.1 million New Sagikor Common Shares, representing approximately 15.8% of the expected number of outstanding New Sagikor Common Shares, and 15.8% of the total voting power of New Sagikor upon completion of the Transaction, assuming no redemptions of Alignvest Class A Restricted Voting Shares. Assuming redemption levels of Alignvest Class A Restricted Voting Shares of 25% and the “minimum cash” threshold, the proposed directors and officers are expected to hold approximately 17.3% and 20% of the total voting power of New Sagikor.

See note 4 of the New Sagikor Pro Forma Financial Statements for additional information regarding the issued and outstanding securities of New Sagikor following the Transaction.

Biographies

The following are brief profiles of the proposed directors and executive officers of New Sagikor, including a description of each individual’s principal occupation within the past five years.

Directors

Dodridge Miller. Dodridge Miller has been Group President and Chief Executive Officer of Sagikor since July 2002, and has been a Director since December 2002. A citizen of Barbados and the United States of America, Mr. Miller is a Fellow of the Association of Chartered Certified Accountants (FCCA), and obtained his MBA from the University of Wales and Manchester Business School. He holds an LLM in Corporate and Commercial Law from the University of the West Indies and, in October 2008, he was conferred with an Honorary Doctor of Laws degree by the University of the West Indies. He has more than 30 years’ experience in the banking, insurance and financial services industries. Prior to his appointment as Group President and Chief Executive Officer, he previously held the positions of Treasurer and Vice President – Finance and Investments, Deputy Chief Executive Officer and Chief Operating Officer. Mr. Miller joined Sagikor in 1989. He is a Director of Sagikor Life, Sagikor USA, Sagikor Jamaica, Sagikor Life Jamaica, Sagikor Investments Jamaica and a number of other subsidiaries within Sagikor.

¹² Mr. Mousseau will be employed by a Canadian subsidiary of Sagikor to be incorporated.

Stephen McNamara. Dr. McNamara was called to the Bar at Lincoln's Inn, and in St. Lucia in 1972. He is the senior partner of McNamara & Company, Attorneys-at-Law of St. Lucia. The barrister/solicitor specializes in the representation of foreign investors in St Lucia in the Tourism, Manufacturing and Banking sectors. He served as Chairman of the St Lucia Tourist Board for nine years. Dr. McNamara is the Chairman of the Group's main operating subsidiaries, Sagicor Life Inc., Sagicor USA and Sagicor Finance Inc., and formerly served as Vice Chairman, Sagicor Financial Corporation Limited, between June 2007 and January 2010. He is a Director of Sagicor Group Jamaica Limited and a number of other subsidiaries within the Group. Dr. McNamara's St Lucia-based service includes the Board of St. Lucia Electricity Services Ltd., where he was elected Chairman in December 2015, and served until his retirement at the end of 2017, and as President of the St Lucia Tennis Association. Dr. McNamara was made a Commander of the Order of the British Empire (CBE) in the 2015 Queen's Birthday Honours for public service and services to the legal profession. Also in 2015 he was awarded an honorary doctorate from the University of the West Indies for his outstanding achievements and contribution to the region in the areas of business, sport and general philanthropy for more than forty years.

Sir Hilary Beckles. Sir Hilary earned his PhD from Hull University, United Kingdom, and received an Honorary Doctorate of Letters from the same University in 2003. He is the Vice Chancellor of the University of the West Indies, and has previously served as the Head of the History Department and Dean of the Faculty of Humanities. In 1998, he was appointed Pro-Vice-Chancellor for Undergraduate Studies and, in 2002, the Principal of Cave Hill Campus. Sir Hilary has published widely on Caribbean economic history, cricket history and culture and higher education, and serves on the Editorial Boards of several academic journals. He has lectured in Africa, Asia, Europe and the Americas. He was elected a Director of Sagicor Life Inc. in 2005. He is Chairman of the Caribbean Examinations Council. He is a member of the Secretary General of the UN, Advisory Board on Science and Sustainable Development, a member of UNDP's Advisory Panel on the Caribbean Human Development Report, Vice President of UNESCO's Slave Route Project, and also Vice President of the Commonwealth Ministers' Advisory Board on Sport.

Peter Clarke. Mr. Clarke obtained a Bachelor of Arts degree from Yale University and a Law degree from Downing College, Cambridge University. He was called to the Bar as a member of Grays Inn, London, in 1979 and to the Bar of Trinidad and Tobago in 1980. Mr. Clarke is a Financial Consultant, who formerly practiced as a Barrister-at-Law before embarking on a 22-year career in stockbroking. From 1984 to 2000, he was the Managing Director of Money Managers Limited, and Chief Executive of West Indies Stockbrokers Limited from 2001 until his retirement in 2005. Mr. Clarke is the Chairman of Guardian Media Ltd in Trinidad and Tobago, as well as a director of a number of companies including the Trinidad and Tobago Stock Exchange. He is also a member of the Finance Council of the Roman Catholic Archdiocese of Port of Spain. From 2002 to 2005, he was a Director of the Trinidad and Tobago Chamber of Industry and Commerce. Mr. Clarke also serves as a Director of Sagicor Life Inc., Sagicor Group Jamaica Limited and Sagicor Life Jamaica Limited.

Stephen Facey. Mr. Stephen B. Facey is the Chairman and Chief Executive Officer of PanJam Investment Limited (PanJam). He has over 35 years of experience in architecture, real estate development and management, and private equity investing. An Architect by training, Mr. Facey holds a BA in architecture from Rice University and a M. Arch. from the University of Pennsylvania. He is the Chairman of Jamaica Property Company Limited, the Jamaica Developers Association, Kingston Restoration Company Limited and the New Kingston Civic Association. Mr. Facey is the Chairman of the Boys' Town Infant and Primary School, as well as the C. B. Facey Foundation, the charitable arm of PanJam. Mr. Facey is also the Chairman of the New Castle Group of Companies. He is a Director of Sagicor Group Jamaica Limited, Sagicor Life Jamaica Limited, Chukka Caribbean Adventures Limited and the National Gallery of Jamaica, and a Trustee of the Institute of Jamaica.

Monish Dutt. Monish Dutt has been an independent director of Sagicor since 2012 and is a citizen of India and a permanent resident of the United States of America. He holds an MBA with a concentration in Finance from the London Business School, London University, and a BA in Economics from the University of Delhi. He is a Fellow of the Institute of Chartered Accountants (FCCA), London, England. Currently a Consultant on Emerging Markets, Mr. Dutt is a seasoned investment professional who, for the 25 years preceding 2011, was employed with the IFC, a member of the World Bank Group. While at IFC, he held various positions, the most recent of which was Chief Credit Officer for Global Financial Institutions & Private Equity Funds. He was formerly the Head of IFC's Private Equity Advisory Group, the Head of the Baltics, Central Europe, Turkey and Balkans Group, Principal Investment Officer for Asia, Senior Investment Officer for Central & Eastern Europe, and an Investment Officer for Africa,

Latin America and Asia. Mr. Dutt has extensive experience evaluating investment proposals in financial institutions and private equity funds globally, structuring investments, tracking global investment portfolios, and providing quality control guidance to private equity fund investments. Mr. Dutt has also represented IFC on boards of investee companies. Mr. Dutt serves as a director of Sagicor Bank.

Reza Satchu. Reza Satchu is a Managing Partner and co-founder of Alignvest Management Corporation. Previously, Mr. Satchu was the President, Chief Executive Officer, and a Director of Alignvest Acquisition II Corporation, where he participated in sourcing, evaluating, and executing the qualifying acquisition. Mr. Satchu has co-founded, built, and/or managed several operating businesses from inception including: Alignvest Management Corporation, SupplierMarket, a supply chain software company that was sold to Ariba Inc. for share consideration implying an enterprise value of US\$924 million; StorageNow, which became one of Canada's largest self-storage companies prior to being sold to InStorage REIT for cash consideration of C\$110 million; and KGS-Alpha Capital Markets L.P., a U.S. fixed-income broker dealer, that was sold to BMO Financial Group. Previously, Mr. Satchu was a General Partner at Fenway Partners, a US\$1.4 billion private equity firm focused on acquiring leading middle market companies and a Financial Analyst at Merrill Lynch in the High Yield Finance and Restructuring Group. Mr. Satchu has received "Canada's Top 40 Under 40™" Award and the 2011 Management Achievement Award from McGill University. Mr. Satchu is on the board of directors of Trilogy International Partners Inc. and he previously served on the Boards of KGS-Alpha Capital Markets and the Toronto Hospital for Sick Children Foundation where he was Vice-Chairman of the Board from 2009 to 2011. He is currently a member of the Advisory Board of the Arthur Rock Center for Entrepreneurship at Harvard Business School and he is the Founding Chairman of Next Canada, an intensive entrepreneurship program for Canada's most promising young entrepreneurs. Mr. Satchu has a bachelor's degree in economics from McGill University and a MBA from Harvard University.

Timothy Hodgson. Timothy Hodgson is a Managing Partner of Alignvest Management Corporation. Previously, Mr. Hodgson also served as the Chairman and a Director of Alignvest Acquisition II Corporation, where he participated in sourcing, evaluating, and executing the qualifying acquisition. Prior to joining Alignvest Management Corporation, Mr. Hodgson was Special Advisor to Governor Mark Carney at the Bank of Canada from 2010 to 2012. From 1990 to 2010, Mr. Hodgson held various positions in New York, London, Silicon Valley, and Toronto with Goldman Sachs. His expertise spanned several industry verticals, capital markets products, merger advisory services and merchant banking. In 2005, Mr. Hodgson was tasked with rebuilding Goldman Sachs Canada after the firm had curtailed its Canadian investment banking, fixed income, and equity research operations in 2003. From 2005 to 2010, he served as Chief Executive Officer of Goldman Sachs Canada with overall responsibilities for the firm's operations, client relationships and regulatory matters in the region. Under his leadership, the firm significantly increased its headcount, and expanded the scope of its operations. Mr. Hodgson has advised Canadian governments, corporations and high net worth individuals. Selected clients in the financing, mergers and merchant banking businesses included the Province of Ontario Government, the Canada Pension Plan Investment Board, the Ontario Teachers' Pension Plan, the Ontario Municipal Employees Retirement System, the Caisse de dépôt et placement du Québec, and Brookfield Asset Management. Mr. Hodgson currently sits on the boards of Hydro One, PSP Investments, MEG Energy Corp., and Next Canada. Mr. Hodgson's prior directorships include The Global Risk Institute, KGS-Alpha Capital Markets, Bridgepoint Health and the Richard Ivey School of Business. Mr. Hodgson holds a Masters of Business Administration from The Richard Ivey School of Business at the University of Western Ontario and a Bachelor of Commerce from the University of Manitoba. He is a Chartered Accountant and a member of the Institute of Corporate Directors.

Alister Campbell. Alister Campbell is the incoming CEO of the Property and Casualty Insurance Compensation Corporation (PACICC), the Canadian industry-funded resolution authority for the insurance sector. Previously, Mr. Campbell served as the President and CEO of The Guarantee Company of North America, a market-leading specialty insurer and surety underwriter in Canada with an expanding surety underwriting presence in the United States. In that role, he led a period of strong growth and increased profitability. Prior to his role at The Guarantee, Mr. Campbell was President, Chief Executive Officer and Chief Agent of Zurich North America Canada, a Canadian market leader in corporate, commercial and specialty insurance. Mr. Campbell is a 30-year insurance industry veteran and began his career in the brokerage sector where he helped found and lead Canada's first significant broker consolidator – Trivest Insurance Network. He then began his first period with Zurich Canada rising to the position of President, Personal Insurance where he was accountable for the growth and profitability of both Property & Casualty and Life Insurance. Upon the sale of those businesses, Mr Campbell was invited to join the Senior Executive of ING Canada (now Intact Financial) where he served in various roles including as Senior

Vice-President, Marketing & Communications - accountable for the ING brand as well as direct-insurer brands BelairDirect and GreyPower Insurance. Mr. Campbell was also accountable for Investor Relations during the period when ING Canada first became publicly traded on the TSX. Alister has previously served the industry as Chair of the board of directors of PACICC and as Deputy Chair of the Board of the Insurance Bureau of Canada (IBC). Currently, he is a member of the board of directors of the Global Risk Institute in Financial Services and a Senior Fellow at the C.D. Howe Institute. Alister holds a BA (Hons.) from the University of Toronto, a M.Sc. from the London School of Economics and an MBA (Finance) from the Wharton Graduate School of Business at the University of Pennsylvania.

Rik Parkhill. Rik Parkhill has over 30 years of experience in the financial services industry, including managing banks, brokerage firms and exchanges. He is currently Managing Partner and Founder of Parkhill Advisory Inc., which provides advisory services to corporations and institutional investors, with a focus on strategy, capital markets and banking. He also serves as a non-executive director on corporate boards in Canada and the Caribbean. Mr. Parkhill was the CEO of CIBC FirstCaribbean International Bank from 2011 to 2015, and also served as Chairman of several of the bank's operating subsidiary boards. He was Managing Director, Head of Cash Equities and Capital Markets Sales at CIBC World Markets from 2008 to 2011. From 2001 to 2008, Mr. Parkhill held a number of senior positions at the TMX Group, including Interim Co-Chief Executive Officer and President, TSX Markets. Prior to 2001, he worked at several investment firms over a span of seventeen years, including Research Capital, BZW Canada, Deacon Morgan McEwen Easson, and Jones Heward. During this period, he held diverse positions, such as Head of Capital Markets, Head of Institutional Equities, Head of Research, and also worked as an Oil and Gas Analyst. Mr. Parkhill holds a Bachelor of Arts (Honours) degree from Queen's University.

Mahmood Khimji. Mahmood Khimji is a founding Principal of Highgate, a fully integrated real estate investment, management, and development company. Highgate is active in Domestic and European markets with corporate offices located in New York, London, Dallas, Los Angeles, and Seattle. Highgate targets investments in a broad range of real estate assets, portfolios, and companies. With a primary focus on the hospitality sector, Highgate has owned over 125 hotel properties and currently holds over 34,000 owned, managed, asset-managed, or under-development rooms in its portfolio. Highgate has also been an active acquirer of real estate outside of the hospitality sector, with significant investment experience in office assets, multifamily, mixed-use and high-street retail acquisitions. Mahmood attended the University of British Columbia and graduated from the University of Houston, summa cum laude, with a Bachelor of Arts degree. He attended Columbia Law School, from which he earned a Juris Doctor and subsequently practised law at the Manhattan firm of Paul, Weiss, Rifkind, Wharton & Garrison. Mahmood was formerly a member of the Boards of Directors for MeriStar Hospitality Corporation, Interstate Hotels, and Morgans Hotel Group. He currently serves on the Board of Visitors for Columbia Law School and is a member of the Young Presidents' Organization (YPO). In addition, Mahmood is a member of the Real Estate Forum and serves on the National Committee for the Aga Khan Foundation USA and is on the Board of Asia Society.

Executive Officers

Dodridge Miller. Please see Mr. Miller's biography above.

Ravi Rambarran. Ravi Rambarran was appointed to the post of Group Chief Operating Officer with responsibility for Sagicor Life Inc. Southern Caribbean on January 1, 2018. He first joined the Sagicor Group of Companies in 1997 in Jamaica, where he held senior management positions with Sagicor Life Jamaica Limited. A Director on the Sagicor Life USA Board since 2008, he was previously the Appointed Actuary of the Subsidiaries, the Group's President and Chief Executive Officer – International Division, and most recently, the Executive Vice President-Corporate Strategy and Investor Relations and Sagicor. Mr. Rambarran was awarded an Open Mathematics Scholarship by the Government of Trinidad and Tobago, has a BSc (Hons) in Actuarial Science from City University, London, an MSc in Finance from the University of London, and is a Fellow of the Institute of Actuaries. Mr. Rambarran has more than 20 years of experience, both regionally and internationally, in the pensions, insurance and asset management industries. He is also a member of the Executive of the Caribbean Actuarial Association and represents the Caribbean on the International Actuarial Association.

Andre Mousseau. Andre Mousseau was most recently a Partner at Alignvest Private Capital. Before joining Alignvest, Mr. Mousseau was a Portfolio Manager in the Long Term Equities group at the Ontario Teachers' Pension Plan, the largest single-profession pension plan in Canada. The Long Term Equities group focused on

investments, both public and private, with steady cash flow and growth potential that can hold their value and act as a hedge against inflation. During Mr. Mousseau's tenure, the Long Term Equities group made investments in Camelot Group plc, Impark Corp., Baybridge Seniors Housing and Aircastle Ltd. Prior to joining Ontario Teachers' Pension Plan, Mr. Mousseau was a Principal at EdgeStone Capital Partners, one of Canada's leading independent private equity managers. Mr. Mousseau joined EdgeStone Capital Partners as an Associate in 2006 and worked on a variety of successful investments, portfolio company initiatives and exits across multiple industries. Prior to this, Mr. Mousseau started his career in investment banking with CIBC World Markets and Genuity Capital Markets. Mr. Mousseau is a director of Edgewood Health Network, a portfolio investment of Alignvest. Previously, Mr. Mousseau served on the boards of Impark Corp., one of North America's largest parking management providers, Premier Lotteries, Ontario Teachers' Pension Plan's holding company for lottery management investments, and Aurigen Reinsurance, a Bermuda-based life reinsurance provider focused on the reinsurance of life insurance policies of North American residents, and was an alternate board member of Camelot Group PLC, the operator of the UK National Lottery. Mr. Mousseau earned a Masters of Business Administration at the Richard Ivey School of Business at the University of Western Ontario where he graduated as an Ivey Scholar, and an undergraduate degree in economics from McGill University.

Chris Zacca. Chris Zacca was appointed President and CEO of Sagicor Group Jamaica Limited in May 2017. Mr. Zacca holds a BSc in Engineering from the Massachusetts Institute of Technology and an MBA from the University of Florida. Mr. Zacca has more than 30 years of experience in public and private sector management, in particular during the period of 1982-2009, during which he held various senior management positions in the private sector. Mr. Zacca also served as a special advisor for the Prime Minister of Jamaica from 2009 to 2011. In 2014, Mr. Zacca was conferred with the National Honour of the Order of Distinction in the rank of Commander for his invaluable contribution to the private and public sectors in Jamaica.

Bart Catmull. Bart Catmull was appointed President and Chief Operating Officer of Sagicor USA in 2013. He joined Sagicor in 2005, and worked at the predecessor company since 1999. Mr. Catmull is a Certified Public Accountant (CPA), and obtained his Bachelors of Science degree from Brigham Young University. Mr. Catmull has more than 20 years' experience in the insurance industry. Prior to his appointment as President, he held the positions of Chief Operating Officer, Chief Financial Officer, Treasurer and Chief Accounting Officer at Sagicor.

Other Reporting Issuer Experience

The following table sets out the proposed directors of New Sagicor that are directors of other reporting issuers (or the equivalent) in Canada or a foreign jurisdiction, other than Alignvest, as of the date hereof:

Name	Name of Reporting Issuer
Dodridge Miller	Sagicor Financial Corporation Limited Sagicor Group Jamaica Limited FamGuard Corporation Limited
Stephen McNamara	Sagicor Financial Corporation Limited Sagicor Group Jamaica Limited
Sir Hilary Beckles	Sagicor Financial Corporation Limited
Peter Clarke	Sagicor Financial Corporation Limited Sagicor Group Jamaica Limited
Stephen Facey	Sagicor Group Jamaica Limited Panjam Investments Limited
Monish Dutt	Sagicor Financial Corporation Limited Ecobank Transnational Incorporated
Reza Satchu	Trilogy International Partners Inc.
Timothy Hodgson	MEG Energy Corp. Hydro One Limited Public Sector Pension Investment Board (PSP)

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

To the knowledge of Alignvest and Sagicor, no proposed nominee for election as a director or proposed executive officer of New Sagicor has been, at the date of the prospectus or within the last 10 years: (a) a director, chief executive officer or chief financial officer of any company that, while that person was acting in that capacity, (i) was the subject of a cease trade or similar order or an order that denied the company access to any exemption under securities legislation, for a period of more than 30 consecutive days, or (ii) was the subject of an event that resulted, after that person ceased to be a director or chief executive officer or chief financial officer, in the company being the subject of such an order; or (b) a director or executive of a company that, while that person was acting in that capacity or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

No proposed director or executive officer of New Sagicor has been subject to (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable securityholder in making an investment decision.

To the knowledge of Alignvest, no proposed director or executive officer of New Sagicor has, within the 10 years before the date of the prospectus, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director or executive officer.

Majority Voting Policy

It is expected that New Sagicor will adopt a majority voting policy consistent with TSX requirements prior to the first uncontested meeting of shareholders at which directors are to be elected.

Forum Selection Bye-law

It is expected that New Sagicor's bye-laws will include a provision providing for a forum for adjudication of certain disputes whereby, unless New Sagicor approves or consents in writing to the selection of an alternative forum (and New Sagicor will, to the fullest extent permitted by law, always provide such consent with respect to the Superior Court of Justice of the Province of Ontario, Canada and the appellate courts therefrom), the courts of competent jurisdiction located in Bermuda shall, to the fullest extent permitted by law, be sole and exclusive forum for: (i) any derivative action or proceeding brought on behalf of New Sagicor; (ii) any action asserting a claim of breach of a fiduciary duty owed by any director or officer of New Sagicor to New Sagicor; (iii) any action asserting a claim arising pursuant to any provision of any Bermuda statute in force concerning companies insofar as the same applies to New Sagicor or the memorandum of association or bye-laws of New Sagicor (as either may be amended from time to time); or (iv) any action asserting a claim otherwise related to the relationships among New Sagicor, its affiliates and their respective shareholders, directors and/or officers, but paragraph (iv) does not include claims related to the business carried on by New Sagicor or such affiliates. If any action the subject matter of which is within the scope of the above is filed in a court other than a court located within Bermuda in the name of any New Sagicor Shareholder, such New Sagicor Shareholder shall be deemed to have consented to (i) the personal jurisdiction of the courts of competent jurisdiction located in Bermuda and/or the Superior Court of Justice of the Province of Ontario, Canada and the appellate courts therefrom in connection with any action brought in any such court to enforce the exclusive forum provision, and (ii) having service of process made upon such New Sagicor Shareholder in such enforcement action by service upon such New Sagicor Shareholder's counsel in the action as agent of the New Sagicor Shareholder.

Conflicts of Interest

Certain of the proposed directors and executive officers of New Sagicor are officers and directors of, or are associated with, other public and private companies. Such associations may give rise to conflicts of interest with

New Sagicor from time to time. Under Bermuda law, every director and officer of the company owes certain statutory and common law duties, as applicable, to the company as a whole. In exercising their powers and discharging their duties, every director and officer shall act honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Pursuant to the BCA, if a director or officer is interested in a material contract or a proposed material contract with New Sagicor or any of its subsidiaries, or has a material interest in any person that is a party to such material contract or proposed material contract with New Sagicor or any of its subsidiaries, they must declare that interest to the board of directors at the first opportunity. It is expected that New Sagicor's bye-laws will stipulate that, subject to certain exceptions, an interested director shall not be entitled to vote in respect of any contract, transaction or arrangement in which they have an interest, and if they do so their vote shall not be counted. See also "*Corporate Governance*" and "*Risk Factors*" in this prospectus.

Indemnification of Directors and Officers

Section 98 of the BCA provides generally that a Bermuda company may indemnify its directors, officers and auditors against any liability which by virtue of any rule of law would otherwise be imposed on them in respect of any negligence, default, breach of duty or breach of trust, except in cases where such liability arises from fraud or dishonesty of which such director, officer or auditor may be guilty in relation to the company. Section 98 further provides that a Bermuda company may indemnify its directors, officers and auditors against any liability incurred by them in defending any proceedings, whether civil or criminal, in which judgment is awarded in their favour or in which they are acquitted or granted relief by the Supreme Court of Bermuda pursuant to section 281 of the BCA.

It is expected that New Sagicor's bye-laws will provide that New Sagicor shall indemnify its officers and directors in respect of their actions and omissions, except in respect of their fraud or dishonesty. It is expected that New Sagicor's bye-laws will further provided that New Sagicor Shareholders waive all claims or rights of action that they might have, individually or in right of New Sagicor, against any of New Sagicor's directors or officers for any act or failure to act in the performance of such director's or officer's duties, except in respect of any fraud or dishonesty of such director or officer.

Directors' and Officers' Liability Insurance

Section 98A of the BCA permits a Bermuda company to purchase and maintain insurance for the benefit of any officer or director in respect of any loss or liability attaching to him in respect of any negligence, default, breach of duty or breach of trust, regardless of whether or not such officer or director is otherwise indemnified. New Sagicor intends to carry a directors' and officers' liability insurance policy which will be designed to protect New Sagicor and its directors and officers against any legal action which may arise as a result of wrongful acts on the part of directors and/or officers of New Sagicor. Such policy will be written with a maximum limit and be subject to a corporate deductible on all claims.

DIRECTORS' AND EXECUTIVE OFFICERS' COMPENSATION

New Sagicor operates in a competitive and rapidly evolving market. To succeed in this environment and to achieve its business and financial objectives, New Sagicor needs to attract, retain and motivate a highly talented team of executives. New Sagicor expects its team to possess and demonstrate strong leadership and management capabilities, as well as foster New Sagicor's company culture, which is at the foundation of its success and remains a pivotal part of its everyday operations.

New Sagicor's executive compensation program is expected to be designed to achieve the following objectives:

- provide market-competitive compensation opportunities in order to attract and retain talented, high-performing and experienced executive officers, whose knowledge, skills and performance are critical to New Sagicor's success;
- motivate these executive officers to achieve New Sagicor's business objectives;
- align the interests of New Sagicor's executive officers with those of its shareholders by tying a meaningful portion of compensation directly to the long-term value and growth of New Sagicor's business; and
- provide incentives that encourage appropriate levels of risk-taking by the executive team.

Named Executive Officers

It is expected that the five (5) "named executive officers" ("NEOs") of New Sagicor will include Dodridge D. Miller as President and Chief Executive Officer, Ravi Rambarran as Group Chief Operating Officer, Andre Mousseau as Group Chief Financial Officer, Chris Zacca as President of Sagicor Jamaica and Bart Catmull as President of Sagicor USA. All are currently executive officers of Sagicor and/or its subsidiaries except Andre Mousseau, who is currently Chief Operating Officer of Alignvest. An issuer's "named executive officers" are comprised of its Chief Executive Officer and Chief Financial Officer (or individuals who serve in similar capacities), and its three most highly compensated executive officers, other than the Chief Executive Officer and Chief Financial Officer, whose total compensation is, individually, more than C\$150,000.

It is anticipated that the New Sagicor Board will adopt a written charter for the CG&E Committee and the C&HR Committee that establishes, among other things, the CG&E Committee's and the C&HR Committee's purpose and its responsibilities with respect to executive compensation (see "*Corporate Governance – Compensation and Human Resources Committee*" and "*Corporate Governance – Corporate Governance and Ethics Committee*"). The charters of the CG&C Committee and the C&HR Committee will provide that such committees shall, among other things, assist the New Sagicor Board in its oversight of executive compensation, management development and succession, director compensation and executive compensation disclosure.

It is expected that, following the Effective Date, such executive officers' compensation will include the following major elements: (i) base salary; (ii) short-term incentives, consisting of an annual bonus, based on the results of an executive's scorecard; (iii) long-term equity incentives, as may be granted from time-to-time under the proposed restricted share unit plan to be adopted by New Sagicor (see "*Equity Incentive Plan Descriptions – RSU Plan*"); and (iv) customary benefit programs.

The existing employment agreement between Sagicor Jamaica and Chris Zacca provides for: (i) base salary; (ii) short-term incentives, consisting of an annual bonus; (iii) long-term equity incentives, as may be granted from time-to-time under the RSU Plan; and (iv) customary benefit programs.

The existing employment agreement between Sagicor USA and Bart Catmull provides for: (i) base salary; (ii) short-term incentives, consisting of an annual bonus; (iii) long-term equity incentives expected to be granted from time-to-time under the RSU Plan; and (iv) customary benefit programs.

New Sagicor expects to continue to evaluate its philosophy and compensation programs as circumstances require and plans to review compensation on an annual basis. As part of this review process, New Sagicor expects to be

guided by the philosophy and objectives outlined above, as well as other factors which may become relevant, such as the cost to New Sagicor if it were required to find a replacement for a key employee.

Compensation, Employment Agreements, Termination and Change of Control Benefits

Each of Dodridge Miller, Ravi Rambarran and Andre Mousseau intend to enter into a new employment agreement, which is conditional on the completion of the proposed transactions with Sagicor. Except as disclosed below, any restricted share unit awards that may be granted in the year ended December 31, 2019 have not been determined at this time. Amounts discussed in connection with annual incentive plan compensation reflect the maximum annual bonuses that could be awarded to the applicable NEO in 2019 in respect of the year ended December 31, 2019. The actual amount of cash bonuses paid out in 2019 may change depending on New Sagicor's ongoing performance. It is expected that none of the NEOs will be entitled to perquisites or other personal benefits which, in the aggregate, are worth over C\$50,000 or over 10% of their base salary.

Regarding Chris Zacca's and Bart Catmull's employment agreement, the amounts discussed in connection with annual incentive plan compensation reflect the maximum annual bonuses that could be awarded to the applicable NEO in 2019 in respect of the year ended December 31, 2019. The actual amount of cash bonuses paid out in 2019 may change depending on Sagicor Jamaica's and Sagicor USA's, as applicable, ongoing performance. None of these NEOs are entitled to perquisites or other personal benefits which, in the aggregate, are worth over C\$50,000 or over 10% of their base salary.

Dodridge D. Miller, President and Chief Executive Officer

In respect of the year ended December 31, 2019, Mr. Miller is expected to have a base salary of US\$700,000 per annum. This base salary will be reviewed annually by the New Sagicor Board and may be adjusted in the sole discretion of the New Sagicor Board based on such review, but will not be reduced by the New Sagicor Board unless a material adverse change in the financial condition or operations of Sagicor has occurred or unless Mr. Miller's responsibilities are altered to reflect less responsibility. In addition, he will be entitled to a one-time lump sum cash payment equal to US\$1,345,800 in consideration for his agreement to substantially reduce his base pay that is currently in effect.

In 2019, Mr. Miller will also have the opportunity to earn an annual incentive bonus payable in cash of up to 1.91 times his base salary (the maximum bonus would require maximum performance metrics to be satisfied, failing which a lesser or no bonus would be awarded). In later years, different short-term incentive plans may be adopted, but this remains to be determined.

Mr. Miller's existing equity incentives, consisting of options to acquire 5,549,200 Sagicor Common Shares exercisable at exercise prices between US\$0.86 to US\$2.50 per share expiring in 2020 to 2028 and unvested restricted share awards in respect of 889,305 Sagicor Common Shares vesting 25% on the grant date and in equal amounts of 25% over the succeeding three years thereafter, will be replaced by New Sagicor Common Shares with equivalent economics and other terms. As a result, after the Effective Time, Mr. Miller will have options to acquire approximately 1,294,813 Alignvest Common Shares and unvested restricted share awards in respect of 207,505 Alignvest Common Shares, subject to the same terms and conditions in place as of the date hereof. The foregoing assume a US dollar to Canadian exchange rate of approximately 1:1.33.

Mr. Miller will, at the Effective Time, also be granted a long-term incentive consisting of restricted share units ("RSUs") in respect of 675,000 Alignvest Common Shares. 1/3rd of these RSUs will vest on a time basis (1/9th per year in each of 2019, 2020 and 2021), 1/3rd will vest based on return on equity targets, and 1/3rd will vest only if the Alignvest Common Shares trade above C\$12.00 per share for 20 out of 30 consecutive trading days within 5 years from the Effective Time.

Mr. Miller will continue to participate in his existing pension arrangements (taking into account the lump sum cash payment described above pro-rated over three years). As at December 31, 2017, Mr. Miller had accrued 28.6 years of credited service. The present value of the defined benefit obligation is US\$9,338,212, and would result in annual benefits payable of US\$850,000 at age 65.

Mr. Miller will also be entitled to a grant, on the Effective Date, of 1,000,000 Alignvest Common Shares in consideration of his agreement to very substantially reduce his severance entitlement (by an amount that is materially greater than the C\$10,000,000 million value ascribed to this share grant), and to remove its “single trigger” feature. The employment agreement with Mr. Miller specifies the amounts payable, including severance, to Mr. Miller in the event that he is terminated, with or without cause or due to disability, or resigns with or without good reason. The payment of severance to Mr. Miller is conditioned on his execution of a general release of claims against New Sagicor in a form reasonably acceptable to New Sagicor. If Mr. Miller is terminated without cause, terminated due to disability or resigns with good reason, then under the employment agreement, New Sagicor will be required to pay to Mr. Miller: (1) his accrued but unpaid base salary and accrued vacation pay up to the termination date; (2) his earned and unpaid annual bonus (if any); (3) an amount equal to his unreimbursed business expenses that are subject to reimbursement under New Sagicor’s then current policy on business expenses; and (4) severance in an amount equal to two (2) times the sum of the base salary and the target annual bonus. Severance will be paid by New Sagicor to Mr. Miller as a lump sum within 60 days of Mr. Miller’s termination in the event of a termination without cause or resignation with good reason, and within 30 days of Mr. Miller’s termination in the event of a termination due to disability. If Mr. Miller’s employment is terminated with cause or due to his resignation other than with good reason, then under the employment agreement, New Sagicor will be required to pay to Mr. Miller: (1) his accrued but unpaid base salary up to the termination date; and (2) an amount equal to his unreimbursed business expenses that are subject to reimbursement under New Sagicor’s then current policy on business expenses.

Mr. Miller’s compensation package is structured, in part, to compensate Mr. Miller for: (1) a reduction in salary compared to his pre-transaction salary; (2) forfeiture of his pre-transaction severance entitlement; and (3) a reduction in severance compared to his pre-transaction entitlement. Overall, the value of Mr. Miller’s total compensation is expected to be substantially less for the year ended December 31, 2019 than for the year ended December 31, 2018.

Mr. Miller’s employment agreement also contains customary confidentiality and indemnification arrangements and certain restrictive covenants that will continue to apply following the termination of his employment, including non-competition and non-solicitation provisions which are in effect during Mr. Miller’s employment and for the one year following the termination of his employment. Customary benefits will include vacation, a travel allowance, a housing allowance, a vehicle allowance and customary group life and health benefits.

The term of Mr. Miller’s employment agreement is initially for three (3) years, with automatic renewal for successive one year periods absent at least 60 days’ prior written notice from either party before the renewal date.

Chris Zacca

In respect of the year ended December 31, 2019, Mr. Zacca will have a base salary of US\$500,000 per annum. He will receive an annual incentive cash bonus, in accordance with Sagicor’s annual incentive plan, equal to the amount payable to presidents and/or chief executive officers under such plan, and will receive an annual long term equity-based incentive, in accordance with the rules governing the RSU Plan, equal to the amount issuable to presidents and/or chief executive officers under such plan. Either (1) Sagicor will purchase Mr. Zacca a motor vehicle which Sagicor will maintain for the exclusive use by Mr. Zacca, or (2) Sagicor will provide Mr. Zacca with a motor vehicle allowance as would be appropriate for a president and chief executive officer. Mr. Zacca will have his reasonable expenses incurred while travelling reimbursed by Sagicor. Sagicor will also offer Mr. Zacca customary group health and pension benefits including in respect of short-term disability, vacation and illness. Mr. Zacca’s compensation package will be subject to annual review by the board of directors of Sagicor and the C&HR Committee, which board of directors of Sagicor and the C&HR Committee may amend the terms of Mr. Zacca’s compensation package. Mr. Zacca’s employment agreement may be amended concurrently with the completion of the Transaction to reflect his participation in the RSU Plan following closing of the Transaction and other appropriate amendments and clarifications.

The employment agreement with Mr. Zacca specifies the amounts that could be payable to Mr. Zacca in the event that he is terminated. Sagicor will not be required to make any payments to Mr. Zacca under his employment agreement if Mr. Zacca is terminated for cause. The following list includes situations which would constitute for cause termination of Mr. Zacca under his employment agreement: Mr. Zacca willfully, intentionally and negligently fails to substantially perform his duties (other than by reason of incapacity due to physical or mental illness); Mr.

Zacca willfully engages in conduct which is demonstrably and materially injurious to Sagicor; Mr. Zacca is convicted of an offence or has a judgment obtained against him any civil proceeding involving fraud, misappropriation of property or moral turpitude that could, in the opinion of the board of directors of Sagicor, adversely affect the integrity, reputation, business or operations of Sagicor; Mr. Zacca commits an act of fraud or misappropriation of property against Sagicor or any subsidiary or affiliate; Mr. Zacca materially breaches his employment agreement and such breach is not remedied within 30 days; and Mr. Zacca commits any other act or omission that justifies dismissal for cause. If Mr. Zacca is wrongfully terminated or constructively dismissed, Sagicor will be required to pay Mr. Zacca: (1) an amount equal to 12 months current compensation in lieu of the required notice; plus (2) a termination or severance payment equal to four weeks' of Mr. Zacca's current total compensation for each year, or part year thereof, of employment, provided that (A) the amount paid under this part (2) shall not, when added with part (1), exceed 30 months' current total compensation, and (B) the termination package under this part (2) shall not be less than the statutory minimum under the laws of Jamaica. If Mr. Zacca is constructively terminated due to Mr. Zacca's death or Mr. Zacca is terminated because he is incapacitated or prevented by physical or mental illness, injury, accident, disability or any other circumstance beyond his control from discharging his duties under his employment agreement for a total of 180 days in any 12 consecutive calendar months, Sagicor will be required to pay Mr. Zacca (or his estate, as applicable) a termination package equal to 24 months' current compensation.

Mr. Zacca's employment agreement also contains customary confidentiality arrangements and certain restrictive covenants that will continue to apply following the termination of his employment, including non-competition and non-solicitation provisions which are in effect during Mr. Zacca's employment and for the one year following the termination of his employment.

The term of Mr. Zacca's employment agreement is initially for three (3) years, with automatic renewal for successive one year periods unless either of the parties terminates the employment agreement in accordance with its terms.

Bart Catmull

In respect of the year ended December 31, 2019, Mr. Catmull will have a base salary of US\$381,000 per annum. He will receive an annual incentive cash bonus, in accordance with Sagicor's annual incentive plan, equal to the amount payable to presidents and/or chief operating officers under such plan, and is expected to receive an annual long term equity-based incentive, in accordance with the rules governing the RSU Plan, equal to the amount issuable to presidents and/or chief operating officers under such plan. Mr. Catmull will receive an annual motor vehicle allowance of US\$17,250, will have his reasonable expenses incurred while travelling reimbursed by Sagicor USA, and Sagicor USA will provide Mr. Catmull with a place of residence. Sagicor USA will also offer Mr. Catmull customary group health and pension benefits including in respect of short-term disability, vacation and illness. Mr. Catmull's compensation package will be subject to annual review by the board of directors of Sagicor USA and Sagicor USA's Human Resource Committee, which board of directors of Sagicor USA and Sagicor USA's Human Resource Committee may amend the terms of Mr. Catmull's compensation package. Mr. Catmull's employment agreement may be amended concurrently with the completion of the Transaction to reflect his participation in the RSU Plan following closing of the Transaction and other appropriate amendments and clarifications.

The employment agreement with Mr. Catmull specifies the amounts that could be payable to Mr. Catmull in the event that he is terminated. Sagicor USA will not be required to make any payments to Mr. Catmull under his employment agreement if Mr. Catmull is terminated for cause. The following list includes situations which would constitute for cause termination of Mr. Catmull under his employment agreement: Mr. Catmull willfully, intentionally and negligently fails to substantially perform his duties (other than by reason of incapacity due to physical or mental illness); Mr. Catmull willfully engages in conduct which is demonstrably and materially injurious to Sagicor USA; Mr. Catmull is convicted of an offence or has a judgment obtained against him any civil proceeding involving fraud, misappropriation of property or moral turpitude that could, in the opinion of the board of directors of Sagicor USA, adversely affect the integrity, reputation, business or operations of Sagicor USA; Mr. Catmull commits an act of fraud or misappropriation of property against Sagicor USA or any subsidiary or affiliate; Mr. Catmull materially breaches his employment agreement and such breach is not remedied within 30 days; and Mr. Catmull commits any other act or omission that justifies dismissal for cause. If Mr. Catmull is wrongfully terminated or constructively dismissed, Sagicor USA will be required to pay Mr. Catmull: (1) an amount equal to 24 months

current compensation in lieu of the required notice; plus (2) a termination or severance payment equal to five weeks' of Mr. Catmull's current total compensation for each year, or part year thereof, of employment, provided that (A) the amount paid under this part (2) shall not, when added with part (1), exceed 30 months' current total compensation, and (B) the termination package under this part (2) shall not be less than the statutory minimum under the laws of the State of Florida. If Mr. Catmull is constructively terminated due to Mr. Catmull's death or Mr. Catmull is terminated because he is incapacitated or prevented by physical or mental illness, injury, accident, disability or any other circumstance beyond his control from discharging his duties under his employment agreement for a total of 180 days in any 12 consecutive calendar months, Sagicor USA will be required to pay Mr. Catmull (or his estate, as applicable) a termination package equal to 24 months' current compensation.

Mr. Catmull's employment agreement also contains customary confidentiality arrangements and certain restrictive covenants that will continue to apply following the termination of his employment, including non-competition and non-solicitation provisions which are in effect during Mr. Catmull's employment and for the one year following the termination of his employment.

The term of Mr. Catmull's employment agreement is initially for three (3) years, with automatic renewal for successive one year periods unless either of the parties terminates the employment agreement in accordance with its terms.

Ravi Rambarran and Andre Mousseau

The terms of employment of Ravi Rambarran and Andre Mousseau are expected to be finalized prior to the completion of the Transaction.

Directors

New Sagicor expects to implement a director compensation program consisting of board retainer fees, meeting fees and committee retainer fees on market terms.

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

Other than as described below, none of the directors, executive officers, employees, former directors, former executive officers or former employees of Sagicor or any of its subsidiaries, and none of their respective associates, is or has within 30 days before the date of this prospectus or at any time since the beginning of the most recently completed financial year been indebted to Sagicor or any of its subsidiaries or another entity whose indebtedness is the subject of a guarantee, support agreement, letter of credit or other similar agreement or understanding provided by New Sagicor or any of its subsidiaries. The amounts in the table below do not include “routine indebtedness” (as defined in National Instrument 51-102 – Continuous Disclosure Obligations).

AGGREGATE INDEBTEDNESS (US\$)

Purpose	To Sagicor or its Subsidiaries (US\$ millions)	To Another Entity
Share purchases	Nil	Nil
Other	US\$23.5	Nil

AUDIT COMMITTEE

The following disclosure is based on the present expectation of New Sagicor that the formal establishment of the Audit Committee (the “**Audit Committee**”) of the New Sagicor Board (without changes to the proposed composition) and the ratification and adoption of its proposed mandate (without any material modifications) will occur following completion of the Transaction. However, such disclosure remains subject to revision prior or subsequent to the Effective Date. See “*Notice to Readers*” in this prospectus. The proposed mandate of the Audit Committee is set out in Appendix I to this prospectus.

Composition of New Sagicor Audit Committee

On the Effective Date, the Audit Committee is expected to consist of three members, all of whom are expected to be independent (as defined in NI 52-110) and none of whom are expected to receive, directly or indirectly, any compensation from New Sagicor other than for service as a member of the New Sagicor Board and its committees. All proposed members of the Audit Committee will be financially literate (as defined under NI 52-110).

Pre-Approval Policies and Procedures

The Audit Committee will adopt requirements regarding pre-approval of non-audit services as part of its Audit Committee Mandate. The Audit Committee Mandate will require that the Audit Committee must approve in advance any retainer of the auditors to perform any non-audit service to New Sagicor (together with all non-audit service fees) that it deems advisable in accordance with applicable requirements and the New Sagicor Board approved policies and procedures. The Audit Committee intends to consider the impact of such service and fees on the independence of the auditor. The Audit Committee may delegate pre-approval authority to a member of the Audit Committee; however, the decisions of any member of the Audit Committee to whom this authority has been delegated must be presented to the full Audit Committee at its next scheduled Audit Committee meeting.

External Audit Service Fees

All audit and non-audit services to be provided by New Sagicor’s external auditor will be required to be pre-approved by the Audit Committee. It is expected that on an annual basis, New Sagicor’s Audit Committee will pre-approve a budget for certain specific non-audit services such as assistance with tax returns.

CORPORATE GOVERNANCE

Unless otherwise indicated, the following disclosure is based on the present expectations of New Sagicor in respect of its corporate governance practices and the formal establishment of committees of the New Sagicor Board described below (without changes to the proposed composition) and the ratification and adoption of their respective proposed mandates (without any material modifications) will occur following completion of the Transaction. However, such disclosure remains subject to revision prior or subsequent to the Effective Date. See “*Notice to Readers*” in this prospectus.

Statement of Corporate Governance Practices

New Sagicor’s corporate governance disclosure obligations are set out in the Canadian Securities Administrators’ NI 58-101, NP 58-201 and NI 52-110. These instruments set out a series of guidelines and requirements for effective corporate governance (collectively, the “**Guidelines**”). The Guidelines address matters such as the constitution and independence of corporate boards, the functions to be performed by boards and their committees and the effectiveness and education of board members. NI 58-101 requires the disclosure by each listed corporation of its approach to corporate governance with reference to the Guidelines.

Set out below is a description of New Sagicor’s anticipated approach to corporate governance in relation to the Guidelines.

Board of Directors

On the Effective Date, it is expected that the New Sagicor Board will be comprised of twelve directors, as set out in “*Directors and Executive Officers*” in this prospectus. Each of the twelve (12) proposed members of the New Sagicor Board will be formally appointed to the New Sagicor Board at or prior to the closing of the Transaction. The current directors of Alignvest, with the exception of Reza Satchu and Timothy Hodgson, intend to resign serially at, or prior to, the closing of the Transaction, and their replacements plus three (3) new directors are expected to be appointed at that time.

As the proposed directors of New Sagicor, other than Reza Satchu and Timothy Hodgson, who are currently directors of Alignvest, are not current directors of Alignvest and will not become directors of New Sagicor until the completion of the Transaction, they will not be subject to liability as directors for any misrepresentation in this prospectus.

Each director of New Sagicor will thereafter be required to be elected by New Sagicor Shareholders at each annual meeting of shareholders, and will hold office for the term stipulated in the applicable New Sagicor Shareholder resolution, unless: (i) his or her office is earlier vacated in accordance with the bye-laws of New Sagicor; or (ii) he or she becomes disqualified to act as a director. In the event that a term is not stipulated in the applicable New Sagicor Shareholder resolution, directors will hold office until the termination of the next annual general meeting following their appointment.

The primary function of the New Sagicor Board will be to supervise the management of the business and affairs of New Sagicor, including the responsibility for the strategic planning process, risk management, succession planning, approving and communicating a communications policy and disclosure policy, setting internal controls, corporate governance, senior management compensation and oversight, director compensation and assessment and approving material transactions and contracts. The New Sagicor Board will also be responsible for reviewing the succession plans for New Sagicor, including appointing, training and monitoring senior management to seek to ensure that the New Sagicor Board and management have appropriate skill and experience. The New Sagicor Board will establish an Audit Committee, a CG&E Committee, a C&HR Committee and an Investment and Risk Committee. See “*Directors and Executive Officers*” in this prospectus for a chart setting out the membership of each of the proposed committees of the New Sagicor Board.

Following the Effective Date, the New Sagicor Board intends to adopt a majority voting policy for the nomination of directors. For a description of such proposed policy, see “*Directors and Executive Officers — Majority Voting Policy*” in this prospectus.

The New Sagicor Board will delegate to the applicable committee those duties and responsibilities set out in each committee’s proposed mandate. The primary mandate of the Audit Committee will be to provide assistance to the New Sagicor Board in fulfilling its responsibility to New Sagicor Shareholders, potential shareholders and the investment community, to oversee the work and review the qualifications and independence of the external auditors of New Sagicor, to review the financial statements of New Sagicor and public disclosure documents containing financial information and to assist New Sagicor with the legal compliance and ethics programs as established by management and by the New Sagicor Board and as required by law.

The primary mandate of the CG&E Committee with respect to corporate governance and ethics will be to develop and recommend to the New Sagicor Board policies and procedures to establish and maintain best practice standards of corporate governance; manage the process for director succession, nomination and recommendation to shareholders for (re-)election as directors; establish and direct the processes for assessing the performance of the New Sagicor Board, its committees and individual directors; supervise the operation of the President and Chief Executive Officer; and oversee the processes relating to communications and public policy and New Sagicor’s corporate image.

The primary mandate of the C&HR Committee with respect to compensation and human resources will be to advise the New Sagicor Board with respect to: compensation policies, programs and plans; human resources policies and practices to attain New Sagicor’s strategic goals; management succession plans for executive management of New Sagicor and its subsidiaries; and New Sagicor’s pension plans and the pension plans of participating subsidiaries of New Sagicor.

The primary mandate of the Investment and Risk Management Committee will be to: direct and oversee enterprise risk management of New Sagicor and its subsidiaries; seek to ensure that New Sagicor’s origination and management of risk, whether at the transaction, portfolio, or enterprise level, is consistent with stated risk philosophy, risk policies and processes, legal and regulatory requirements, and with management authorities; understand the significant risks to which New Sagicor and its subsidiaries are exposed and the policies, procedures and controls used by management to assess and manage these risks; and review actions taken to maintain a consistently sound risk profile.

Independence of the New Sagicor Board

NI 58-101 defines an “independent director” as a director who has no direct or indirect material relationship with New Sagicor. A “material relationship” is in turn defined as a relationship which could, in the view of the New Sagicor Board, be reasonably expected to interfere with such member’s independent judgment. In determining whether a particular director is an “independent director” or a “non-independent director”, the New Sagicor Board will consider the factual circumstances of each director in the context of the Guidelines.

It is expected that the New Sagicor Board will be comprised of twelve members. Dodridge Miller is not considered independent for the purposes of NI 58-101 because he will be part of management of New Sagicor. Reza Satchu is not considered independent for the purposes of NI 58-101 because he was, prior to the Effective Date, an executive officer of Alignvest, New Sagicor’s predecessor company. Timothy Hodgson is not considered independent for the purposes of NI 58-101 because he is an executive officer of AMC, which was previously the parent of Alignvest. Accordingly, the New Sagicor Board will not have an independent Chairman; however, it is expected that an independent director will be appointed as lead independent director by the New Sagicor Board and will seek to ensure that the directors who are independent have opportunities to meet without management present, as required.

Chairman

Timothy Hodgson will serve as the Chairman of New Sagicor. The Chairman’s role will be to seek to ensure the management, development and effective functioning of the New Sagicor Board and will provide leadership in every aspect of its work. The position description for New Sagicor’s Chairman is expected to set out the Chairman’s key

responsibilities. The Chairman and each committee can also engage outside consultants without consulting management. This helps ensure they receive independent advice as they feel necessary.

Meeting in-camera

The New Sagicor Board and committees are expected to hold regularly scheduled meetings without management and non-independent directors. These discussions will generally form part of the committee chairs' reports to the New Sagicor Board. New Sagicor's lead independent director is expected to encourage open and candid discussions among the independent directors by providing them with an opportunity to express their views on key topics before decisions are taken.

Succession planning

The CG&E Committee is expected to provide primary oversight of succession planning for New Sagicor's President and Chief Executive Officer and the performance assessment of New Sagicor's President and Chief Executive Officer, while the C&HR Committee is expected to provide primary oversight of succession planning for New Sagicor's other executive officers as well as the executive management of New Sagicor's subsidiaries. The CG&E Committee and the C&HR Committee are expected to conduct in-depth reviews of succession options relating to senior management positions and, when appropriate, are expected to approve the rotation of senior executives into new roles to broaden their responsibilities and experiences and deepen the pool of internal candidates for senior management positions.

The CG&E Committee is expected to participate in the assessment of the performance of New Sagicor's President and Chief Executive Officer every year. The New Sagicor Board is expected to approve all appointments of executive officers of New Sagicor.

Board Mandate

The New Sagicor Board will be responsible for the overall stewardship of New Sagicor. The New Sagicor Board will discharge this responsibility directly and through delegation of specific responsibilities to committees of the New Sagicor Board, New Sagicor's Chairman, and officers of New Sagicor, all as more particularly described in the New Sagicor Mandate that is expected to be adopted by the New Sagicor Board. The proposed New Sagicor Board Mandate is attached as Appendix H to this prospectus.

Position Descriptions

The New Sagicor Board expects to have written position descriptions for New Sagicor's Chairman, chairs of each of the committees of the New Sagicor Board and New Sagicor's President and Chief Executive Officer. New Sagicor's Board Mandate and the committee mandates for the Audit Committee, CG&E Committee, C&HR Committee and Investment and Risk Management Committee, which will set out in writing the roles of the New Sagicor Board and the committees in supervising management of New Sagicor.

Director Term Limits/Mandatory Retirement

The New Sagicor Board expects to consider the matters of term limits and mandatory retirement. At this time, New Sagicor does not expect that these types of policies would be appropriate for the New Sagicor Board. New Sagicor believes that a rigorous self-evaluation process combined with input, where appropriate, from an external third party governance firm would be a more effective and transparent manner to ensure that New Sagicor's directors add value and remain strong contributors.

Diversity

Board of Directors

New Sagicor recognizes the benefits that diversity brings to the company. The New Sagicor Board will aim to be comprised of directors who have a range of perspectives, insights and views in relation to the issues affecting New

Sagicor. The New Sagicor Board intends to reflect this belief in diversity in a written Diversity Policy consistent with best practices that is expected to be adopted by the New Sagicor Board following the completion of the Transaction. The Diversity Policy is expected to state that the New Sagicor Board should, where practicable, include individuals from diverse backgrounds, having regard to, among other things, gender, status, age, business experience, professional expertise, education, nationality, race, culture, language, personal skills and geographic background. Accordingly, consideration of whether the diverse attributes highlighted in the policy are sufficiently represented on the New Sagicor Board are expected to be an important component of the selection process for members of the New Sagicor Board going forward.

Management

New Sagicor believes that a diversity of backgrounds, opinions and perspectives and a culture of inclusion helps to create a healthy and dynamic workplace, which improves overall business performance. New Sagicor recognizes the value of ensuring that New Sagicor has leaders who are diverse. New Sagicor and its subsidiaries intend to work to develop their employees internally and provide them with opportunities to advance their careers. New Sagicor is expected to build a strategy and execution plan to work towards increasing the representation of women and other diverse communities in leadership roles at all levels of the organization. One of the objectives of this initiative will be to seek to ensure that there are highly-qualified women and other diverse communities within New Sagicor and its subsidiaries available to fill vacancies in executive officer and other leadership positions. In appointing individuals to its leadership team, both at the corporate level and business vertical level, New Sagicor will weigh a number of factors, including the skills and experience required for the position and the personal attributes of the candidates.

Representation

None of the proposed directors of New Sagicor are female. There are currently 69 men and 58 women, or 54.3% and 45.7% respectively, who hold positions as executives and senior managers in Sagicor. Additionally, there are 59 men and 18 women, or 76.6% and 23.4% respectively, on the various boards that comprise the Sagicor Group. New Sagicor recognizes the value of the contribution of members with diverse attributes on the boards and in management of New Sagicor and its subsidiaries and will be committed to seeking to ensure that there is representation of women on the boards and in the management of New Sagicor and its subsidiaries. However, New Sagicor does not intend to establish a target regarding the number of women or other diverse communities on the boards and in management of New Sagicor and its subsidiaries. New Sagicor believes a target would not be the most effective way of ensuring boards and management are comprised of individuals with diverse attributes and backgrounds. New Sagicor will, however, evaluate the appropriateness of adopting targets in the future.

Orientation and Continuing Education

As set out in the proposed New Sagicor Board Mandate, New Sagicor is expected to have a policy of making a full initial orientation and continuing education process available to Board members. All new directors are expected to be provided with an initial orientation regarding the nature and operation of New Sagicor's business and the affairs of New Sagicor and as to the role of the New Sagicor Board and its committees, as well as the legal obligations of a director of New Sagicor. Existing directors will also be periodically updated on these matters.

In order to orient new directors as to the nature and operation of New Sagicor's business, they will be given the opportunity to meet with key members of the management team to discuss New Sagicor's business and activities. In addition, new directors will receive copies of New Sagicor Board materials, corporate policies and procedures, and other information regarding the business and operations of New Sagicor.

New Sagicor's Board members will be expected to keep themselves current with industry trends and developments and will be encouraged to communicate with management and, where applicable, auditors, advisors and other consultants of New Sagicor. New Sagicor Board members will have access to New Sagicor's in-house and external legal counsel in the event of any questions or matters relating to New Sagicor Board members' corporate and director responsibilities and to keep themselves current with changes in legislation.

New Sagicor will provide on-going continuous education programs through key business area presentations, business updates and operations site visits as appropriate.

Nomination of Directors

Part of the CG&E Committee's role is expected to be to recommend to the New Sagicor Board candidates for nomination for election as directors and candidates for appointment to New Sagicor Board committees as set out in the CG&E Committee Mandate. New Sagicor's Chairman is also expected to consult with the CG&E Committee regarding candidates for nomination or appointment to the New Sagicor Board.

Ethical Business Conduct

The New Sagicor Board expects to adopt a Code of Business Conduct and Ethics (the "**Code of Ethics**"), a written code of business conduct and ethics for New Sagicor's directors, officers and employees that sets out the New Sagicor Board's expectations for the conduct of such persons in their dealings on behalf of New Sagicor. In addition, the New Sagicor Board expects to adopt a Disclosure and Insider Trading Policy. The New Sagicor Board intends to establish confidential reporting procedures in order to encourage employees, directors and officers to raise concerns regarding matters addressed by the Code of Ethics on a confidential basis free from discrimination, retaliation or harassment. Employees who violate the Code of Ethics may face disciplinary actions, including dismissal.

The Code of Ethics is expected to be designed to deter wrongdoing and promote honest and ethical conduct. It is expected to address the following areas: conflicts of interest; corporate opportunities; confidentiality; fair dealing; protection and use of company assets; compliance with laws; rules and regulations, including insider trading laws; and encouraging and reporting of any illegal or unethical behaviour. The Code of Ethics will be available once adopted on New Sagicor's SEDAR profile at www.sedar.com or can be obtained by contacting New Sagicor and requesting a copy from its investor relations contact.

The New Sagicor Board is expected to monitor compliance with the Code of Ethics by delegating responsibility for investigating and enforcing matters related to the Code of Ethics to New Sagicor's group compliance officer. The group compliance officer will chair a management committee, ethics and compliance committee, each of which will be approved by the New Sagicor Board to oversee administration of ethics and compliance throughout New Sagicor and its subsidiaries.

Any employee who becomes aware of a violation of the Code of Ethics will be required to report the violation in accordance with the Code of Ethics. Directors and officers will be required to promptly disclose any potential conflict of interest that may arise. If a director or officer has a material interest in an agreement or transaction, applicable law, the Code of Ethics and principles of sound corporate governance will require them to declare the interest in writing or request to have such interest entered in the minutes of meetings of directors and where required to abstain from voting with respect to the agreement or transaction.

Board and Committee Assessment

The CG&E Committee's role is expected to be to assess the effectiveness of the New Sagicor Board as a whole, the committees of the New Sagicor Board and the contribution of individual directors.

Audit Committee

It is expected that the Audit Committee will be comprised of three directors of New Sagicor, all of whom are expected to be independent and financially literate for purposes of NI 52-110. The role and operation of the Audit Committee are set out in New Sagicor's proposed Audit Committee Mandate, the text of which is included as Appendix I to this prospectus. See "*Audit Committee*" above in this prospectus for further information.

The members of the Audit Committee will be appointed annually by the New Sagicor Board, and each member of the Audit Committee will serve for such term as the New Sagicor Board shall determine until the member resigns, is removed, or ceases to be a member of the New Sagicor Board.

Corporate Governance and Ethics Committee

It is expected that the Corporate Governance and Ethics Committee should be comprised of not less than three (3) directors. All of the expected members of the Corporate Governance and Ethics Committee are expected to be considered “independent” as defined in NI 58-101. The Corporate Governance and Ethics Committee is expected to conduct its business on the basis of majority approval.

The members of the Corporate Governance and Ethics Committee are expected to be appointed for a minimum of three (3) years by the New Sagicor Board on the recommendation of the Corporate Governance and Ethics Committee. The New Sagicor Board may fill a vacancy that occurs on the Corporate Governance and Ethics Committee at any time.

The role of the Corporate Governance and Ethics Committee is expected to be to:

- (i) develop and recommend to the Board policies and procedures to establish and maintain best practice standards of corporate governance;
- (ii) manage the process for director succession, nomination and recommendation to shareholders for (re-)election as directors;
- (iii) establish and direct the processes for assessing the performance of the Board, its committees and individual directors;
- (iv) supervise the operation of the President and Chief Executive Officer; and
- (v) oversee the processes relating to communications and public policy and New Sagicor’s corporate image.

As set out in the proposed Corporate Governance and Ethics Committee mandate, the Corporate Governance and Ethics Committee should, if appropriate, among other things:

Corporate Governance

- (i) be guided by New Sagicor’s director nomination process;
- (ii) propose a director for re-election to the Board based on the criteria in New Sagicor’s director nomination process;
- (iii) continually oversee directors’ performance, conduct and independence and recommend to the Chair, if applicable, that a director tender resignation in the event that:
 - a. the director is no longer qualified under New Sagicor’s Bye-laws or applicable law;
 - b. the director does not meet eligibility rules under the Board’s independence and conflict of interest guidelines;
 - c. the credentials underlying the appointment of such director materially change; or
 - d. the director’s performance as a director, including attendance at Board and committee meetings during the preceding 3 years, is unacceptable;

- (iv) perform director succession planning in anticipation of director turnover and maintain an evergreen list of potential director nominees;
- (v) annually recommend to the Board the composition of the CG&E Committee and other New Sagicor committees, including the Chair of such committees, and also recommend directors to fill interim vacancies;
- (vi) annually review and recommend to the Board the composition of subsidiary boards and also recommend directors to fill interim vacancies;
- (vii) annually assess the performance of the Board, the Chair, the CG&E Committee, other New Sagicor committees, committee chairs, directors, and New Sagicor's secretary against their defined respective responsibilities and ensure a dynamic feedback system aimed at performance improvement, with particular reference to:
 - a. content of meeting agendas for dealing with critical issues;
 - b. frequency, timing and duration of meetings for dealing with New Sagicor's business;
 - c. the timing, sufficiency and appropriateness of information received by directors;
 - d. the effectiveness of board and committee decision-making; and
 - e. the quality of the relationship between the Board and management;
- (viii) annually review the adequacy of New Sagicor's corporate governance policies, guidelines and procedures against evolving regulatory requirements and best practices and make recommendations for change to the Board as applicable;
- (ix) biennially, review directors' compensation and directors' and officers' liability insurance in line with prevailing industry practices;
- (x) review directors' requests to engage outside advisors at New Sagicor's expense, with respect to matters before the Board, the CG&E Committee, or New Sagicor's other committees;
- (xi) assess shareholder proposals for inclusion in New Sagicor's circulars and make appropriate recommendations to the Board;
- (xii) convene and supervise an annual Board organizational meeting of all directors to review the structure and operation of corporate governance in New Sagicor, including the operation of committees, performance assessment and formulation of the annual schedule of critical Board agenda items;

The President and Chief Executive Officer

- (xiii) supervise the operation of the President and Chief Executive Officer by:
 - a. formulating, in cooperation with the President and Chief Executive Officer, an appropriate position description that clearly delineates the role of management separate from the role of the Board; and
 - b. developing the succession plan for the position of the President and Chief Executive Officer, supervising implementation of the succession plan, and recommending to the Board the appointment of the President and Chief Executive Officer;

- (xiv) annually reviewing and recommending to the Board the annual goals and other criteria against which the President and Chief Executive Officer will be measured. Performance criteria should consider:
 - a. balancing the short-term against the long term;
 - b. progress against New Sagicor's long term strategies;
 - c. success in balancing the satisfaction rendered to the various stakeholders; and
 - d. creating a culture of compliance and integrity throughout the enterprise;
- (xv) assessing and measuring the performance of the President and Chief Executive Officer against the defined criteria, determining compensation and recommending these outcomes to the Board;

Public Policy

- (xvi) review policies and programs likely to have a significant impact on the image of New Sagicor;
- (xvii) monitor public views and opinions regarding their expectations of New Sagicor;
- (xviii) provide guidance and counsel to management for aligning New Sagicor's operation with the public's expectations;
- (xix) advise the Board on:
 - a. the adequacy of New Sagicor's communications policy, including processes for communicating to, and dealing with communications from shareholders, customers and employees;
 - b. the development and projection of New Sagicor's corporate image to its key publics;
 - c. the appropriate integration of public affairs considerations with the operation of New Sagicor;
 - d. ensuring that New Sagicor's business is conducted in an ethical and socially responsible way; and
 - e. the development of corporate contributions and community involvement policies and programs;

Ethical Standards and Conduct

- (xx) review and approve any amendments to New Sagicor's Code of Business Conduct and Ethics and ensure such amendment is disclosed externally, that is, to shareholders in accordance with applicable laws or the rules of applicable securities regulators;
- (xxi) annually review and approve New Sagicor's Code of Business Conduct and Ethics;
- (xxii) obtain on a regular basis reasonable assurance that New Sagicor has processes to ensure adherence to its standards of business conduct and ethical behavior;
- (xxiii) review and grant any waiver of New Sagicor's Code of Business conduct and Ethics to directors and executive officers as the Committee deems appropriate, ensuring that such waivers are promptly disclosed externally;

- (xxiv) annually review and assess procedures established by the Board to resolve conflicts of interest, including techniques for the identification of potential conflict situations and for restricting the use of confidential information;

Self-Dealing and Disclosure Requirements

- (xxv) ensure procedures and practices are established by management relating to self-dealing and to insider trades, in accordance with applicable laws and regulatory requirements;
- (xxvi) establish measurement criteria and benchmarks for permitted transactions with related parties of New Sagicor;
- (xxvii) review the practices of New Sagicor to ensure that any transactions with related parties of New Sagicor that may have a material effect on the stability or solvency of New Sagicor are identified;
- (xxviii) approve loans and financial services to directors, officers and employees where these are provided on terms and conditions materially better than those given to preferred clients;
- (xxix) establish and monitor procedures to provide disclosure of information to customers of New Sagicor as required by law or regulation;
- (xxx) establish and monitor procedures for dealing with customer complaints and designate one or more management officers to implement the procedures and to receive and deal with complaints; and
- (xxxi) when requested by the Board, and subject to the laws applicable to a wholly owned subsidiary, perform for and on behalf of the subsidiary all the functions of a conduct review committee of the subsidiary.

Compensation and Human Resources Committee

It is expected that the Compensation and Human Resources Committee should be comprised of not less than three (3) directors. All of the expected members of the Compensation and Human Resources Committee are expected to be considered “independent” as defined in NI 58-101. The Compensation and Human Resources Committee is expected to conduct its business on the basis of majority approval.

The members of the Compensation and Human Resources Committee are expected to be appointed for a minimum of three (3) years by the New Sagicor Board on the recommendation of the Corporate Governance and Ethics Committee. The New Sagicor Board may fill a vacancy that occurs on the Compensation and Human Resources Committee at any time.

To fulfil its role in developing New Sagicor’s approach to compensation and human resources issues, the Compensation and Human Resources Committee will seek to, if appropriate:

General

- (i) review the recruitment of New Sagicor’s and its subsidiaries’ executive management and their compensation and benefits packages;
- (ii) report on executive compensation as required in public disclosure documents;
- (iii) review management’s policies and practices respecting New Sagicor’s compliance with applicable legal prohibitions, disclosure requirements or other requirements on making or arranging for personal loans to senior officers or directors or amending or extending any such existing personal loans or arrangements;

Human Resource Management

- (iv) annually, review New Sagicor's human resource strategy and manpower plan;
- (v) review New Sagicor's human resources principles, policies and practices, including but not limited to recruitment, compensation, benefits, incentive and share plans;
- (vi) review position descriptions for New Sagicor's executive management, including responsibilities and accountabilities;
- (vii) review the measures and metrics for assessing New Sagicor's executive management performance;
- (viii) review the process for identifying high potential officers within the human resource base and the programs for developing and placing these officers;
- (ix) review at least annually, succession and leadership plans for New Sagicor's executive management, including specific development plans and career planning for potential successors;

Remuneration

- (x) annually review remuneration and compensation policies, including short and long-term incentive compensation plans and equity-based plans, bonus plans, executive share options plans and grants, and benefit plan philosophy, giving due consideration to the potential for some incentive programs to put New Sagicor at longer term risk;
- (xi) review and recommend to the Board various compensation and benefits budgets;
- (xii) annually review compensation arrangements for New Sagicor's executive management and the President and Chief Executive Officer;
- (xiii) recommend to the Board for its approval the terms upon which directors shall be compensated, including the Chair (if applicable) and those acting as committee chairs and committee members;

Recruitment

- (xiv) review the process for recruiting New Sagicor's executive management;
- (xv) participate in the process of recruiting New Sagicor's executive management and review their compensation and benefits package prior to any offers made;

Performance Evaluation

- (xvi) review the President and Chief Executive Officer's performance assessment of New Sagicor's executive management and his recommendation for compensation increases, including any employment agreement amendments, taking into account such management's demonstration of leadership and entrepreneurial qualities and the propensity for balancing short and long term objectives and the needs of New Sagicor's stakeholders;
- (xvii) review the list of identified high potential officers and their development and succession plans;
- (xviii) annually, review the aggregate performance of New Sagicor's human resource base;
- (xix) annually, review the employee satisfaction survey;

Pension Management

- (xx) review and recommend to the Board the funding and approve the asset investment strategy for New Sagicor's pension plan;
- (xxi) annually review pension plan performance and the funded status of the plans;
- (xxii) review any material changes to New Sagicor's pension plans which require the approval of the Board;
- (xxiii) review annual reports from management on compliance with applicable legislation relating to New Sagicor's pension plans, including confirmation that actuarial valuations are completed no less frequently than as required by law.

Investment and Risk Committee

It is expected that the Investment and Risk Committee should be comprised of not less than three (3) directors. All of the expected members of the Investment and Risk Committee are expected to be considered "independent" as defined in NI 58-101. The Investment and Risk Committee is expected to conduct its business on the basis of majority approval.

The members of the Investment and Risk Committee are expected to be appointed for a minimum of three (3) years by the New Sagicor Board on the recommendation of the Corporate Governance and Ethics Committee. The New Sagicor Board may fill a vacancy that occurs on the Investment and Risk Committee at any time.

To fulfil its role of directing and overseeing enterprise risk management of New Sagicor and its subsidiaries, the Investment and Risk Management Committee will seek to, if appropriate:

- (i) review and approve New Sagicor's risk philosophy risk appetite and its enterprise risk management policy;
- (ii) review and approve risk management principles and policies recommended by management, including policies concerning credit risk, market risk, liquidity risk, pricing risk, operational risk and other risks to which New Sagicor is exposed;
- (iii) review, on an annual basis, the effectiveness of New Sagicor's structure and processes for originating and managing risk;
- (iv) discuss with management at least annually New Sagicor's major risk exposures and the steps management has taken to monitor and control such exposures;
- (v) obtain on a regular basis reasonable assurance that New Sagicor's risk management policies for significant risks are being adhered to;
- (vi) evaluate, on a regular basis, the effectiveness and prudence of senior management in managing the operations of New Sagicor and the risks to which New Sagicor is exposed;
- (vii) review financial transactions (and policies related to those transactions) to entities of which a director of New Sagicor or his or her spouse is also a director, which have been entered into as an exception to New Sagicor's credit policy;
- (viii) approve delegation of risk limits to management and approve any transactions exceeding those delegated authorities, including but not limited to loans, investments, divestments, acquisitions, and derivatives;

- (ix) review reporting on significant risks, including the amount, nature, risk characteristics, concentration and quality of the investment portfolio, as well as all significant exposures to financial risks, through reports on significant risk exposures presented to the Investment and Risk Management Committee;
- (x) review and approve, at least once a year, the liquidity and funding management policies and capital management policies recommended by New Sagicor's management;
- (xi) review on a regular basis the liquidity, funding and capital position and liquidity, funding and capital management processes; and
- (xii) obtain on a regular basis reasonable assurance that New Sagicor's liquidity and funding management policies and capital management policies are being adhered to.

Key Governance Documents

Following completion of the Transaction, it will be expected that many policies and practices will support the corporate framework at New Sagicor. The following documents will constitute key components of New Sagicor's corporate governance system and are expected to be made available by New Sagicor subsequent to completion of the Transaction:

- Code of Business Conduct and Ethics
- Board of Directors Mandate
- Audit Committee Mandate
- Investment and Risk Committee Mandate
- Corporate Governance and Ethics Committee Mandate
- Compensation and Human Resources Committee Mandate
- Majority Voting Policy for Director Elections
- Chair of New Sagicor Board Position Description
- President and Chief Executive Officer of New Sagicor Position Description
- Diversity Policy

REGULATORY APPROVALS

Canada

It is a mutual condition precedent to the completion of the Transaction that (i) the TSX shall have approved the Sagicor Arrangement as qualifying as Alignvest's "qualifying acquisition" within the meaning of Part X of the TSX Company Manual, and (ii) clearance is received from the applicable Alignvest Securities Authorities, including the Ontario Securities Commission, for this prospectus.

United States

One of the operating subsidiaries of Sagicor is Sagicor Life Insurance Company, a Texas domiciled life insurer. Under Texas law, approval or an exemption from approval must generally be obtained from the Texas Department of Insurance prior to acquiring control of such an enterprise. In the event that, the consummation of the Transaction will result in a change in ultimate control of Sagicor Life Insurance Company, then before the transaction can be closed approval of a Form A Acquisition Statement application (or the grant of an exemption therefrom) must be obtained from the Texas Department of Insurance. Pursuant to the HSR Act, Alignvest and Sagicor may be required to submit premerger notification to the United States Federal Trade Commission and the United States Department of Justice with respect to the Transaction, in which case Alignvest and Sagicor may not close the Transaction until the waiting period outlined in the HSR Act has passed, or the government has granted early termination of the waiting period.

Trinidad and Tobago

Alignvest shall have obtained from the Central Bank of Trinidad and Tobago approval to become a "controller" within the meaning of the Insurance Act Chap. 84:01 of the laws of Trinidad and Tobago prior to the Effective Time. Additionally, Alignvest shall have registered with the Trinidad and Tobago Securities and Exchange Commission as a reporting issuer. Finally, the Trinidad and Tobago Securities and Exchange Commission shall have approved the registration of New Sagicor Common Shares to be distributed to former Sagicor shareholders in Trinidad and Tobago.

Jamaica

The Sagicor Group of companies in Jamaica includes (i) a bank (Sagicor Bank); (ii) an insurance company (Sagicor Life Insurance Limited) and a securities dealer (Sagicor Investments). Banking, insurance and securities dealing businesses are regulated in Jamaica.

Completion of the scheme of arrangement will result in Alignvest indirectly acquiring "effective control" of Sagicor Bank and under the Banking Services Act 2014 such change of effective control must be approved by the Supervisory Committee established under that Act. In addition, any new director appointed to the board of directors of Sagicor Bank will be required to meet "fit and proper" criteria established by the Supervisory Committee.

Under the Insurance Act, a direct or indirect change of control of an insurance company is not expressly subject to prior regulatory approval but a condition of registration is that the regulatory authority (the Financial Services Commission) shall be satisfied that the persons in control of the insurer are "fit and proper". In accordance with customary local practice, the proposed transaction will be disclosed to the Financial Services Commission prior to implementation.

No regulatory approval or clearance is required in connection with the securities dealing business conducted by Sagicor Investments.

Pursuant to the foregoing it is a mutual condition precedent to completion of the Sagicor Arrangement that (i) the Supervisory Committee shall have approved the Arrangement under the Banking Services Act and (ii) the Financial Services Commission shall have been notified of the Arrangement.

Barbados

The Barbados Stock Exchange (“**BSE**”) must be notified of the Scheme of Arrangement at least 21 days in advance of the Sagicor shareholders’ meeting, pursuant to Articles 4.01.1 of the BSE Rules.

The sale and distribution of the securities in Barbados is intended to be made relying upon certain exemptions for the filing of a prospectus under the Barbados Securities Act or the private placement exemption in the BFSC Industry Circular Ref: SEC-C01/15/A. In the event that a prospectus does not need to be filed, notice of the distribution of the shares will be made by filing a report with the BFSC under the Barbados Securities Act within 10 days of the completion of the distribution of shares. In the event that a prospectus filing is required, the BFSC will wish to review it before it is issued.

The BFSC in its capacity as the regulator of insurance companies must be notified within 30 days after a change in ownership has been effected. This notification letter is required to disclose a brief summary of the transaction together with certain due diligence information of the new owner including the constituent corporate documents, register of directors and ticket symbol for public companies.

Merger clearance from the Barbados Fair Trading Commission will be required in circumstances where there is an indirect change of control of any Barbados Sagicor entity, controlling not less than 40% of any market for services supplied in Barbados.

Other

In addition, a number of other insurance and related approvals and securities approvals will be required to be obtained.

RISK FACTORS

Risks Related to New Sagicor's Business

Fluctuations in the fixed income markets may adversely affect New Sagicor's profitability and financial condition.

Investment returns are an important part of New Sagicor's overall profitability, and fluctuations in the fixed income markets could have a material adverse effect on New Sagicor's consolidated financial condition, results of operations and cash flows.

Fluctuations in interest rates affect investment returns and the market values of New Sagicor's investments. Generally, investment income will be reduced during sustained periods of lower interest rates as higher yielding fixed income securities are called, mature or are sold and the proceeds reinvested at lower rates. During periods of rising interest rates, prices of fixed income securities tend to fall and realized gains upon their sale are reduced. As of December 31, 2017, the fixed income investment assets backing Sagicor's insurance liabilities and shareholders' equity amounted to US\$4.7 billion.

New Sagicor invests a portion of its assets in non-investment grade debt because regulations in the countries which are non-investment grade require a minimum level of investment in domestic assets, which are generally subject to greater risks and more volatility than investment grade rated fixed income securities. General economic conditions and many other factors beyond New Sagicor's control can adversely affect the non-investment grade debt markets. As of December 31, 2017, the non-investment grade portion of Sagicor's debt portfolio amounted to US\$1.8 billion.

New Sagicor's investment returns are also susceptible to changes in general economic conditions, including changes that impact the general creditworthiness of the issuers of debt securities and equity securities held in its portfolios. The value of New Sagicor's fixed income securities may be affected by changes in the investee's credit rating. Where the credit rating of the issuer of a debt security drops, the value of the security may also decline.

In 2016 and 2017, Moody's and S&P downgraded their Barbados ratings. As of the June 2018, the gross sovereign debt of Barbados was 175% of its GDP. The GoB has entered into a program with the IMF to provide financial and technical assistance. As part of the program, the GoB launched a debt exchange offer for GoB domestic Barbados dollar debt holders on September 7, 2018. The GoB announced on October 15, 2018 that its exchange offer received unanimous support from the domestic creditors. A restructuring plan has not yet been announced for the external US dollar denominated debt. The Sagicor Group holds approximately US\$337 million in GoB debt, of which US\$278 million is domestic Barbados-dollar denominated debt. A full provision has been made for the entire impact of the exchange offer. Sagicor does not expect that there will be any incremental impact on Sagicor as it relates to the external US dollar denominated debt.

The success of New Sagicor's operations in the United States depends on New Sagicor's ability to grow its business.

New Sagicor's current insurance business in the United States has historically been obtained by either purchasing blocks of existing policies or selling new policies through managing general agents ("MGAs"). New Sagicor believes that future growth in this market will require, in addition to these two methods, the development of a dedicated career sales force of advisors, similar to the type of advisors through whom it sell insurance in the Caribbean. If New Sagicor is unable to build out its distribution network, whether through building relationships with additional MGAs or through developing a cadre of advisors, New Sagicor may be unable to attract new life insurance business in the United States sufficient to meet its strategic goals. If this were to occur, New Sagicor's business, financial condition and operating results may be adversely affected.

New Sagicor's financial targets may prove materially inaccurate or incorrect

New Sagicor's financial targets and other forward-looking information or statements included in this prospectus are based on assumptions of future events that may or may not occur, which assumptions may not be fully disclosed in this prospectus. Financial targets are inherently subject to varying degrees of uncertainty and their achievability depends on the timing and probability of a complex series of future events. There is no assurance that the

assumptions upon which these targets are based will be realized. Actual results may differ materially from targeted results for a number of reasons including increases in operation expenses, changes or shifts in regulatory rules, undiscovered and unanticipated adverse industry and economic conditions, and unanticipated competition. Accordingly, New Sagicor Shareholders should not rely on any targets to indicate the actual results New Sagicor might achieve.

New Sagicor's exposure to the credit risk of its counterparties could adversely affect its profitability.

New Sagicor takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risks are primarily associated with financial investments. New Sagicor has significant concentrations of credit risk with respect to its holding of bonds and treasury bills issued by the governments of Jamaica, Barbados and Trinidad and Tobago, securitized mortgage bonds of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation (quasi-U.S. government entities) and cash resources held by a Canadian chartered bank. Defaults by counterparties could have a material adverse effect on New Sagicor's business, results of operations and financial condition.

See “ – *Fluctuations in the fixed income and equity markets may adversely affect New Sagicor's profitability and financial condition*”.

Differences between actual claims experience and estimated claims at the time the product was priced may result in increased losses, and so New Sagicor's reserves may be insufficient to cover actual policy benefits.

New Sagicor prices its insurance products using best estimate assumptions and builds in a margin for the possibility that actual claims experience could differ from expected experience. Nonetheless, differences between this pricing model and losses due to actual experience may exist. New Sagicor is subject to a risk that actual loss experiences will emerge differently than estimated when the product was designed and priced. New Sagicor attempts to manage product risk by regularly reviewing emerging experience against predicted losses and repricing the existing products where allowed and repricing new products. However, such attempts may not be successful. If actual losses differ from these pricing models with no recourse to repricing, New Sagicor's results of operations and financial condition could be adversely affected.

Loss reserves do not represent an exact calculation of liability, but rather are estimates of the expected cost upon the ultimate settlement of losses. These estimates are based on actuarial and statistical projections of facts and circumstances at the time of estimation and estimates of trends in loss severity and other variable factors, including new bases of liability and general economic conditions. New Sagicor's actuarial liabilities may be insufficient to cover actual policy benefits. New Sagicor's policy benefits on long-term insurance and annuity contracts are generally payable over the remaining lives of the insureds and annuitants. New Sagicor's ability to pay these benefits is influenced by future investment yields, future operating expenses and taxes, future policy renewals and lapses and the future mortality and morbidity of the existing insureds and annuitants.

New Sagicor's loss reserves may prove to be inadequate to cover its actual loss experience. New Sagicor maintains loss reserves in its property and casualty insurance lines to cover its estimated liability for losses. For some types of losses, most significantly general third-party liability personal injury claims and catastrophic natural events such as hurricanes, it has been necessary, and may over time continue to be necessary, to revise estimated potential loss exposure and the related loss reserves. Additional losses, including losses arising from changes in the legal environment, the type or magnitude of which New Sagicor cannot foresee, may emerge in the future. Consequently, actual losses and related expenses paid may differ from estimates reflected in the loss reserves in New Sagicor's financial statements. To the extent loss reserves are insufficient to cover actual losses or loss adjustment expenses, New Sagicor would experience a reduction in its earnings.

At the date of each valuation of actuarial liabilities, New Sagicor's actuaries review the assumptions made at the last valuation date. The valuation of actuarial liabilities depends on the economic scenario used, the investments allocated to back the liabilities, the underlying assumptions used and the margins for adverse deviations. New Sagicor's actuaries test the validity of each assumption by reference to current data, and, where appropriate, change the assumptions for the current valuation. A similar process of review and assessment is conducted in determining the margins for adverse deviations.

New Sagicor's experience and industry experience suggest that policy benefits will in fact be settled over the period of the policy, and that New Sagicor's actuarial liabilities will be sufficient to cover actual policy benefits. In addition, the Company maintains PfADs which are intended to mitigate any potential adverse development. Nonetheless, this does not remove the uncertainty which exists over the timing of future benefit cash outflows. There are significant uncertainties in estimating the amount and timing of settlement of policy benefits. Those policy benefits payable under long-term insurance and annuity contracts may be triggered:

- by an insurable event, such as a death, disability or critical illness claim;
- at a specified time, such as in the case of an annuity settlement or a policy maturity; or
- on the exercise of a surrender or withdrawal request by the policyholder.

If future investment yields fall below those assumed in the actuarial valuations, lower cash flows will be available for reinvestment, and as a result New Sagicor may not have sufficient assets to cover future benefit cash outflows.

If future operating expenses or taxes increase over that assumed in the actuarial valuations, New Sagicor will utilize more assets to pay expenses or taxes, potentially resulting in insufficient assets to cover actual policy benefits.

If future policy renewal is lower than assumed in the actuarial valuations, New Sagicor's profitability and solvency may decline, resulting in an inability to sustain future operations.

If the future mortality or morbidity rates of the existing insureds are higher than assumed in the actuarial valuations, New Sagicor will pay out higher benefits earlier than expected, potentially depleting its assets and adversely affecting its ability to pay other benefits.

If the future mortality rates of the existing annuitants and beneficiaries are lower than assumed in the actuarial valuations, New Sagicor will pay out benefits for longer periods than anticipated, depleting its assets and adversely affecting its ability to continue payment of annuities and other benefits.

New Sagicor could be forced to sell investments at a loss to cover policyholder withdrawals.

New Sagicor offers certain products that allow policyholders to withdraw their funds under defined circumstances. In order to meet such funding obligations, New Sagicor manages its liabilities and configures its investment portfolios so as to provide and maintain sufficient liquidity to support expected withdrawal demands and contract benefits and maturities. However, in order to provide necessary long-term returns, a certain portion of New Sagicor's assets are relatively illiquid. There can be no assurance that withdrawal demands will match New Sagicor's estimation of withdrawal demands. If New Sagicor experiences unexpected withdrawal activity, whether as a result of financial strength downgrades or otherwise, it could exhaust its liquid assets and be forced to liquidate other less liquid assets, possibly at a loss or on other unfavourable terms. If New Sagicor is forced to dispose of assets at a loss or on unfavorable terms, it could have a material adverse effect on New Sagicor's business, financial condition and results of operations.

New Sagicor's risk management policies and procedures could leave New Sagicor exposed to unidentified or unanticipated risk, which could negatively affect New Sagicor's business or result in losses.

New Sagicor has developed risk management policies and procedures and expects to continue to enhance these in the future. Nonetheless, New Sagicor's policies and procedures to identify, monitor, and manage both internal and external risks may not effectively mitigate these risks or adequately predict future exposures, which could be different or significantly greater than expected. New Sagicor's current identified risks may not be the only risks facing New Sagicor. Additional risks and uncertainties not currently known to New Sagicor, or that New Sagicor currently deems to be immaterial, may adversely affect New Sagicor's business, financial condition or operating results.

Illiquidity of certain investment assets may prevent New Sagicor from selling investments at fair prices in a timely manner.

New Sagicor is exposed to daily demands on its available cash resources for payment of policy benefits and withdrawals, operating expenses and taxes, loan draw-downs, repayment of borrowings, maturing deposit liabilities and other obligations. If demands on its cash resources exceed New Sagicor's projections, New Sagicor may be forced to liquidate longer-term assets at unfavorable prices to meet those demands. This may occur in a number of circumstances, including where a particular market experiences an unexpected increase in withdrawals of the cash value of the policies. For example, during the late 1990s the Jamaican insurance market was faced with a substantial and significant increase in cash value withdrawals as a result of a dramatic increase in commercial bank interest rates. This put pressure on insurers' ability to service these withdrawals because their portfolios included significant non-liquid assets like real estate. There is no assurance that in the event of such an occurrence that New Sagicor would readily be in a position to meet all requests without liquidating some long-term assets at potentially non-favorable prices.

New Sagicor considers an investment property to be one of the most illiquid assets. Sagicor's investment properties amounted to US\$80.8 million or 1.6% of invested assets, at the end of 2017 (US\$80.7 million, or 1.6% in 2016).

The unaudited pro forma combined financial information included in this document may not be indicative of what Sagicor's actual financial position or results of operations would have been.

The unaudited pro forma condensed combined financial information for Sagicor in this prospectus is presented for illustrative purposes only and is not necessarily indicative of what Sagicor's actual financial position or results of operations would have been had the Transaction or the acquisition of SLTT and/or SJLIC been completed on the dates indicated. See the section entitled "*Selected Consolidated Financial Information*" for more information.

New Sagicor's fiduciary relationship with certain counterparties could adversely affect its profitability.

As part of New Sagicor's Caribbean operations, it provides investment management, administration and corporate trust services to pension and mutual funds and other corporate entities, which requires New Sagicor to make allocation, purchase and sale decisions in relation to a wide range of investments. These services give rise to fiduciary risk that may expose New Sagicor to claims for maladministration or underperformance of these funds. As of December 31, 2017, Sagicor administered approximately US\$3.2 billion in assets on behalf of clients in the Caribbean to whom it owed fiduciary obligations. Claims arising out of New Sagicor's fiduciary obligations could result in a negative impact to its reputation, which could adversely affect New Sagicor's financial condition and operating results.

A prolonged labour dispute could hurt New Sagicor's business.

Approximately 16.39% of New Sagicor's employees are represented by unions and/or covered by collective bargaining agreements. There can be no assurance that New Sagicor's non-unionized employees in the United States, Barbados or elsewhere will not become members of a union and/or become covered by a collective bargaining agreement, including through an acquisition of a business whose employees are subject to such agreement. If New Sagicor experiences a prolonged labour dispute involving a significant number of its employees, New Sagicor's business would be adversely affected.

Risks Related to the Transaction and Proposed Acquisitions

A high level of redemptions of Alignvest Class A Restricted Voting Shares may necessitate sourcing of additional debt or equity to fund the SJLIC and SLTT acquisitions.

Sagicor plans to fund the SJLIC and SLTT acquisitions via US\$140 million of equity from Alignvest and new local currency borrowing of US\$100 million. There can be no assurance that such funding will be available or as to the terms thereof. If Alignvest suffers redemptions such that all or part of such US\$140 million is not available, Alignvest and Sagicor will need to source replacement debt or equity to complete the transaction or renegotiate it.

A failure to successfully integrate New Sagicor's acquisitions could adversely affect New Sagicor's operations and profitability.

There can be no assurance regarding when, if ever, or the extent to which, the integration of New Sagicor's acquisitions will result in increased revenues, cost savings or benefits. Integration may be difficult, unpredictable and subject to delay because of possible cultural and regulatory conflicts. The companies will continue to integrate or, in some cases replace, systems, including those involving information management. Difficulties associated with integrating New Sagicor's acquisitions could have a material adverse effect on the Company.

A failure to successfully execute current and future strategic acquisitions could adversely affect New Sagicor's profitability.

As part of New Sagicor's growth strategy, New Sagicor intends to continue to expand its operations and business in the United States and elsewhere, in part by acquiring companies and/or additional blocks of life insurance. There is no assurance that New Sagicor will be able to identify, acquire or profitably manage additional businesses or successfully integrate any acquired businesses into its existing operations. Further, there is no assurance that New Sagicor will be able to successfully close the acquisitions disclosed in this prospectus, including the SJLIC and SLTT acquisitions. Failure to close any disclosed acquisition may have a negative impact on New Sagicor's ability to achieve the financial targets contained in this prospectus.

Furthermore, such acquisitions may involve a number of special risks, including diversion of management's attention, failure to retain key personnel in the case of the SJLIC and SLTT acquisitions, unanticipated events or circumstances and legal liabilities, some or all of which could have a material adverse effect on New Sagicor's business, results of operations and financial condition. Failure on New Sagicor's part to manage its acquisition strategy successfully could have a material adverse effect on its business, results of operations and financial condition.

If the conditions to the Transaction are not met, the Transaction may not occur.

Specified conditions must be satisfied or waived to complete the Transaction. These conditions are set forth in the Arrangement Agreement and described in the section titled "*The Arrangement Agreement*" in this prospectus. Sagicor and Alignvest cannot assure that all of the conditions will be satisfied or waived. If the conditions are not satisfied or waived, the Transaction may not occur or may be delayed, and Sagicor and Alignvest each may lose some or all of the intended benefits of the transaction.

Risks Related to Indebtedness of New Sagicor

New Sagicor may be required to make an offer to purchase all of the 2022 Notes, but may not be able to repurchase the Notes upon a change of control.

Under the Note Indenture, if a change of control (as defined in the Note Indenture) occurs, New Sagicor must offer to repurchase all outstanding 2022 Notes for a price equal to 101% of the principal amount of the 2022 Notes, plus any accrued and unpaid interest. The consummation of the Scheme of Arrangement and the transactions contemplated by the Arrangement Agreement could result in a change of control. If all or a significant portion of the holders of the 2022 Notes are eligible to and elect to have their 2022 Notes purchased pursuant to the offer, New Sagicor may not have sufficient proceeds from the Scheme of Arrangement or sufficient other funds available to it to satisfy its purchase obligation. Although it is not necessarily likely that a significant portion of the holders will elect to have their 2022 Notes repurchased, New Sagicor may require additional financing from third parties to fund any such repurchase, and it may not be able to obtain additional financing on favorable terms, on a timely basis or at all. Accordingly, New Sagicor may not be able to satisfy its obligations to repurchase the 2022 Notes unless New Sagicor is able to refinance or obtain waivers under such other debt instruments. It is a condition to Sagicor's obligation to complete the Transaction that, in the event the Transaction constitutes a change of control (as defined in the Note Indenture), Sagicor shall have received a waiver from the holders of a majority of the principal amount of the 2022 Notes then outstanding to make an offer to repurchase all of the outstanding 2022 Notes.

Political and Regulatory Risks

New Sagicor's business is highly regulated and subject to numerous laws and regulations.

New Sagicor's business is subject to government regulation in each of the countries in which it conduct business. Such regulation is vested in government agencies having broad administrative, and in some instances discretionary, authority with respect to many aspects of New Sagicor's business, which may include, among others, insurance company investment laws and regulations, state adopted statutory accounting principles, antitrust laws, minimum solvency requirements, laws regarding risk-based assessments, privacy laws, securities laws, stock exchange requirements, insurable interest laws and anti-money laundering, anti-corruption and anti-terrorism laws.

Furthermore, New Sagicor currently operates in 22 jurisdictions; such diversity complicates New Sagicor's regulatory compliance burden. Regulatory agencies have broad administrative power over many aspects of New Sagicor's business, generally including marketing and selling practices, advertising, licensing agents, policy forms, capital adequacy and permitted investments. Insurance regulators are concerned primarily with the protection of policyholders, rather than New Sagicor's shareholders or other creditors. Insurance laws, regulations and policies currently affecting New Sagicor and its subsidiaries may change at any time in ways having an adverse effect on its business. New Sagicor cannot predict the timing or form of any future regulatory initiative.

New Sagicor is subject to regulatory inspections in the normal course of business in many of the jurisdictions in which New Sagicor operates. Recently New Sagicor has seen an increase in capital requirements and a greater emphasis on applying a risk-based approach to compliance and corporate governance. Regulators, particularly those in Barbados, Jamaica, Trinidad and Tobago and the United States, have also been initiating more inspections. Regulatory sanctions or decisions may have an adverse effect on New Sagicor's financial condition.

New Sagicor cannot predict what form any future changes in these or other areas of regulation affecting its business might take or what effect, if any, such proposals might have on New Sagicor if enacted into law. Any change affecting one or more of the lines of business New Sagicor writes could affect New Sagicor's financial condition and operating results.

Litigation and regulatory proceedings outcomes could adversely affect New Sagicor's business.

New Sagicor is routinely involved in legal or arbitration proceedings with respect to liabilities that are the subject of policy claims. As insurance industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues can have a negative effect on New Sagicor's business by either extending coverage beyond its underwriting intent or by increasing the number and size of claims.

In addition, to the extent that legal or regulatory decisions in any of the jurisdictions in which New Sagicor operates increase court awards, the impact of which may be applied prospectively or retrospectively, claims and benefits reserves may prove insufficient to cover actual losses, loss adjustment expenses or future policy benefits. In such event, or where New Sagicor has previously estimated that no liability would apply, New Sagicor would have to add to New Sagicor's loss reserves and incur a reduction in its earnings. Such insufficiencies could have a material adverse effect on New Sagicor's future consolidated financial condition, results of operations and cash flows.

Companies in the financial services industry are sometimes the target of law enforcement investigations and the focus of increased regulatory scrutiny.

The financial services industry, including the insurance sector, is sometimes the target of law enforcement and regulatory investigations or other actions resulting from such investigations.

Resulting publicity about one such investigation or action may generate inquiries into or litigation against other financial services companies, even those who do not engage in the business lines or practices at issue in the original action. It is impossible to predict the outcome of such investigations or actions, whether they will expand into other areas not yet contemplated, whether they will result in changes in insurance regulation, whether activities currently

thought to be lawful will be characterized as unlawful or the impact, if any, of such scrutiny on the financial services and insurance industry or on New Sagicor.

There may be adverse consequences if the status of New Sagicor's independent contractors is successfully challenged.

In the Caribbean region, New Sagicor markets its insurance products primarily through its advisors and brokers. As of September 30, 2018, Sagicor had 1,162 advisors and 181 brokers in the Caribbean region, all of whom are compensated based on performance. In the United States, New Sagicor markets its life insurance products mainly through third-party marketing firms, financial institutions, independent agents, MGAs and individual distributors. As of September 30, 2018, Sagicor had 37 career agents and 5,585 independent agents in the United States. New Sagicor currently treats its United States advisors, brokers and MGAs as independent contractors. However, the tests governing the determination of whether an individual is considered to be an independent contractor or an employee are typically fact sensitive and vary from jurisdiction to jurisdiction. Laws and regulations that govern the status of New Sagicor's independent contractors are subject to change or interpretation by various authorities. If a federal, state or local authority or court enacts legislation (or adopts regulations) or adopts an interpretation that changes the manner in which employees and independent contractors are classified or makes any adverse determination with respect to some or all of New Sagicor's independent contractors, New Sagicor could incur significant costs in complying with such laws, regulations or interpretations, including, in respect of tax withholding, social security payments and recordkeeping, or New Sagicor could be held liable for the actions of such future and past independent contractors or may be required to modify its business model, any of which could have a material adverse effect on New Sagicor's business, financial condition and results of operations. In addition, there is the risk that New Sagicor may be subject to significant monetary liabilities arising from fines or judgments as a result of any such actual or alleged non-compliance with federal, state or local tax or employment laws. Further, if it were determined that New Sagicor's agents and brokers should be treated as employees, New Sagicor could possibly incur additional liabilities with respect to any applicable employee benefit plan.

Failures to implement or comply with legally required anti-money laundering practices could subject New Sagicor to sanctions and/or criminal and civil penalties.

New Sagicor's business is subject to extensive regulation and supervision in the jurisdictions in which it operates. These jurisdictions have embraced the principles approved by Financial Action Task Force on Money Laundering and Caribbean Financial Action Task Force ("CFATF") on anti-money laundering and anti-terrorist financing procedures. As such, all aspects of New Sagicor's business are required to abide by the anti-money laundering regulations imposed by the regulatory authorities and also have internal anti-money laundering procedures in place.

In the past, as new regulations have been adopted, Sagicor has experienced delays in fully implementing anti-money laundering policies promptly, primarily as a result of resource allocations. As new regulations are adopted, New Sagicor may experience similar delays, which may result in penalties and/or sanctions.

The amount of statutory capital that New Sagicor's insurance subsidiaries have and the amount of statutory capital that they must hold to maintain their financial strength and credit ratings and meet other requirements can vary significantly from time to time and are sensitive to a number of factors outside of New Sagicor's control.

New Sagicor's insurance subsidiaries are subject to regulations that establish minimum capitalization requirements, some fixed and some risk based (Jamaica and the USA). Risk-based capital formulas for life insurance companies include capital for credit risk, interest rate risk, and policyholder behaviour risks. In any particular year, statutory surplus amounts and risk-based capital ratios may increase or decrease depending on a variety of factors, including but not limited to the following:

- the amount of statutory income or losses generated by New Sagicor's insurance subsidiaries (which itself is sensitive to credit market conditions);
- the amount of additional capital New Sagicor's insurance operations must hold to support business growth;

- changes in reserve requirements applicable to New Sagicor's insurance operations;
- the value of certain fixed-income and equity securities in New Sagicor's investment portfolio;
- changes in the credit ratings of investments held in New Sagicor's portfolio;
- the value of certain derivative instruments;
- changes in interest rates;
- credit market volatility;
- changes in consumer behavior; and
- changes to the statutory capital regime.

Most of these factors are outside of New Sagicor's control. The financial strength and credit ratings of New Sagicor's insurance operations are significantly influenced by their statutory surplus amounts and capital adequacy ratios. Rating agencies may implement changes to their internal models that have the effect of increasing or decreasing the amount of statutory capital New Sagicor's insurance operations must hold in order to maintain their current ratings. In addition, rating agencies may downgrade the investments held in New Sagicor's portfolio, which could result in a reduction of New Sagicor's capital and surplus and New Sagicor's risk-based capital ratio.

The Company's goal is to minimize its exposure to equity market movements associated with its fixed indexed products so it actively hedges those exposures through the purchase of options tied to certain indices. In extreme equity market declines, the amount of additional statutory reserves New Sagicor's insurance operations are required to hold for fixed indexed products may decrease at a rate less than or more than the rate of change of the markets if the hedged positions are not perfectly matched to the reserves. This mismatch could result in a reduction of the capital, surplus, or risk-based capital ratio of New Sagicor's insurance operations.

A failure to maintain adequate levels of surplus capital may result in increased regulatory scrutiny or a downgrade by rating agencies.

The capacity for an insurance company's growth in premiums is in part a function of its statutory surplus. Maintaining appropriate levels of statutory surplus, as measured by a jurisdiction's insurance regulations, is considered important by the relevant insurance regulatory authorities and the private agencies that rate insurers' claims-paying abilities and financial strength. Failure to maintain certain levels of statutory surplus could result in increased regulatory scrutiny, action by regulatory authorities or a downgrade by rating agencies.

If there are any revisions to the risk-based capital formula or the regulatory capital requirements within the jurisdictions in which Sagicor's subsidiaries operate, New Sagicor's insurance operations may require additional capital. The additional capital required may not be available on favourable terms, if at all. Need for additional capital could limit New Sagicor's subsidiaries' ability to distribute funds to New Sagicor and adversely affect its ability to pay dividends and meet its debt and other payment obligations.

New Sagicor's financial condition may be adversely affected by geopolitical events.

War, terrorism, threats of terrorist acts and related geopolitical risks have led, and may in the future lead to, increased market volatility and may have adverse long-term effects on particular markets, the global economy and securities markets generally.

A change of control of New Sagicor may be difficult to effect under applicable insurance laws.

A change of control could require consents from regulators in various jurisdictions in which New Sagicor operates. These requirements may discourage potential acquisition proposals and may delay, deter or prevent a change of

control of New Sagicor, including through transactions, in particular unsolicited transactions, that some or all of the shareholders might consider to be desirable.

Competitive, Technology and Other Business Risks

New Sagicor operates in a highly competitive industry, New Sagicor faces significant competition mainly from national and regional insurance companies and from self-insurance, and New Sagicor also faces some competition from global companies. This competition could limit New Sagicor's ability to gain or maintain its position in the industry and could materially adversely affect its business, financial condition and results of operations.

New Sagicor operates in a highly competitive industry. New Sagicor encounters significant competition in all of its product lines from regional, local and global insurance companies, including direct writers of insurance coverage as well as, to a limited extent, non-insurance financial services companies, such as banks and broker-dealers, some of which have greater financial resources and higher financial strength ratings than New Sagicor and which may have a greater market share, offer a broader range of products, services or features, assume a greater level of risk, have lower operating or financing costs, have different profitability expectations than New Sagicor, or offer more competitive pricing. New Sagicor's annuity products compete with fixed indexed, fixed rate and variable annuities sold by other insurance companies and also with mutual fund products, traditional bank investments and other retirement funding alternatives offered by asset managers, banks and broker-dealers. New Sagicor's insurance products compete with those of other insurance companies, financial intermediaries and other institutions based on a number of factors, including premium rates, policy terms and conditions, service provided to distribution channels and policyholders, ratings by rating agencies, reputation and commission structures.

The property and casualty insurance industry is highly competitive on the basis of both price and service. There are many companies competing for the same insurance customers in the geographic areas in which New Sagicor operates. If New Sagicor's competitors price their premiums more aggressively and New Sagicor meets their pricing, this may adversely affect New Sagicor's underwriting results. In addition, because most of New Sagicor's property and casualty insurance products are marketed through independent insurance agencies that represent more than one insurance company, New Sagicor faces competition within each agency. New Sagicor also faces competition from the implementation of self-insurance in the commercial insurance area. Some of New Sagicor's customers and potential customers are examining the risks of self-insuring as an alternative to traditional insurance.

Insurance products are increasingly being treated as commodities. This adds to the competitiveness of the industry. Further, the industry faces increased competition from banks and other financial intermediaries who offer a range of insurance products requiring no, or limited, underwriting, and this is compounded by the fact that consumers have become more knowledgeable and demanding as a result of their access to technology.

Furthermore, consolidation in the insurance industry and in distribution channels may result in increasing competitive pressures on New Sagicor. Larger, potentially more efficient organizations may emerge from consolidation. The ability of banks to increase their securities-related business or to affiliate with insurance companies may materially and adversely affect sales of all of New Sagicor's products by substantially increasing the number and financial strength of potential competitors.

Consolidation and expansion among banks, insurance companies, and other financial service companies with which New Sagicor does business could also have an adverse effect on New Sagicor's business, operations and financial condition if they demand more favourable terms than New Sagicor previously offered or if they elect not to continue to do business with New Sagicor following consolidation or expansion.

New Sagicor's ability to compete is dependent upon, among other things, New Sagicor's ability to develop competitive and profitable products, its ability to maintain low unit costs, its maintenance of adequate financial strength ratings from rating agencies, and its ability to provide quality customer service. New Sagicor's ability to compete is also dependent upon, among other things, its ability to attract and retain distribution channels to market New Sagicor's products, the competition for which is vigorous.

Brokers that sell New Sagicor's products may sell insurance products of New Sagicor's competitors and such brokers may choose not to sell New Sagicor's products.

New Sagicor sells its group insurance products in the Caribbean primarily through brokers. In addition, it sells most of its insurance products in the United States primarily through MGAs. These brokers and MGAs also sell New Sagicor's competitors' products and may stop selling New Sagicor's products altogether at any time. Strong competition exists among insurers for brokers and MGAs with demonstrated ability to sell insurance products. Premium volume and profitability could be materially adversely affected if there is a material decrease in the number of brokers or MGAs that choose to sell New Sagicor's products. In addition, the success of New Sagicor's growth strategy in the United States could be adversely affected if New Sagicor is unable to recruit MGAs with demonstrated sales ability to sell its products. In addition, New Sagicor's strategy of distributing through dedicated advisors may adversely impact its relationship with brokers or MGAs who distribute New Sagicor's products.

Computer viruses, network security breaches, disasters or other unanticipated events could affect New Sagicor's data processing systems or those of its business partners and could damage New Sagicor's business and adversely affect its financial condition and results of operations.

New Sagicor retains confidential information in its computer systems, and relies on sophisticated commercial technologies to maintain the security of those systems. Despite New Sagicor's implementation of network security measures, its servers could be subject to physical and electronic break-ins and similar disruptions from unauthorized tampering with its computer systems. Anyone who is able to circumvent New Sagicor's security measures and penetrate its computer systems could access, view, misappropriate, alter, or delete any information in the systems, including personally identifiable customer information and proprietary business information. In addition, an increasing number of jurisdictions in which New Sagicor operates require that customers be notified of unauthorized access, use, or disclosure of their information. Any compromise of the security of New Sagicor's computer systems that results in inappropriate access, use or disclosure of personally identifiable customer information could damage New Sagicor's reputation in the marketplace, deter people from purchasing its products, subject New Sagicor to significant civil and criminal liability and require New Sagicor to incur significant technical, legal and other expenses.

In the event of a disaster such as a natural catastrophe, an industrial accident, a blackout, a computer virus, a terrorist attack or war, New Sagicor's computer systems may be inaccessible to its employees, customers, or business partners for an extended period of time. Even if New Sagicor's employees are able to report to work, they may be unable to perform their duties for an extended period of time if New Sagicor's data or systems are disabled or destroyed. Any such occurrence could materially adversely affect New Sagicor's business, operations and financial condition.

A financial strength downgrade in New Sagicor's A.M. Best ratings or any other negative action by a rating agency may increase policy surrenders and withdrawals, adversely affect relationships with advisors and negatively affect New Sagicor's financial condition and results of operations.

Claims paying ability and financial strength ratings are factors in establishing the competitive position of insurers. Various recognized rating agencies review the financial performance and condition of insurers and publish their financial strength ratings as indicators of an insurer's ability to meet policyholder and contract holder obligations. These ratings are important in maintaining public confidence in New Sagicor's products, New Sagicor's ability to market its products and its competitive position. A rating downgrade, the potential for such a downgrade or other negative action by a rating agency with respect to its financial strength ratings on any of its rated insurance subsidiaries could materially affect New Sagicor in many ways including, among others, the following:

- materially increase the number of policy lapses or surrenders and withdrawals by policyholders of cash values from their policies. This is particularly true in the United States, where the insurance market is more sensitive to changes in ratings due to the large number of competitors;

- decreased net income, as well as increased cash payments, requiring the sale of invested assets, including illiquid assets, at a loss. These consequences could, depending upon their extent, have a material adverse effect on New Sagicor's liquidity and potential net income;
- reduce new sales of insurance and investment products. This is particularly true in the United States, where the insurance market is more sensitive to changes in ratings due to the large number of competitors;
- require a reduction in prices for New Sagicor's insurance products and services in order to remain competitive;
- adversely affect New Sagicor's ability to obtain reinsurance at a reasonable price, on reasonable terms or at all; or
- require New Sagicor to collateralize reserves, balances or obligations under reinsurance and securitization agreements.

In addition, a downgrade may adversely affect relationships with New Sagicor's advisors and other distributors of New Sagicor's products and services, which may negatively affect its ability to compete and thereby have a material adverse effect on New Sagicor's business, results of operations and financial condition. Negative changes in credit ratings may also increase New Sagicor's cost of funding.

Rating agencies assign ratings based upon several factors. While most of these factors relate to the rated company, some factors relate to the views of the rating agency, general economic conditions and circumstances outside the rated company's control. In addition, rating agencies use various models and formulas to assess the strength of a rated company, and from time to time rating agencies have, in their discretion, altered the models and may do so in the future in ways that negatively impact the financial strength ratings of the issuer and its subsidiaries and make it more difficult to maintain or obtain comparable ratings going forward.

If New Sagicor's financial strength ratings are downgraded, it anticipates that its sales of new policies will be adversely impacted and that New Sagicor could experience substantial surrenders of existing policies. In order to improve or maintain New Sagicor's financial strength ratings, New Sagicor may limit the amount of dividends otherwise payable. In that regard, New Sagicor may also implement business strategies to maintain or improve its current rating. New Sagicor cannot guarantee these measures will be successful, and thus its financial strength rating could suffer. New Sagicor cannot predict what actions A.M. Best or other rating agencies may take in the future, and failure to improve or maintain current financial strength ratings could adversely affect its financial condition and results of operations.

In addition, a rating agency, at its discretion, can lower or entirely withdraw a previously assigned credit rating. Real or anticipated changes in New Sagicor's credit ratings will generally affect the market value of New Sagicor's debt. Any lowering of New Sagicor's credit ratings would likely make it more difficult or more expensive for New Sagicor to obtain additional debt financing in the future.

The unpredictable nature of the property and casualty insurance industry may cause fluctuations in New Sagicor's results.

Historically, the property and casualty insurance industry has been unpredictable and operating results of insurers have fluctuated significantly because of volatile and unpredictable developments, many of which are beyond the control of any insurer. New Sagicor expects to experience these effects, which could have a material adverse effect on its results of operations.

The unpredictability and competitive nature of the general insurance business historically has contributed to quarter-to-quarter and year-to-year fluctuations in underwriting results and net earnings in the general insurance industry. In addition, unanticipated underwriting losses and claims reserve adjustments experienced by New Sagicor's general insurance subsidiaries could have an adverse impact on its financial condition and operating results.

New Sagicor may be unable to reinsure risks on terms that are commercially reasonable or satisfactory to New Sagicor, or New Sagicor's reinsurers may fail to meet assumed obligations, increase rates, or be subject to adverse developments, negatively affecting New Sagicor's business, financial condition and result of operations.

New Sagicor transfers its exposure to certain risks to others through reinsurance arrangements. In particular, a majority of New Sagicor's new individual life business is reinsured with Swiss Re, Munich Re, Optimum Re, and SCOR Global Life. New Sagicor's existing individual life business is currently reinsured by a number of companies in addition to those mentioned previously. New Sagicor's property and casualty business is currently reinsured principally by Munich Re, Hannover Re and Platinum Re.

Under New Sagicor's reinsurance arrangements, these insurers assume a portion of the losses and expenses associated with New Sagicor's policy losses in exchange for a portion of policy premiums. The availability, amount and cost of reinsurance depend on general market conditions and may vary significantly. Reinsurers may be subject to many of the same risks that New Sagicor is affected by, which may strain the resources of reinsurers. Any decrease in the amount of New Sagicor's reinsurance will increase New Sagicor's risk of loss.

When New Sagicor obtains reinsurance, it still remains primarily liable for the reinsured risks, even if the reinsurer does not meet its reinsurance obligations to it. Therefore, the inability of New Sagicor's reinsurers to meet their financial obligations or disputes about the scope of reinsurance coverage could materially affect New Sagicor's operations. New Sagicor's reinsurers may become financially impaired by the time they are called upon to pay amounts due. In addition, reinsurance may prove inadequate to protect against losses or may become unavailable in the future at commercially reasonable rates.

New Sagicor's ability to compete is dependent on the availability of reinsurance or other substitute financing solutions. Premium rates charged by New Sagicor are based, in part, on the assumption that reinsurance will be available at a certain cost. Under certain reinsurance agreements, the reinsurer may increase the rate it charges New Sagicor for the reinsurance. Therefore, if the cost of reinsurance were to increase, if reinsurance were to become unavailable on commercially reasonable terms or at all, if alternatives to reinsurance were not available to New Sagicor, or if a reinsurer should fail to meet its obligations, New Sagicor's business, financial condition and results of operations could be materially adversely affected.

In recent years, access to reinsurance has become more costly for members of the insurance industry, including New Sagicor. In addition, the number of life reinsurers has decreased as the reinsurance industry has consolidated. The decreased number of participants in the life reinsurance market resulted in increased concentration of risk for insurers, including New Sagicor. If the reinsurance market further contracts, New Sagicor's ability to continue to offer New Sagicor's products on terms favorable to New Sagicor could be negatively impacted, resulting in adverse consequences to New Sagicor's business, operations and financial condition.

New Sagicor's business model depends on the performance of various third parties including actuarial consultants and other service providers.

New Sagicor relies on various third parties to provide services for its business operations. As such, New Sagicor's results may be affected by the performance of those other parties. For example, New Sagicor is dependent upon independent consultants to perform actuarial analyses and to manage certain of its assets. Additionally, New Sagicor's operations are dependent on various service providers and on various technologies, some of which are provided or maintained by certain key outsourcing partners and other parties.

The third parties upon whom New Sagicor depends may default on their obligations to New Sagicor due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud, loss of key personnel or other reasons. Such defaults could have a material adverse effect on New Sagicor's financial condition and results of operations. In addition, certain of these other parties may act, or be deemed to act, on behalf of New Sagicor or represent New Sagicor in various capacities. Consequently, New Sagicor may be held responsible for obligations that arise from the acts or omissions of these other parties.

Negative publicity in the insurance industry could adversely affect New Sagicor

A number of New Sagicor's products and services are ultimately distributed to individual consumers. From time to time, consumer advocacy groups or the media may focus attention on New Sagicor's products and services, thereby subjecting the insurance industry to periodic negative publicity. Negative publicity may also result in increased regulation and legislative scrutiny of practices in the insurance industry as well as increased litigation. Such consequences may increase New Sagicor's costs of doing business and adversely affect New Sagicor's profitability by impeding our ability to market our products and services or increasing the regulatory burdens under which New Sagicor operates.

Management Team Risks

New Sagicor depends on key personnel; if they were to leave New Sagicor, New Sagicor might have an insufficient number of qualified employees.

New Sagicor believes that its ability to implement its business strategy and its future success depends on the continued service of New Sagicor's senior management team, which has extensive experience in the industry and is vital in maintaining some of its major customer relationships. The loss of the technical knowledge, management and industry expertise of any of New Sagicor's key employees could make it difficult for us to fully execute its business plan effectively.

New Sagicor's future growth and success depend on its ability to attract, retain and motivate skilled managerial, sales, administrative and technical personnel. The market for qualified professionals is competitive and New Sagicor may not continue to be successful in its efforts to attract and retain these professionals. The failure to continue to attract and retain additional key personnel, could affect New Sagicor's business, financial condition and operating results.

Macroeconomic, Geographic and Currency Risks

New Sagicor is highly dependent upon economic, political and other conditions and developments in Barbados, Jamaica, Trinidad and Tobago, the United States and the other jurisdictions in which it operates.

In accordance with the relevant financial reporting standard, New Sagicor has determined that there are three principal subsidiary groups with continuing operations which represent the reporting operating segments. These segments are Sagicor Life, which operates in Barbados, Eastern Caribbean, Dutch Caribbean, Bahamas, Central America and Trinidad and Tobago; Sagicor Jamaica, which operates in Jamaica, Cayman Islands and Costa Rica; and Sagicor Life USA, which operates in the United States. For the year ended December 31, 2017, Sagicor Life, Sagicor Jamaica and Sagicor USA represented 34.5%, 48.5% and 13.0% of its operations in terms of revenue, respectively. As a result, New Sagicor's business, results of operations, financial condition and prospects are materially dependent upon economic, political and other conditions and developments in Barbados, Jamaica, Trinidad and Tobago, Bermuda and the United States.

The overall financial performance is necessarily linked to economic conditions in Barbados, Jamaica, Trinidad and Tobago, the United States and the other jurisdictions in the Caribbean in which it operates.

New Sagicor currently has interests and operations in the Caribbean region, Central America and the United States, and such interests are subject to governmental regulation in each market. The governments in these markets differ widely with respect to structure, constitution and stability and some countries lack mature legal and regulatory systems. To the extent that New Sagicor's operations depend on governmental approval and regulatory decisions, the operations may be adversely affected by changes in the political structure or government representatives in each of the markets in which New Sagicor operates.

Any slowdown or contraction affecting the local economy could negatively affect the ability of New Sagicor's customers to service their loans in accordance with their terms or New Sagicor's ability to retain a stable deposit

base to support its operations. If the economy of Barbados or Jamaica or Trinidad and Tobago worsens because of, for example:

- lower economic activity;
- in the case of Barbados, a loss of investor confidence due to the sovereign debt restructuring;
- in the case of Trinidad and Tobago, a decline in oil, natural gas or petrochemical prices;
- devaluation of the BBD, J\$ or TTD;
- higher inflation; or
- an increase in domestic interest rates;

then New Sagicor's business, results of operations, financial condition and prospects may also be significantly affected by actions taken by the government in the jurisdictions in which New Sagicor operates. Caribbean governments traditionally have played a central role in the economy and continue to exercise significant influence over many aspects of it. They may make changes in policy, or new laws or regulations may be enacted or promulgated, relating to, for example, monetary policy, taxation, exchange controls, interest rates, regulation of banking and financial services and other industries, government budgeting and public sector financing.

These and other future developments in the economies of Barbados, Jamaica, Trinidad and Tobago, the United States and governmental policies in New Sagicor's Caribbean markets may reduce local demand for New Sagicor's insurance and other financial services or products, adversely affect its business, financial condition, results of operations or prospects and impair New Sagicor's ability to satisfy its obligations.

New Sagicor's financial condition and operating results may be adversely affected by foreign exchange fluctuations.

New Sagicor publishes its consolidated financial statements in U.S. dollars. Therefore, fluctuations in exchange rates used to translate other currencies into U.S. dollars will impact its reported consolidated financial condition, results of operations and cash flows from period to period. These fluctuations in exchange rates will also impact the value of its investments and the returns on its investments. Additionally, some of the jurisdictions in which New Sagicor operates may limit its ability to exchange local currency for U.S. dollars. For a discussion of the impact of changes in foreign exchange rates on New Sagicor's results of operations, see "*Management's Discussion and Analysis of Sagicor – Accounting and Control Measures – Qualitative and Quantitative Disclosure About Market Risk – Foreign Exchange Risk*"

The BBD/US\$ exchange rate has been at a fixed rate since July 5, 1975. The J\$ and the TTD float against the US\$. See "*Management's Discussion and Analysis of Sagicor – Accounting and Control Measures – Qualitative and Quantitative Disclosure About Market Risk – Foreign Exchange Risk*." There is no assurance that these currencies will not be subject to depreciation and volatility or that the current exchange rate policies will remain the same.

If significant depreciation of the BBD, J\$ or TTD against the U.S. dollar occurs in the future when New Sagicor has a significant net long open position in foreign currency, such depreciation could have a material negative effect on New Sagicor's results of operations, liquidity and financial condition.

Depreciation or volatility of the Barbados dollar, Jamaican dollar or Trinidad and Tobago dollar against the U.S. dollar or other currencies could cause policyholders, depositors and investors to lose confidence in New Sagicor.

Changes in the current exchange rate or in exchange rate policies could also result in higher domestic interest rates, liquidity shortages, exchange controls and the withholding of financial assistance by multilateral institutions. These developments could, in turn, result in a reduction or contraction of economic activity, sovereign and corporate loan defaults, lower deposits and increased cost of funds, which would have a material adverse effect on New Sagicor's financial condition, liquidity and results of operations.

Foreign exchange controls may restrict New Sagicor's ability to receive distributions from its subsidiaries and any such distributions may be subject to foreign withholding taxes.

The ability of New Sagicor's operating companies to transfer funds to New Sagicor may be limited by a variety of regulatory and commercial constraints. Foreign exchange controls may significantly restrict the ability of these foreign operating companies to pay interest and dividends and repay loans in U.S. dollars. It may be difficult to convert large amounts of local currency into U.S. dollars or U.S. dollars into local currency because of limited foreign exchange markets. In addition, there are countries that restrict the export of cash even in local currencies. In cases where distributions to New Sagicor are permitted to be made, such distributions may be subject to foreign withholding taxes.

Catastrophes and weather-related events, such as hurricanes, may adversely affect New Sagicor.

General insurance companies may experience losses from catastrophes. Catastrophes may have a material adverse effect on New Sagicor's consolidated financial condition, results of operations and cash flows, especially in those markets where New Sagicor offers property and casualty insurance. Catastrophes include windstorms, hurricanes, earthquakes, tornadoes, floods and fires. In addition, drought can give rise to subsidence damage, resulting in substantial volumes of claims, particularly under household buildings policies. The incidence and severity of these catastrophes are inherently unpredictable. The extent of New Sagicor's losses from catastrophes is a function of the total amount of losses its clients incur, the number of its clients affected, the frequency of the events and the severity of the particular catastrophe. Most catastrophes occur in limited geographic areas. However, windstorms, hurricanes, floods and earthquakes may produce significant damage in large, heavily populated areas, and subsidence claims can arise in a number of geographic areas as a result of exceptional weather conditions. Many of New Sagicor's policyholders carry insurance covering property in areas that are particularly susceptible to hurricanes. The frequency and intensity of such catastrophic events may continue to increase as a result of climate change, and New Sagicor may incur greater than anticipated losses in respect of such events in the future. New Sagicor's efforts to protect itself against catastrophe losses, such as the use of selective underwriting practices, the purchasing of reinsurance and the monitoring of risk accumulations, may not be adequate.

The performance of New Sagicor's group life insurance may be adversely affected by the characteristics of the employees insured or through unexpected catastrophic events such as natural disasters.

Group life insurance may be affected by many factors, including the characteristics of the employees insured, New Sagicor's risk selection process, its ability to retain employee groups with lower claim incidence rates, the geographical concentration of employees and mortality rates. Claim incidence may also be influenced by unexpected catastrophic events such as natural disasters, which may also affect the availability of reinsurance coverage. Changes in any of these factors may adversely affect New Sagicor's results.

Risks Related to New Sagicor's Capital Structure, Public Company and Tax Status and Capital Financing Policies

New Sagicor's credit ratings may not reflect all risks associated with investing in New Sagicor Common Shares.

New Sagicor's credit ratings constitute the rating agencies' assessment of New Sagicor's ability to meet its payment obligations as they become due. Therefore, actual or expected changes to New Sagicor's credit agencies will generally affect the market value of New Sagicor Common Shares. The credit ratings, which may be revised or withdrawn at any time, do not represent a recommendation to buy, sell or hold New Sagicor Common Shares. Each rating agency's credit rating should be evaluated independently of credit ratings issued by other rating agencies.

New Sagicor may be subject to Bermuda tax.

New Sagicor expects to obtain an assurance from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966, as amended, that in the event that any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax shall not be applicable to New

Sagicor or to any of its operations or to its shares, debentures or other obligations until March 31, 2035, except insofar as such tax applies to persons ordinarily resident in Bermuda or is payable by New Sagicor in respect of real property owned or leased by New Sagicor in Bermuda. Consequently, if New Sagicor's Bermuda tax exemption is not extended past March 31, 2035, it may be subject to Bermuda tax after that date.

Notwithstanding the assurance, all entities employing individuals in Bermuda are required to pay a payroll tax and there are other sundry taxes payable, directly or indirectly, to the Bermuda government.

New Sagicor will pay annual Bermuda government fees and it is expected that one or more subsidiaries of New Sagicor will pay annual Bermuda government fees and annual insurance license fees.

Bermuda's compliance with the Organization for Economic Cooperation and Development international tax standards could subject New Sagicor to additional taxes.

The Organization for Economic Cooperation and Development (the "**OECD**") has published reports and launched a dialogue among members and non-members on measures to limit harmful tax practices. These measures are directed at counteracting the effects of tax havens and preferential tax regimes around the world. In the OECD's periodic progress reports, Bermuda has not been listed as an uncooperative tax haven jurisdiction because it had previously committed to eliminate harmful tax practices and to embrace international tax standards for transparency, exchange of information and the elimination of any aspects of the regimes for financial and other services that attract business with no substantial domestic activity. Bermuda was included in the most recently revised OECD so-called "white list" with other countries that have substantially implemented the OECD's international tax standards. It is not clear what further changes will result from this ongoing commitment or whether such changes will subject New Sagicor to additional taxes.

Introduction of Economic Substance Requirements required by the European Union could adversely affect New Sagicor.

Harmful tax practices have become the focus of increased scrutiny from the European Union. The Council of the European Union adopted a resolution on a "Code of Conduct" for business taxation which measures are directed at counteracting the effects of zero tax and preferential tax regimes around the world. In 2017, the Code of Conduct Group (Business Taxation) ("**COCG**") investigated the tax policies of both European Union member states and non-European Union member states, assessing tax transparency, fair taxation and the implementation of anti-base erosion and profit shifting measures.

Following assessment by the COCG, Bermuda was included in a list of jurisdictions ("**2.2 Jurisdictions**") which are required by the European Union to address concerns of the COCG relating to the demonstration of economic substance. Other countries in the 2.2 Jurisdictions category which are required to demonstrate economic substance include Guernsey, Jersey, Isle of Man and the Cayman Islands.

Bermuda and other 2.2 Jurisdictions were listed specifically under Criterion 2.2 of the assessment which relates to tax regimes that facilitate offshore structures which attract profits without real economic activity. Criterion 2.2 applies when the standard code assessment ("**Criterion 2.1**") cannot be applied because of the absence of a corporate tax system or because the jurisdiction applies a nominal corporate tax rate equal to zero or almost zero.

In November 2017, in a letter to the COCG, the Premier of Bermuda committed Bermuda to addressing the concerns relating to a de facto lack of economic substance for entities doing business in or through Bermuda and to pass legislation to implement any appropriate changes by December 31, 2018.

To assist in implementing appropriate substance requirements, the COCG published a technical scoping paper in June 2018 (the "**Scoping Paper**"). The Government has been working closely with key stakeholders and industry in Bermuda to develop legislative proposals which adequately address the technical elements outlined in the Scoping Paper and is engaged in active dialogue with the COCG to develop and implement a framework which addresses the nature and extent of Bermuda's substance regime.

The Scoping Paper sets out the three key steps for implementing substance requirements: (i) identify the “relevant activities”, (ii) impose substance requirements, and (iii) ensure there are enforcement provisions in place. In addition, the Scoping Paper identifies relevant activities as including (as a minimum) the following industry sectors which will fall within the scope of the proposed substance rules: banking, insurance, fund management, financing, leasing, headquarter regimes, shipping and intellectual property.

While the extent to which Bermuda will adopt the substance requirements set forth in the Scoping Paper is unclear, the Government is committed to introducing legislation bringing Bermuda’s substance regime into effect. As a result of the introduction of such legislation, entities incorporated in Bermuda may be required to be directed and managed in Bermuda, have an adequate level of qualified employees in Bermuda, incur an adequate level of annual expenditure in Bermuda, maintain physical offices and premises in Bermuda and perform their core income-generating activities in Bermuda.

The Government has to implement legislation which brings the substance requirements into force with effect from January 1, 2019 for newly incorporated entities, and with effect from July 1, 2019 for currently existing entities.

The introduction of the substance regime presents potential difficulties for Bermuda. The timeframe for implementation and compliance with the legislation are tight. Existing companies may struggle to change their business models to accommodate any new requirements, which may include establishing a physical presence and relocating or hiring employees in Bermuda, within those timeframes and/or may be unwilling to incur the costs of doing so.

Tax on corporate emigration under the Tax Act could adversely affect New Sagicor

The “corporate emigration” rules in the Tax Act will apply to Alignvest upon the Alignvest Continuance. As a result, Alignvest should be deemed to have a tax year-end immediately prior to the certificate of continuance being issued by the Bermuda Registrar of Companies. Each property owned by Alignvest immediately before the deemed year-end will be deemed to have been disposed of by Alignvest for proceeds of disposition equal to the fair market value of each such property at that time. Any gains or losses realized by Alignvest from the deemed disposition will be taken into account when determining the amount of Alignvest’s taxable income for the taxation year which is deemed to end immediately before the Alignvest Continuance.

Alignvest will also be required to pay a special departure tax under the Tax Act as a result of the Alignvest Continuance. Provided that Alignvest becomes resident in Barbados for purposes of the Canada-Barbados Income Tax Agreement at the time of the Alignvest Continuance, such departure tax will generally be equal to 15% of the amount by which (i) the fair market value of Alignvest’s assets immediately before the Alignvest Continuance exceeds (ii) the aggregate of its liabilities and the paid-up capital in respect of its issued and outstanding shares immediately before the Alignvest Continuance. If Alignvest were considered to become resident in Bermuda (rather than Barbados) at the time of the Alignvest Continuance, the rate of departure tax would be increased from 15% to 25%.

Management of Alignvest expects that it will not incur a material amount of Canadian income tax as a result of the Alignvest Continuance. This conclusion is based in part on determinations of factual matters, including determinations regarding the fair market value of Alignvest’s assets and tax attributes, any or all of which could change prior to the effective time of the Alignvest Continuance. Moreover, there can be no assurance that the Canada Revenue Agency will accept the valuations or the positions that Alignvest has adopted in calculating the amount of Canadian tax that will be payable upon the Alignvest Continuance.

If New Sagicor were subject to Canadian federal income taxation, New Sagicor’s after-tax returns and the value of New Sagicor Common Shares could be materially reduced.

New Sagicor has put in place procedures intended to ensure that its central management and control do not reside in Canada. If New Sagicor were considered to have its central management and control in Canada, it would be resident in Canada for Canadian federal income tax purposes (subject to relief under an applicable income tax treaty or convention) and accordingly would be subject to income tax in Canada on its worldwide income. In addition, in

such circumstances there may be additional Canadian income tax considerations for shareholders, and in particular, any dividends paid or credited by New Sagicor on the New Sagicor Common Shares to a person that is not resident in Canada for purposes of the Tax Act would be subject to Canadian non-resident withholding tax.

Unless removed, the cashless exercise feature of the Alignvest Warrants could result in more volatile financial results.

If not removed, the cashless exercise feature could result in more volatile financial results because, with the cashless exercise feature, the Alignvest Warrants are classified as a liability and are therefore recorded at fair value. Any fluctuations in the fair value of an Alignvest Warrant would be reflected in income.

Any additional taxes resulting from changes to tax regulations or the interpretation thereof in countries in which it does business could negatively impact New Sagicor's financial condition.

There is no assurance that additional taxes will not be implemented in a way that could force New Sagicor to make additional tax payments, thereby negatively affecting its financial condition.

New Sagicor is a Bermuda company and it may be difficult to enforce judgments against New Sagicor or its directors and executive officers.

New Sagicor will be continued under the laws of Bermuda, and a significant portion of its assets are located outside of Canada. It may not be possible to enforce court judgments obtained in Canada against New Sagicor in Bermuda or in countries, other than Canada, where it has assets based on the civil liability provisions of the securities laws of Canada. In addition, there is some doubt as to whether the courts of Bermuda and other countries would recognize or enforce judgments of Canadian courts obtained against New Sagicor or its directors or officers based on the civil liabilities provisions of the securities laws of Canada or would hear actions against New Sagicor or those persons based on those laws. New Sagicor has been advised by its legal advisors in Bermuda that Canada and Bermuda do not currently have a treaty providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by any court in Canada based on civil liability, whether or not based solely on Canadian securities laws, would not automatically be enforceable in Bermuda. Similarly, those judgments may not be enforceable in countries, other than Canada, where the Company has assets.

Bermuda law differs from the laws in effect in Canada and may afford less protection to shareholders.

Although New Sagicor's bye-laws are expected to contain certain shareholder protection provisions comparable to those typical for a corporation incorporated in a jurisdiction of Canada, Canadian shareholders may still have more difficulty protecting their interests than would shareholders of a corporation incorporated in a jurisdiction of Canada. As a Bermuda company, New Sagicor is governed by the BCA. The BCA differs in some material respects from laws generally applicable to Canadian corporations, including the provisions relating to interested directors, mergers and acquisitions, takeovers, shareholder lawsuits and indemnification of directors.

Class actions and derivative actions are generally not available to shareholders under Bermuda law. The Bermuda courts, however, would ordinarily be expected to permit a shareholder to commence an action in the name of a company to remedy a wrong to the company where the act complained of is alleged to be beyond the corporate power of the company or illegal, or would result in the violation of the company's memorandum of association or bye-laws. Furthermore, consideration would be given by a Bermuda court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than that which actually approved it. When the affairs of a company are being conducted in a manner which is oppressive or prejudicial to the interests of some part of the shareholders, one or more shareholders may apply to the Supreme Court of Bermuda, which may make such order as it sees fit, including an order regulating the conduct of the company's affairs in the future or ordering the purchase of the shares of any shareholders by other shareholders or by the company.

Every director and officer of a Bermuda company must act honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Pursuant to the BCA, if a director or officer is interested in a material contract or a proposed material contract with New Sagikor or any of its subsidiaries, or has a material interest in any person that is a party to such material contract or proposed material contract with New Sagikor or any of its subsidiaries, they must declare that interest to the board of directors at the first opportunity.

New Sagikor may not pay dividends.

The declaration and payment of dividends or distributions by New Sagikor will be at the discretion of New Sagikor Board subject to restrictions under applicable laws, and may be affected by numerous factors, including New Sagikor's revenues, financial condition, acquisitions, capital investment requirements and legal, regulatory or contractual restrictions. A failure to pay dividends or a reduction or cessation of the payment of dividends could materially adversely affect the trading price of New Sagikor Common Shares.

In accordance with the laws of Bermuda, New Sagikor will be prohibited from declaring or paying a dividend, or making a distribution out of contributed surplus, if there are reasonable grounds for believing that: (a) New Sagikor is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realizable value of New Sagikor's assets would thereby be less than its liabilities.

Potentially adverse tax consequences may result from the sale by New Sagikor of a subsidiary, a subsidiary's assets or other investment.

United States, Canadian, and other foreign country taxes may be payable, directly or indirectly, by New Sagikor on its direct or indirect sale of a subsidiary of New Sagikor, a subsidiary's assets, or other investment. The amount of such taxes, which may be material, will depend on the selling price, the jurisdictions that would impose tax on the sale, and other factors.

New Sagikor is a holding company that has no material assets other than its interest in Sagikor and, accordingly, it is dependent upon distributions from Sagikor to pay taxes and other expenses.

New Sagikor is a holding company and has no material assets other than its interest in Sagikor. New Sagikor does not have any means of generating revenue independent of Sagikor. New Sagikor depends on dividends, distributions and other payments from Sagikor to provide the funds necessary to meet financial obligations. To the extent that New Sagikor requires funds to pay its tax liabilities or to fund its operations and Sagikor is restricted from making dividends or distributions to New Sagikor under applicable agreements, laws or regulations or does not have sufficient cash to make the dividend or distribution of such funds, New Sagikor may have to borrow funds or raise equity to meet those obligations, and its liquidity and financial condition could be materially adversely affected. New Sagikor may not be able to borrow funds on its own, and there can be no assurance that it will be able to issue additional equity on attractive terms or at all.

There are regulatory limitations on the ownership and transfer of the New Sagikor Common Shares.

The permission of the Bermuda Monetary Authority is required, under the provisions of the Exchange Control Act 1972 and related regulations, for all issuances and transfers of shares (which includes the New Sagikor Common Shares) of Bermuda companies to or from a non-resident of Bermuda for exchange control purposes, other than in cases where the Bermuda Monetary Authority has granted a general permission. The Bermuda Monetary Authority, in its notice to the public dated June 1, 2005, has granted a general permission for the issue and subsequent transfer of any securities of a Bermuda company from and/or to a non-resident of Bermuda for exchange control purposes for so long as any "Equity Securities" of the company (which would include the New Sagikor Common Shares) are listed on an "Appointed Stock Exchange" (which would include the TSE). In granting the general permission the Bermuda Monetary Authority accepts no responsibility for New Sagikor's financial soundness or the correctness of any of the statements made or opinions expressed in this prospectus. Certain issues and transfers of common shares involving persons deemed resident in Bermuda for exchange control purposes require the specific consent of the Bermuda Monetary Authority.

Alignvest shall apply for and expects to receive specific permission from the Bermuda Monetary Authority for (A) the New Sagicor Shareholders to hold the New Sagicor Common Shares; and (B) the issue and transfer of the New Sagicor Common Shares and other equity securities of New Sagicor from and/or to persons non-resident of Bermuda for exchange control purposes for so long as any equity securities of New Sagicor are listed on an “Appointed Stock Exchange” (as such term is defined in the BCA and including the TSX) without the approval of the Bermuda Monetary Authority, in each case following the Alignvest Continuance. Receipt of such permission is a mutual condition of closing to the Transaction.

No New Sagicor Common Shares may be offered or sold in Bermuda unless in compliance with the provisions of the Investment Business Act 2003 of Bermuda (as amended). Additionally, non-Bermudian persons may not carry on or engage in any trade or business in Bermuda unless such persons are authorized to do so under applicable Bermuda legislation. Engaging in the activity of offering or marketing the securities being offered to persons in Bermuda may be deemed to be carrying on business in Bermuda.

The market price of the New Sagicor Common Shares may be highly volatile.

Market prices for insurance companies have at times been volatile and subject to substantial fluctuations. The stock market, from time-to-time, experiences significant price and volume fluctuations unrelated to the operating performance of particular companies. Future announcements concerning New Sagicor or its competitors, including those pertaining to financing arrangements, government regulations, developments concerning regulatory actions affecting New Sagicor, litigation, additions or departures of key personnel, cash flow, and economic conditions and political factors in Barbados, Jamaica, Trinidad and Tobago, the United States or other regions may have a significant impact on the market price of New Sagicor Common Shares. In addition, there can be no assurance that New Sagicor Common Shares will continue to be listed on the TSX.

The market price of New Sagicor Common Shares could fluctuate significantly for many other reasons, including for reasons unrelated to New Sagicor’s specific performance, such as reports by industry analysts, investor perceptions, or negative announcements by its subscribers, competitors or suppliers regarding their own performance, as well as general economic and industry conditions. For example, to the extent that other large companies within its industry experience declines in their stock price, the share price of New Sagicor Common Shares may decline as well. In addition, when the market price of a company’s shares drops significantly, shareholders often institute securities class action lawsuits against the company. A lawsuit against New Sagicor could cause it to incur substantial costs and could divert the time and attention of its management and other resources.

Sales of a substantial number of New Sagicor Common Shares may cause the price of New Sagicor Common Shares to decline.

Any sales of substantial numbers of New Sagicor Common Shares in the public market or the exercise of significant amounts of the Alignvest Warrants or the perception that such sales or exercise might occur may cause the market price of New Sagicor Common Shares to decline. The market price of New Sagicor Common Shares could be adversely affected upon the expiration of lock up periods applicable to certain New Sagicor shareholders.

Further equity financing may dilute the interests of shareholders of New Sagicor and depress the price of New Sagicor Common Shares.

If New Sagicor raises additional financing through the issuance of equity securities (including securities convertible or exchangeable into equity securities) or completes an acquisition or merger by issuing additional equity securities, such issuance may substantially dilute the interests of shareholders of New Sagicor and reduce the value of their investment. The market price of New Sagicor Common Shares could decline as a result of issuances of new shares or sales by shareholders of New Sagicor Common Shares in the market or the perception that such sales could occur. Sales by shareholders of New Sagicor might also make it more difficult for New Sagicor itself to sell equity securities at a time and price that it deems appropriate.

The trading market for New Sagicor Common Shares is influenced by securities industry analyst research reports.

The trading market for New Sagicor Common Shares is influenced by the research and reports that industry or securities analysts publish about New Sagicor. If covered, a decision by an analyst to cease coverage of New Sagicor or fail to regularly publish reports on New Sagicor could cause New Sagicor to lose visibility in the financial markets, which in turn could cause the stock price or trading volume to decline. Moreover, if an analyst who covers New Sagicor downgrades its stock, or if operating results do not meet analysts' expectations, the stock price could decline.

If New Sagicor is unable to implement and maintain effective internal control over financial reporting, New Sagicor might not be able to report financial results accurately and on a timely basis or prevent fraud. Additionally, investors may lose confidence in the accuracy and completeness of New Sagicor's financial reports and the market price of New Sagicor Common Shares may be negatively affected.

Upon receiving a final receipt for this prospectus, New Sagicor will become subject to reporting and other obligations under applicable Canadian securities laws and the rules of any stock exchange on which New Sagicor Common Shares are then-listed. The applicable securities legislation requires that New Sagicor file annual, quarterly and event-driven reports with respect to its business and financial condition and operations, and requires that New Sagicor maintain effective disclosure controls and procedures and internal control over financial reporting. These reporting and other obligations will place significant demands on New Sagicor's management, administrative, operational and accounting resources. Any failure to maintain effective internal controls could cause New Sagicor to fail to satisfy its reporting obligations or result in material misstatements in its financial statements. If New Sagicor cannot provide reliable financial reports or prevent fraud, its reputation and operating results could be materially adversely effected which could also cause investors to lose confidence in its reported financial information, which could result in a reduction in the trading price of New Sagicor Common Shares.

A control system, no matter how well-designed and implemented, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues within an organization are detected. The inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by individual acts of certain persons, by collusion of two or more people or by management override of the controls. Due to the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected in a timely manner or at all.

These activities may divert management's attention from other business concerns, which could have a material adverse effect on New Sagicor's business, financial condition, financial performance and cash flows.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

The following is, as of the date hereof, a general summary of certain Canadian federal income tax considerations under the *Income Tax Act* (Canada) (the “**Tax Act**”) generally applicable to a beneficial owner of New Sagicor Common Shares or Alignvest Warrants (collectively, the “**Securities**”) following the Transaction who, for the purposes of the Tax Act, and at all relevant times, is resident in Canada, beneficially owns the Securities as capital property, and deals at arm’s length with, and is not affiliated with, New Sagicor (a “**Holder**”). A Security will generally be considered to be capital property to a Holder unless the Holder holds (or will hold) such Security in the course of carrying on a business of trading or dealing in securities or has acquired (or will acquire) such Security in a transaction or transactions considered to be an adventure or concern in the nature of trade.

This summary is not applicable to a Holder: (a) that is a “financial institution” for purposes of the “mark-to-market rules” in the Tax Act; (b) an interest in which is a “tax shelter investment” as defined in the Tax Act; (c) that is a “specified financial institution” as defined in the Tax Act; (d) that has made a “functional currency” election under the Tax Act to determine its “Canadian tax results”, as defined in the Tax Act, in a currency other than Canadian currency; (e) who enters into, or has entered into, a “derivative forward agreement” as such term is defined in the Tax Act, with respect to a Security; (f) in respect of whom New Sagicor is or will become a “foreign affiliate” for the purposes of the Tax Act, or (g) who is a Founder or Alignvest II. Any such Holder to which this summary does not apply should consult its own tax advisor. In addition, this summary does not address the deductibility of interest by a Holder who has borrowed money or otherwise incurred debt in connection with the acquisition or holding of Securities.

This summary does not address the possible application of the “foreign affiliate dumping” rules in section 212.3 of the Tax Act to a Holder that (i) is a corporation resident in Canada and (ii) is or becomes (or does not deal at arm’s length for purposes of the Tax Act with a corporation resident in Canada that is or becomes), as part of a transaction or event or series of transactions or events that includes the acquisition of a Security, controlled by a non-resident corporation for purposes of such rules. Such Holders should consult their own tax advisors with respect to the possible application of these rules.

This summary assumes that at all relevant times, New Sagicor is not, and is not deemed to be, resident in Canada for purposes of the Tax Act.

This summary is based upon the current provisions of the Tax Act and the regulations thereunder (the “**Regulations**”) and counsel’s understanding of the current published administrative and assessing policies and practices of the Canada Revenue Agency. The summary also takes into account all specific proposals to amend the Tax Act and the Regulations that have been publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the “**Tax Proposals**”), and assumes that all such Tax Proposals will be enacted in the form proposed. No assurance can be given that the Tax Proposals will be enacted in the form proposed or at all. This summary does not otherwise take into account or anticipate any changes in law, whether by way of legislative, judicial or administrative action or interpretation, nor does it address any provincial, territorial or foreign tax considerations.

This summary is not exhaustive of all possible Canadian federal income tax considerations applicable to an investment in Securities and is not intended to be, nor should it be construed to be, legal or income tax advice to any particular Holder. Holders are urged to consult their own tax advisors with respect to the tax consequences applicable to the acquisition, holding and disposition of Securities based on their own particular circumstances.

Currency Conversion

For purposes of the Tax Act, all amounts relating to the ownership or disposition of the Securities must be expressed in Canadian dollars. For purposes of the Tax Act, amounts denominated in a currency other than the Canadian dollar generally must be converted into Canadian dollars using the applicable rate of exchange quoted by the Bank of Canada on the date such amounts arose, or such other rate of exchange as is acceptable to the Minister of National Revenue (Canada).

Exercise or Expiry of Alignvest Warrants

No gain or loss will be realized by a Holder of an Alignvest Warrant upon the exercise of such Alignvest Warrant. When an Alignvest Warrant is exercised, the Holder's cost of the New Sagicor Common Share acquired thereby will be equal to the adjusted cost base of the Alignvest Warrant to such Holder, plus the amount paid on the exercise of the Alignvest Warrant. For the purpose of computing the adjusted cost base to a Holder of each New Sagicor Common Share acquired on the exercise of an Alignvest Warrant, the cost of such New Sagicor Common Share must be averaged with the adjusted cost base to such Holder of all other New Sagicor Common Shares (if any) held by the Holder as capital property immediately prior to the exercise of such Alignvest Warrant.

Disposition of the Securities

A Holder who disposes of or is deemed to have disposed of a Security (other than a disposition arising on the exercise of an Alignvest Warrant by a Holder) will generally realize a capital gain (or incur a capital loss) in the year of disposition equal to the amount by which the proceeds of disposition in respect of the Security exceed (or are exceeded by) the aggregate of the adjusted cost base of such Security and any reasonable expenses associated with the disposition.

Generally, one-half of any capital gain (a "**taxable capital gain**") realized by a Holder must be included in computing the Holder's income for the taxation year in which the disposition occurs. Subject to and in accordance with the provisions of the Tax Act, one-half of any capital loss incurred by a Holder (an "**allowable capital loss**") may be used to offset taxable capital gains realized by the Holder in the taxation year of disposition. Allowable capital losses in excess of taxable capital gains for the taxation year of disposition may be applied to reduce net taxable gains realized by the Holder in the three preceding taxation years or in any subsequent year in the circumstances and to the extent provided in the Tax Act.

Foreign tax, if any, levied on any gain realized on the disposition of the Securities may be eligible for a foreign tax credit under the Tax Act to the extent and under the circumstances prescribed in the Tax Act. Holders should consult their own tax advisors with respect to the availability of a foreign tax credit having regard to their own particular circumstances.

Capital gains realized by individuals and certain trusts may result in the individual or trust paying minimum tax under the Tax Act.

Dividends on New Sagicor Common Shares

The full amount of dividends received (or deemed to be received) on the New Sagicor Common Shares by a Holder who is an individual (including a trust), including amounts withheld for foreign withholding tax, if any, will be included in computing the Holder's income and will not be subject to the gross-up and dividend tax credit rules normally applicable under the Tax Act to taxable dividends received (or deemed to be received) from taxable Canadian corporations.

Dividends received on the New Sagicor Common Shares by a Holder that is a corporation, including amounts withheld for foreign withholding tax, if any, will be included in computing the Holder's income, and such Holder will not be entitled to the inter-corporate dividend deduction in computing taxable income which generally applies to dividends received from taxable Canadian corporations.

Subject to the detailed rules in the Tax Act, a Holder may be entitled to a foreign tax credit or deduction for any foreign withholding tax paid with respect to dividends received by the Holder on New Sagicor Common Shares. Holders should consult their own tax advisors with respect to the availability of a foreign tax credit or deduction having regard to their own particular circumstances.

Additional Tax on Canadian-Controlled Private Corporations

A Holder that is, throughout the relevant taxation year, a “Canadian controlled private corporation” (as defined in the Tax Act) is liable to pay an additional refundable tax on its “aggregate investment income”, which is defined in the Tax Act to include amounts in respect of taxable capital gains and dividends that are not deductible under the Tax Act.

Foreign Property Information Reporting

Generally, a Holder that is a “specified Canadian entity” (as defined in the Tax Act) for a taxation year or a fiscal period and whose total “cost amount” of “specified foreign property” (as such terms are defined in the Tax Act), including Securities, at any time in the year or fiscal period exceeds C\$100,000 will be required to file an information return for the year or period disclosing prescribed information. Subject to certain exceptions, a Holder generally will be a specified Canadian entity. Holders should consult their own tax advisors regarding compliance with these reporting requirements.

Offshore Investment Fund Property

The Tax Act contains rules which may require a taxpayer to include in income in each taxation year an amount in respect of the holding of an “offshore investment fund property”. These rules could apply to a Holder in respect of Securities if both of two conditions are satisfied.

The first condition for such rules to apply is that the value of the Security may reasonably be considered to be derived, directly or indirectly, primarily from portfolio investments in: (i) shares of one or more corporations, (ii) indebtedness or annuities, (iii) interests in one or more corporations, trusts, partnerships, organizations, funds or entities, (iv) commodities, (v) real estate, (vi) Canadian or foreign resource properties, (vii) currency of a country other than Canada, (viii) rights or options to acquire or dispose of any of the foregoing, or (ix) any combination of the foregoing (“**Investment Assets**”).

The second condition for such rules to apply to a Holder is that it must be reasonable to conclude that one of the main reasons for the Holder acquiring or holding a Security was to derive a benefit from portfolio investments in Investment Assets in such a manner that the taxes, if any, on the income, profits and gains from such Investment Assets for any particular year are significantly less than the tax that would have been applicable under Part I of the Tax Act had the income, profits and gains been earned directly by the Holder.

If applicable, these rules would generally require a Holder to include in income for each taxation year in which the Holder owns a Security (i) an imputed return for the taxation year computed on a monthly basis and determined by multiplying the Holder’s “designated cost” (as defined in the Tax Act) of the Security at the end of the month, by 1/12th of the sum of the applicable prescribed rate for the period that includes such month plus 2%, less (ii) the Holder’s income for the year (other than a capital gain) from the Security determined without reference to these rules. Any amount required to be included in computing a Holder’s income under these provisions will be added to the adjusted cost base to the Holder of the applicable Security.

These rules are complex and their application depends, in part, on the reasons for a Holder acquiring or holding Securities. Holders are urged to consult their own tax advisors regarding the application and consequences of these rules in their own particular circumstances.

Eligibility for Investment

The New Sagicor Common Shares and the Alignvest Warrants will, on the date hereof, be qualified investments for a trust governed by a registered retirement savings plan (“**RRSP**”), a registered retirement income fund (“**RRIF**”), a deferred profit sharing plan, a registered education savings plan (“**RESP**”), a registered disability savings plan (“**RDSP**”) or a tax-free savings account (“**TFSA**”), provided that:

- (i) in the case of the New Sagicor Common Shares, the New Sagicor Common Shares are listed on a designated stock exchange for the purposes of the Tax Act (which currently includes the TSX); and
- (ii) in the case of the Alignvest Warrants:
 - a. the Alignvest Warrants are listed on a designated stock exchange for purposes of the Tax Act (which currently includes the TSX); or
 - b. the shares to be issued on the exercise of the Alignvest Warrants are qualified investments as described in (i) above, provided that New Sagicor is not, and deals at arm's length with each person who is, an annuitant, a beneficiary, an employer or a subscriber under or a holder of such registered plan.

Notwithstanding the foregoing, the holder of a TFSA or an RDSP, the annuitant under an RRSP or RRIF, or the subscriber of an RESP, will be subject to a penalty tax in respect of the New Sagicor Common Shares or Alignvest Warrants held in the TFSA, RRSP, RRIF, RDSP or RESP if such Securities are prohibited investments for the TFSA, RRSP, RRIF, RDSP or RESP. A Security will generally be a "prohibited investment" for a TFSA, RRSP, RRIF, RDSP or RRIF if the holder of the TFSA or RDSP, the annuitant under the RRSP or RRIF, or the subscriber of the RESP does not deal at arm's length with New Sagicor for the purposes of the Tax Act, or the holder, annuitant or subscriber has a "significant interest" (as defined in subsection 207.01(4) the Tax Act) in New Sagicor. Holders of a TFSA or RDSP, annuitants under an RRSP or RRIF, and subscribers of RESPs should consult their own tax advisors as to whether the New Sagicor Common Shares or Alignvest Warrants will be a prohibited investment in their particular circumstances.

PROMOTER

Alignvest II, the sponsor of Alignvest, was considered a promoter of Alignvest within the meaning of applicable securities legislation for the purposes of Alignvest's initial public offering. Alignvest II owns, directly or indirectly, 9,867,698 Alignvest Class B Shares representing approximately 55.2% of the Alignvest Class B Shares (and 8.7% of all issued and outstanding shares prior to completion of the Transaction). Alignvest II also owns 9,812,400 Alignvest Warrants (28.1% of the outstanding warrants) and does not own any Alignvest Class A Restricted Voting Shares.

Affiliates of Alignvest II have agreed under Forward Purchase Agreements to acquire a total of 2,507,500 New Sagicor Common Shares and 835,833 Alignvest Warrants, and in connection therewith acquired 393,928 Alignvest Class B Shares prior to the closing of the initial public offering. They do not own any Alignvest Class A Restricted Voting Shares.

Pursuant to an administrative services agreement, Alignvest pays AMC a total of C\$25,000 (plus applicable taxes) per month for office space and related services. The administrative services agreement will terminate upon completion of Transaction.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

We encounter litigation in the normal course of our business, particularly with respect to insurance claims. We also face some litigation with respect to mortgage foreclosures and public liability insurance.

We do not believe any material settled, pending or anticipated litigation exists in connection with our insurance and financial services business, except as disclosed in the paragraphs below.

In March 2014, the Supreme Court of Jamaica granted judgment in favor of a claimant in a case brought against Sagicor Bank Jamaica Limited (formerly RBC Royal Bank (Jamaica) Limited). This claim pre-dated the acquisition of RBC Jamaica by Sagicor Group Jamaica Limited, and also pre-dated the acquisition of control of RBC Royal Bank (Jamaica) Limited by RBTT Securities Jamaica Limited from Finsac Limited (“**Finsac**”) in 2001. By virtue of the Share Sale Agreement entered into between Finsac, RBTT Financial Holdings Limited and RBTT International Limited, Finsac agreed to fully indemnify RBTT International Limited against any loss the bank may suffer in this matter (the “**Indemnity Agreement**”). As the current owner of Sagicor Bank, Sagicor Group is the current beneficiary of the indemnity. The indemnity from Finsac is further supported by a Government of Jamaica Guarantee on a full indemnity basis. The decision of the Supreme Court of Jamaica was appealed. The amount previously awarded to the claimant has been recorded as a payable to the claimant with accrued interest and correspondingly receivable from Finsac / the Government of Jamaica.

In July 2018, judgment was delivered by the Jamaica Court of Appeal. The Court partially allowed the Sagicor Bank’s appeal and set aside judgment of the Supreme Court. The new judgment reduced the interest rate from 27.3% to 6% and changed the computation basis from compounded interest to simple interest. As at September 30th 2018 the asset and liability amounts in the books of Sagicor Bank were therefore reduced from US\$65,929,000 to US\$915,000.

In addition, a suit has been filed by a customer against one of the Sagicor Group’s, subsidiaries for breach of contract, and breach of trust in the amount of US\$8,928,500, being loss allegedly suffered as a result of what the claimants say is the unlawful withholding of insurance proceeds by the subsidiary. No provision was made for this claim as the outcome of this matter cannot be properly assessed until it has been heard.

Finally, a suit has been filed in Jamaica by an independent contractor against one of Sagicor Group’s subsidiaries for breach of contract arising from an alleged contractual agreement. The claimant alleges that the company failed to pursue initiatives contemplated by the contract with a third party and that by not doing so it caused the claimant company significant losses which they have estimated at over US\$300,000,000. No provision has been made for this claim as the claim has been stayed to accommodate arbitration as required under the agreement between the parties. The claimant has taken no further steps to advance this claim since July 2014. Sagicor has lodged a claim under the indemnities provision in the share purchase agreement with the vendor from which the subsidiary was purchased on the grounds that this claim was not properly disclosed. The vendor, a Canadian chartered bank or an affiliate thereof, argues that based on purchase and sale agreement, Sagicor does not have a right of indemnification with respect to this claim. It has however agreed to assume responsibility for the litigation and has agreed that Sagicor may observe the proceedings at its own expense.

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Except as described in the Prospectus, none of the proposed directors or executive officers of New Sagicor, or any person or company that is expected to beneficially own, or control or direct more than 10% of any class or series of shares of New Sagicor, or any associate or Affiliate of any of the foregoing persons, has or has had any material interest in any past transaction within the three years before the date of the prospectus, or any proposed transaction, that has materially affected or would materially affect New Sagicor or any of its expected subsidiaries.

In connection with the Transaction, Scotia Capital Inc. (“**SCI**”), a wholly-owned subsidiary of BNS, is assisting Alignvest in furtherance of its role as underwriter for Alignvest’s initial public offering in May 2017. In such capacity SCI will be participating with respect to the matters and transactions contemplated in the IPO prospectus and in connection with Alignvest’s other financing efforts with respect to the Transaction. SCI is also acting as M & A advisor to BNS in respect of the proposed disposition of SJLIC and SLTT. In both cases, SCI will receive fees contingent on the successful completion of the Transaction and such dispositions. SCI also holds securities of Alignvest and it intends to vote in favour of the Transaction.

As disclosed in “*Proposed Acquisitions – Proposed Acquisitions of SJLIC and SLTT*”, Sagicor and Alignvest have entered into agreements to acquire all outstanding shares of SJLIC, a wholly owned subsidiary of BNS Jamaica and SLTT, a wholly owned subsidiary of BNS TT. BNS holds an indirect 71.78% interest in BNS Jamaica and an indirect 50.901% interest in BNS TT.

Among other conditions, the acquisitions of SJLIC and SLTT are subject to the successful completion of the Transaction and the closing of the Transaction is conditional on Alignvest maintaining a certain minimum amount of available cash after giving effect to any redemption rights exercised by holders of the Alignvest Class A Restricted Voting Shares. As a result of its indirect interest in BNS Jamaica and BNS TT, BNS will indirectly benefit from the successful completion of the Transaction.

In addition to the interests of BNS described above, BNS and affiliates of BNS may provide certain services, including lending, cash management, derivatives, underwriting and financial advisory services to Alignvest and its affiliates.

AUDITORS

The auditor of Alignvest is Ernst & Young LLP, Chartered Professional Accountants, Licensed Public Accountants, having an address at Ernst & Young Tower, 100 Adelaide Street West, P.O. Box 1, Toronto, Ontario, Canada M5H 0B3. Such firm is independent of Alignvest within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario.

The auditor of Sagicor Financial Corporation Limited is PricewaterhouseCoopers SRL, having an address at The Financial Services Centre, Bishop's Court Hill, P.O. Box 111, St. Michael, BB14004, Barbados, West Indies. As of the date hereof, the partners and staff of such firm, as a group, beneficially own, directly or indirectly, less than one percent of any securities of Sagicor Financial Corporation Limited. Upon completion of the Transaction it is proposed that PricewaterhouseCoopers SRL will become the auditor of New Sagicor.

The auditor of SJLIC is KPMG, having an address at 6 Duke Street, Kingston, Jamaica, W.I. Such firm is independent of SJLIC in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("**IESBA Code**").

The auditor of SLTT is KPMG, having an address at Savannah East, 11 Queen's Park East, Port of Spain, Trinidad and Tobago, W.I. Such firm is independent of SLTT within the meaning of the IESBA Code.

REGISTRAR AND TRANSFER AGENT

It is expected that the transfer agent and registrar of the New Sagicor Common Shares will be TMX Investor Services Inc. at its principal offices in Toronto, Ontario.

EXPERTS AND INTERESTS OF EXPERTS

Certain Canadian legal and tax matters will be passed upon at the date of this prospectus by Stikeman Elliott LLP, on Alignvest's behalf and on behalf of Alignvest II, and Blake, Cassels & Graydon LLP, on behalf of Sagikor. Certain U.S. legal matters will be passed upon at the date of this prospectus by Paul Hastings LLP on behalf of Sagikor. Certain Bermudian legal matters will be passed upon at the date of this prospectus by Appleby, on Alignvest's behalf and on behalf of Alignvest II, and Conyers Dill & Pearman Limited and Lex Caribbean on behalf of Sagikor.

As at the date hereof, the partners and associates of Stikeman Elliott LLP, as a group, the partners and associates of Blake, Cassels & Graydon LLP, as a group, the partners and associates of Paul Hastings LLP, as a group, the partners and associates of Appleby, as a group, the partners and associates of Conyers Dill & Pearman Limited, as a group, the partners and associates of Lex Caribbean, as a group, each beneficially own, directly or indirectly, less than one percent of Alignvest's securities or Sagikor's securities, and each will own less than one percent of the outstanding securities of New Sagikor or Sagikor.

MATERIAL CONTRACTS

The following are the material contracts of New Sagicor, other than contracts entered into in the ordinary course of business:

- (a) the Arrangement Agreement;
- (b) the Warrant Agreement;
- (c) the Scotia Agreements;
- (d) the Indemnity Agreement (see “*Legal Proceedings and Regulatory Actions*”);
- (e) the Trust Deed in respect of the Short Term Notes (described below);
- (f) the Note Indenture (as described below); and
- (g) the Board Appointment Letter Agreement (as described below).

Copies of the above material contracts will be available following completion of the Transaction on New Sagicor’s SEDAR profile at www.sedar.com. Set out below are the particulars of certain material contracts not described elsewhere in this prospectus.

Short Term Notes

Unless previously redeemed or purchased and cancelled, the Short Term Notes are due to be redeemed by Sagicor on August 14, 2019 with a single bullet payment of US\$75,000,000. Sagicor may, at any point after December 20, 2018, repay all or part of the principal amount then owing under the Short Term Notes, without penalty, by giving 10 days prior written notice. Interest accrues pursuant to the terms of the Short Term Notes at a rate of 4.85% per annum and remains payable on December 20, 2018, June 20, 2019, and August 14, 2019. The Short Term Notes are guaranteed by Sagicor Life pursuant to a guarantee dated March 21, 2016 issued by Sagicor Life in favour of the Note Trustee for securing the repayment of the principal and interest in respect of the Short Term Notes. The Short Term Notes contain a provision whereby if any material indebtedness of Sagicor is declared or capable of becoming rendered due and payable before its normal maturity, the Short Term Notes become immediately due and payable.

Note Indenture

On August 11, 2015, Sagicor (as parent guarantor), Sagicor Finance (2015) Limited (as issuer), certain subsidiaries of Sagicor (as subsidiary guarantors) and Deutsche Bank Trust Company Americas (as trustee, registrar, paying agent and transfer agent) entered into an indenture (the “**Note Indenture**”) with respect to 8.875% senior notes (the “**Notes**”). The Notes will mature on August 11, 2022 and bear interest at the rate of 8.875% per year. Interest on the Notes is payable semi-annually in arrears on February 11 and August 11 of each year. The Notes are listed on the Irish Stock Exchange.

Sagicor may redeem some or all of the Notes at any time prior to August 11, 2019 at a price equal to 100% of the principal amount of the Notes plus accrued and unpaid interest, if any, to the date of redemption plus a “makewhole” premium as described in the Note Indenture. Thereafter, Sagicor may redeem the Notes, in whole or in part, at the redemption prices set forth in the Note Indenture. If Sagicor is subject to specific change in control transactions, it must offer to purchase the Notes from the holders thereof at a price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to the date of purchase.

The Notes are unconditionally, jointly and severally guaranteed by Sagicor and Sagicor Life Inc. (together, the “**Guarantors**”). The Notes and the guarantees will be Sagicor Finance (2015) Limited and the Guarantors’ general senior unsecured obligations and will rank equally in right of payment with Sagicor Finance (2015) Limited’s and the Guarantors’ existing and future senior unsecured debt and senior to any of Sagicor Finance (2015) Limited and

the Guarantors' future subordinated debt. The Notes and guarantees will be effectively subordinated to all of Sagicor Finance (2015) Limited's and the Guarantors' existing and future secured debt to the extent of the assets securing that secured debt and will be structurally subordinated to all of the liabilities of Sagicor's subsidiaries that are not issuing or guaranteeing the Notes.

Under the Note Indenture, the Company and its subsidiaries party thereto must comply with a number of covenants, which are summarized in the table below.

Covenant	Description
Limitation of indebtedness	Under this covenant, Sagicor and certain of its subsidiaries are restricted to incremental borrowing up to a prescribed level. They must maintain a fixed charge coverage ratio, in excess of 2:1 in order to incur additional debt.
Limitation on restricted payments covenant	This covenant limits cash outflows, dividends, acquisition and investments by Sagicor and certain of its subsidiaries. They must maintain a fixed charge coverage ratio of 2:1 and an MCCR capital ratio in excess of 175%.
Limitation on restricted distributions from subsidiaries	This covenant limits certain subsidiaries of Sagicor from creating encumbrances or restrictions on their ability to make distributions to Sagicor.
Limitation on sale of assets of subsidiary stock or shares	This covenant restricts Sagicor and certain of its subsidiaries from selling material subsidiary assets without using the proceeds to either reinvest in the business or offer to buy back bondholders.
Limitation on affiliate transactions	This covenant restricts affiliate transactions between Sagicor and certain of its affiliates.
Limitation on liens	This covenant restricts Sagicor's and certain of its subsidiaries' ability to secure future debt with their assets.

The Note Indenture contains a change of control provision which, if triggered, provides the holders of the Notes the right to require Sagicor Finance (2015) Limited to repurchase the Notes. The change of control provision is triggered if, following completion of the Transaction, former Alignvest shareholders hold more than 50% of the shares of New Sagicor. It is a condition to the obligation of Alignvest to effect the Sagicor Arrangement that, in the event that the change of control provision is triggered, Sagicor shall have received a waiver from the holders of a majority in principal amount of the Notes then outstanding of the obligation of Sagicor Finance (2015) Limited to make such an offer to repurchase the Notes.

Board Appointment Letter Agreement

On December 6, 2017, Sagicor Jamaica provided a letter agreement (the "**Board Appointment Letter Agreement**") pursuant to which Sagicor Jamaica agreed that, notwithstanding any provision in Sagicor's corporate governance manual or otherwise, Sagicor shall have the right to appoint up to a certain percentage of the members of Sagicor Jamaica's board of directors.

CONTRACTUAL RIGHT OF ACTION

Original purchasers of Alignvest Class A Restricted Voting Shares and Alignvest Warrants from the underwriters in Alignvest's initial public offering who continue to hold those securities up to the Redemption Deadline will have a contractual right of action for rescission or damages against New Sagicor (as well as a contractual right of action for damages alone against: (a) the directors of Alignvest as of the Redemption Deadline (the "**Alignvest directors**"), and (b) every person or company who signs this prospectus, which, for greater certainty, includes Alignvest II, as a promoter of Alignvest (collectively, the "**signatories**").

In the event that Alignvest's qualifying acquisition is completed and if this prospectus or any amendment hereto contains a misrepresentation (as defined in the *Securities Act* (Ontario)), provided that such claims for rescission or damages are commenced by the purchaser not later than: (a) in the case of an action for rescission, 180 days after the Redemption Deadline, or (b) in the case of an action for damages, the earlier of: (i) 180 days after the plaintiff first had knowledge of the facts giving rise to the cause of action, or (ii) three (3) years after the Redemption Deadline, a purchaser who purchased Alignvest Class A Restricted Voting Shares and Alignvest Warrants from Alignvest's underwriters in its initial public offering shall, in respect of such Alignvest Class A Restricted Voting Shares, as converted pursuant to the Alignvest Arrangement into New Sagicor Common Shares, and such Alignvest Warrants, be entitled to, in addition to any other remedy available at the time to such holder, (i) as against New Sagicor, in the case of rescission, the amount paid for such Alignvest Class A Restricted Voting Shares and/or such Alignvest Warrants, as applicable, upon surrender of such securities, and (ii) as against New Sagicor, the Alignvest directors and the signatories, in the case of a damages election, their proven damages.

In addition, the following additional provisions apply to actions against the Alignvest directors or the signatories:

- (i) each has a due diligence defence and the other defences and rights contemplated in section 130 of the *Securities Act* (Ontario) and at law; and
- (ii) each is entitled to be indemnified by New Sagicor and Sagicor to the maximum extent permitted by law.

This contractual right of action for rescission or damages will, subject to the foregoing, be consistent with the statutory right of rescission or damages described under section 130 of the *Securities Act* (Ontario). In no case shall the amount recoverable exceed the original purchase price of the Alignvest Class A Restricted Voting Units. In addition, for non-residents of Canada, the contractual right shall be subject to the same interpretational or constitutional defences, if any, as would apply to a claim against a resident Canadian issuer under section 130 of the *Securities Act* (Ontario), and, as a result, the argument that non-residents are not entitled to take advantage of the contractual right shall not be precluded.

The directors of Alignvest as at the date of the final prospectus (or any amendment), namely: Reza Satchu, Timothy Hodgson, Vince Hemmer, Azim Jamal, Adam Jiwan, Anthony Lacavera, Nadir Mohamed, Andy Moysiuk, and Donald Walker, will, subject to the terms thereof, be potentially liable for misrepresentations in this final prospectus (as it may be amended) under Part XXIII.1 of the *Securities Act* (Ontario) and the "*Contractual Right of Action*" described above. New directors of Alignvest or New Sagicor appointed after such date will not be subject to such liability as such.

CERTIFICATE OF ALIGNVEST ACQUISITION II CORPORATION AND PROMOTER

December 3, 2018

This prospectus constitutes full, true and plain disclosure of all material facts relating to the securities previously issued by the issuer as required by securities legislation of each of the provinces and territories of Canada.

By: (SIGNED) "REZA SATCHU" BY: (SIGNED) "SANJIL SHAH"
REZA SATCHU **SANJIL SHAH**
PRESIDENT AND CHIEF EXECUTIVE **CHIEF FINANCIAL OFFICER**
OFFICER AND DIRECTOR

ON BEHALF OF THE BOARD OF DIRECTORS

By: (SIGNED) "TIMOTHY HODGSON" BY: (SIGNED) "VINCE HEMMER"
TIMOTHY HODGSON **VINCE HEMMER**
DIRECTOR **DIRECTOR**
ALIGNVEST II CORPORATION, AS GENERAL PARTNER OF
ALIGNVEST II LP, AS PROMOTER

By: (SIGNED) "REZA SATCHU"
REZA SATCHU
CHIEF EXECUTIVE OFFICER AND DIRECTOR

By: (SIGNED) "SANJIL SHAH"
SANJIL SHAH
CHIEF FINANCIAL OFFICER AND DIRECTOR

APPENDIX A – ALIGNVEST AUDITED ANNUAL FINANCIAL STATEMENTS

ALIGNVEST

ACQUISITION II CORPORATION

FINANCIAL STATEMENTS

AS AT MARCH 31, 2018

**AND FOR THE PERIOD FROM COMMENCEMENT OF OPERATIONS
ON APRIL 28, 2017 TO MARCH 31, 2018**

Management's Report on Internal Control over Financial Reporting

The financial statements of Alignvest Acquisition II Corporation (the "Corporation"), the accompanying notes thereto and other financial information contained in the Corporation's management's discussion and analysis are the responsibility of, and have been prepared by management. These financial statements have been prepared in accordance with International Financial Reporting Standards and, where appropriate, include management's best estimates and judgments. Management has reviewed the financial information presented throughout the documents accompanying these financial statements and has ensured it is consistent with the financial statements.

Management maintains a system of internal control designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, and that financial information is timely and reliable. However, any system of internal control over financial reporting, no matter how well designed and implemented, has inherent limitations and may not prevent or detect all misstatements.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Audit Committee, which is comprised of directors, none of whom are employees of the Corporation, reviews the interim and annual financial statements and management's discussion and analysis of the Corporation and recommends them for approval by the Board of Directors. The Audit Committee reports its findings to the Board of Directors before the financial statements are approved by the Board.

Ernst & Young LLP, an independent firm of Chartered Professional Accountants, was appointed by the shareholders of the Corporation to examine the financial statements and provide an independent professional opinion as to their compliance with International Financial Reporting Standards. The auditor has full and unrestricted access to the Audit Committee to discuss the audit and related matters.

(Signed)
Reza Satchu
President and Chief Executive Officer

(Signed)
Sanjil Shah
Chief Financial Officer

Toronto, Canada
May 22, 2018

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Alignvest Acquisition II Corporation

We have audited the accompanying financial statements of Alignvest Acquisition II Corporation, which comprise the statement of financial position as at March 31, 2018, and the statements of operations and comprehensive income (loss), changes in shareholders' equity and cash flows for the period from commencement of operations on April 28, 2017 to March 31, 2018, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Alignvest Acquisition II Corporation as at March 31, 2018, and its financial performance and its cash flows for the period from commencement of operations on April 28, 2017 to March 31, 2018 in accordance with International Financial Reporting Standards.

Toronto, Canada
May 22, 2018

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants



ALIGNVEST ACQUISITION II CORPORATION
STATEMENT OF FINANCIAL POSITION

[expressed in Canadian dollars]

	Notes	As at March 31, 2018
ASSETS		
Current		
Cash		1,975,229
Prepaid expenses		6,840
		<u>1,982,069</u>
Restricted cash and short-term investments held in escrow	5	405,016,292
TOTAL ASSETS		406,998,361
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current		
Accounts payable and accrued liabilities		756,759
Due to related party	12	325,795
		<u>1,082,554</u>
Deferred underwriters' commission	10	14,087,500
Class A Restricted Voting Shares subject to redemption	6	392,437,500
Warrant liability	7	18,464,581
		<u>426,072,135</u>
SHAREHOLDERS' DEFICIENCY		
Share capital	1, 8	13,950
Deficit		<u>(19,087,724)</u>
		<u>(19,073,774)</u>
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY		406,998,361

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

On behalf of the Board of Directors:

(signed) Timothy Hodgson
Timothy Hodgson
Director

(signed) Adam Jiwan
Adam Jiwan
Director

ALIGNVEST ACQUISITION II CORPORATION
STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

[expressed in Canadian dollars, except per share amounts]

	Notes	From commencement of operations on April 28, 2017 to March 31, 2018
		\$
REVENUE		
Interest income		2,516,292
EXPENSES		
Transaction costs	10	22,421,549
General and administrative	11	1,830,386
Net unrealized gain on changes in the fair value of financial liabilities	6, 7	(2,647,919)
		<u>21,604,016</u>
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD		(19,087,724)
NET LOSS PER SHARE		
Basic and diluted		(1.61)
Weighted average number of Class B Shares outstanding - basic and diluted		<u>11,858,025</u>

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

ALIGNVEST ACQUISITION II CORPORATION
STATEMENT OF CHANGES IN SHAREHOLDERS' DEFICIENCY

From commencement of operations on April 28, 2017 to March 31, 2018

[expressed in Canadian dollars, except number of shares]

	Note	Class B Shares		Deficit	Total
		Number	Amount		
			\$	\$	\$
Balance, April 28, 2017		1	10	-	10
Issuance of Class B Shares to Founders	8	11,112,270	22,225	-	22,225
Issuance of Class B Shares to Forward Purchasers	8, 9	1,775,229	3,550	-	3,550
Transaction costs	8, 10	-	(11,835)	-	(11,835)
Net loss and comprehensive loss		-	-	(19,087,724)	(19,087,724)
Balance, March 31, 2018		12,887,500	13,950	(19,087,724)	(19,073,774)

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

ALIGNVEST ACQUISITION II CORPORATION
STATEMENT OF CASH FLOWS

[expressed in Canadian dollars]

	Notes	From commencement of operations on April 28, 2017 to March 31, 2018
		\$
OPERATING ACTIVITIES		
Net loss and comprehensive loss for the period		(19,087,724)
Non-cash items included in net loss and other adjustments		
Interest income		(2,516,292)
Transaction costs associated with financing activities	10	22,421,549
Net unrealized gain on changes in the fair value of financial liabilities	6, 7	(2,647,919)
Changes in non-cash working capital		
Prepaid expenses		(6,840)
Accounts payable and accrued liabilities		756,759
Due to related party	12	325,795
CASH USED IN OPERATING ACTIVITIES		(754,672)
INVESTING ACTIVITIES		
Investment in restricted cash and short-term investments held in escrow	5	(402,500,000)
CASH USED IN INVESTING ACTIVITIES		(402,500,000)
FINANCING ACTIVITIES		
Proceeds from issuance of Class B Shares to Founders	1, 8	22,225
Proceeds from issuance of Class B Shares to Forward Purchasers	1, 8, 9	3,550
Proceeds from issuance of Warrants to Founders	1, 7	11,050,000
Proceeds from issuance of Class A Restricted Voting Units	1, 6	402,500,000
Transaction costs associated with issuance of Class A Restricted Voting Shares and Warrants		(8,334,049)
Transaction costs associated with issuance of Class B Shares		(11,835)
CASH PROVIDED BY FINANCING ACTIVITIES		405,229,891
NET INCREASE IN CASH DURING THE PERIOD		1,975,219
CASH, BEGINNING OF PERIOD		10
CASH, END OF PERIOD		1,975,229

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

ALIGNVEST ACQUISITION II CORPORATION
Notes to the Financial Statements
March 31, 2018
[In Canadian dollars, unless otherwise specified]

1. ORGANIZATION AND NATURE OF OPERATIONS

Alignvest Acquisition II Corporation (the "Corporation") is a special purpose acquisition corporation which was incorporated for the purpose of effecting an acquisition of one or more businesses or assets, by way of a merger, amalgamation, arrangement, share exchange, asset acquisition, share purchase, reorganization, or any other similar business combination involving the Corporation (a "Qualifying Acquisition"). The Corporation's business activities are carried out in a single business segment.

The Corporation was incorporated on February 8, 2017, under the Business Corporations Act (Ontario) and commenced operations on April 28, 2017. The Corporation's head office, and the head office of the Sponsor (as defined below), is located at 100 King Street West, 70th Floor, Toronto, Ontario, Canada, M5X 1C7.

THE OFFERING

On May 25, 2017, the Corporation completed its initial public offering (the "Offering") of 35,000,000 units at \$10.00 per unit. Each unit consisted of one Class A restricted voting share ("Class A Restricted Voting Share") of the Corporation and one half of a warrant (together, a "Class A Restricted Voting Unit"). Upon closing of a Qualifying Acquisition, each Class A Restricted Voting Share and each Class B share ("Class B Share") will be automatically converted into one Common Share of the Corporation, and accordingly, each whole warrant (a "Warrant") will entitle the holder of the Warrant to purchase one Common Share at an exercise price of \$11.50, subject to anti-dilution adjustments, commencing 30 days after the completion of a Qualifying Acquisition and will expire five years after the completion of a Qualifying Acquisition. At the option of the Warrant holder, the Warrants may be exercised through cashless exercise.

In connection with the Offering, the Corporation granted the underwriters a 30-day non-transferable option to purchase up to an additional 5,250,000 Class A Restricted Voting Units, at a price of \$10.00 per Class A Restricted Voting Unit, to cover over-allotments, if any, and for market stabilization purposes. On June 1, 2017, the underwriters exercised their over-allotment option in full to purchase an additional 5,250,000 Class A Restricted Voting Units for aggregate proceeds of \$52,500,000. As a result of the exercise of the over-allotment option, an aggregate of 40,250,000 Class A Restricted Voting Units of the Corporation were issued for aggregate proceeds of \$402,500,000.

Concurrent with the completion of the Offering, Alignvest II LP (the "Sponsor"), a limited partnership of which Alignvest II Corporation is the general partner, and which is indirectly controlled by Alignvest Management Corporation ("AMC"), and Vince Hemmer, Azim Jamal, Anthony Lacavera, Lee Lau, Nadir Mohamed, Joe Natale, Helmut Swarovski and Donald Walker (or persons or companies controlled by them) (collectively with our Sponsor, the "Founders") purchased an aggregate of 10,000,000 share purchase warrants (the "Founders' Warrants") at an offering price of \$1.00 per Founders' Warrant for aggregate proceeds of \$10,000,000. Each whole Founders' Warrant entitles the holder thereof to purchase one Common Share at an exercise price of \$11.50, subject to anti-dilution adjustments, commencing 30 days after the completion of a Qualifying Acquisition. Concurrent with the exercise of the over-allotment option, the Founders purchased an additional 1,050,000 Founders' Warrants at an offering price of \$1.00 per Founders' Warrant for aggregate proceeds of \$1,050,000.

Certain institutional and accredited investors, including Alignvest Partners Master Fund LP, an affiliate of the Sponsor, and certain directors or members of the advisory board (or companies controlled by them) of the Corporation (the "Forward Purchasers"), have entered into forward purchase agreements with the Corporation (the "Forward Purchase Agreements") to purchase, among other things, an aggregate of 11,300,000 Common Shares ("Forward Purchase Common Shares") and one-third of a share purchase warrant (the "Forward Purchase Warrants") per Forward Purchase

ALIGNVEST ACQUISITION II CORPORATION
Notes to the Financial Statements
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[In Canadian dollars, unless otherwise specified]

Common Share, for an aggregate of 3,766,659 Forward Purchase Warrants, through a private placement which would occur concurrently with the closing of a Qualifying Acquisition. Each whole Forward Purchase Warrant entitles the holder thereof to purchase one Common Share at an exercise price of \$11.50, subject to anti-dilution adjustments, commencing 30 days after the completion of a Qualifying Acquisition. The obligations under the Forward Purchase Agreements do not depend on the nature of the Qualifying Acquisition or the number of Class A Restricted Voting Shares redeemed. The Forward Purchasers have committed to vote all shares held by them (including the Forward Purchasers' Class B Shares and any Class A Restricted Voting Shares purchased) in favour of a Qualifying Acquisition proposed by the Corporation.

As at the closing of the Offering, the Corporation issued a total of 12,887,500 Class B Shares for an aggregate price of \$25,785, or approximately \$0.002 per Class B Share, of which 11,112,271 Class B Shares were issued to the Founders (Founders' Shares) for \$22,235 and 1,775,229 Class B Shares were issued to the Forward Purchasers (Forward Purchasers' Class B Shares) for \$3,550. Upon closing of a Qualifying Acquisition, the Class B Shares will automatically convert into Common Shares. Up to 1,312,500 of the Founders' Shares were subject to forfeiture by the Founders without compensation depending on the extent to which the over-allotment option is exercised. As the over-allotment option was exercised in full, none of the Founders' Shares were forfeited. The Forward Purchasers' Class B Shares are subject to forfeiture in accordance with the terms of the Forward Purchase Agreements.

As at March 31, 2018, the aggregate of the Class B Shares issued by the Corporation held by the Founders and Forward Purchasers represent 24.3% of the Corporation's share capital equal to the aggregate of all Class A Restricted Shares and Class B Shares issued and outstanding.

The proceeds of \$402,500,000 from the sale of the Class A Restricted Voting Units sold to the public are held by TSX Trust Company, as Escrow Agent, in the escrow account (the "Escrow Account") at a Canadian chartered bank or subsidiary thereof, in accordance with the escrow agreement. Subject to applicable law and payment of certain taxes, permitted redemptions and certain expenses, as further described herein, none of the funds held in the Escrow Account will be released to the Corporation prior to the closing of a Qualifying Acquisition. The escrowed funds will be held to enable the Corporation to (i) satisfy redemptions made by holders of Class A Restricted Voting Shares (including in the event of a Qualifying Acquisition or an extension to the permitted timeline of 24 months ("Permitted Timeline") or up to 36 months with shareholder approval from the holders of Class A Restricted Shares and the Corporation's board of directors, or in the event a Qualifying Acquisition does not occur within the Permitted Timeline), (ii) fund a Qualifying Acquisition with the net proceeds following payment of any such redemptions and deferred underwriting commissions, and/or (iii) pay taxes on amounts earned on the escrowed funds and certain permitted expenses. Such escrowed funds and all amounts earned, subject to such obligations and applicable law, will be assets of the Corporation. These escrowed funds will also be used to pay the deferred underwriting commissions in the amount of \$14,087,500, which will be payable by the Corporation to the underwriters only upon the closing of a Qualifying Acquisition (subject to availability, failing which any shortfall would be required to be made up from other sources).

In connection with consummating a Qualifying Acquisition, the Corporation will require (i) approval by a majority of the directors unrelated to the Qualifying Acquisition, and (ii) approval by a majority of the holders of the Class A Restricted Voting Shares and Class B Shares, voting together as if they were a single class of shares, at a shareholders meeting held to consider the Qualifying Acquisition. Irrespective of whether they vote for or against, or do not vote on, the proposed Qualifying Acquisition, holders of Class A Restricted Voting Shares may elect to redeem all or a portion of their Class A Restricted Voting Shares at a per share price, payable in cash, equal to the pro-rata portion per Class A Restricted Voting Share of: (A) the escrowed funds available in the Escrow Account at the time of the shareholders meeting (if required by the rules of the Toronto Stock Exchange (the "TSX") at the time of the Qualifying Acquisition, or if no such shareholders' meeting is required, at the time immediately prior to the redemption deposit timeline), including interest and other amounts earned thereon; less (B) an amount equal to the total of (i) applicable

ALIGNVEST ACQUISITION II CORPORATION
Notes to the Financial Statements
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taxes payable by the Corporation on such interest and other amounts earned in the Escrow Account and (ii) actual and expected direct expenses related to the redemption, each as reasonably determined by the Corporation, subject to certain limitations. Each holder of Class A Restricted Voting Shares, together with any affiliate of such shareholder or any other person with whom such holder or affiliate is acting jointly or in concert, will be subject to a redemption limitation of an aggregate 15% of the number of Class A Restricted Voting Shares issued and outstanding. Class B Shares will not be redeemable in connection with a Qualifying Acquisition or an extension to the Permitted Timeline and holders of Class B Shares shall not be entitled to access the Escrow Account should a Qualifying Acquisition not occur within the Permitted Timeline.

If the Corporation is unable to complete its Qualifying Acquisition within the Permitted Timeline (or an extension of the Permitted Timeline), the Corporation will liquidate and dissolve and distribute its assets in the Escrow Account to the holders of the Class A Restricted Voting Shares. In such case, each holder of a Class A Restricted Voting Share will receive for an amount, payable in cash, equal to the pro-rata portion per Class A Restricted Voting Share of: (A) the Escrow Account, including any interest and other amounts earned; less (B) an amount equal to the total of (i) any applicable taxes payable by the Corporation on such interest and other amounts earned in the Escrow Account, (ii) any taxes of the Corporation arising in connection with the redemption of the Class A Restricted Voting Shares, and (iii) up to a maximum of \$50,000 of interest and other amounts earned to pay actual and expected expenses related to the dissolution and certain other related costs as reasonably determined by the Corporation. The underwriters will have no right to the deferred underwriting commissions held in the Escrow Account in such circumstances.

Subsequent to the completion of the Offering, the Class A Restricted Voting Units traded on the TSX under the symbol **öAQY.UNö**. On July 4, 2017, the Class A Restricted Voting Shares and Warrants commenced trading separately on the TSX under the symbols **öAQY.Aö** and **öAQY.WTö**, respectively.

2. BASIS OF PRESENTATION

These financial statements of the Corporation as at March 31, 2018 and for the period from commencement of operations of the Corporation on April 28, 2017 to March 31, 2018 (the **ö2018 Financial Statementsö**) have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and with interpretations of the International Financial Reporting Interpretations Committee which the Canadian Accounting Standards Board has approved for incorporation into Part 1 of the Chartered Professional Accountants of Canada Handbook **ó** Accounting. The 2018 Financial Statements were authorized for issuance by the Board of Directors on May 22, 2018.

The significant accounting policies and methods of application adopted by the Corporation in the preparation of the 2018 Financial Statements are provided in note 3. The Corporation does not believe that any accounting standards that have been recently issued, but which are not yet effective, would have a material effect on the 2018 Financial Statements if such accounting standards were currently adopted.

ALIGNVEST ACQUISITION II CORPORATION
Notes to the Financial Statements
March 31, 2018
[In Canadian dollars, unless otherwise specified]

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by the Corporation in the preparation of its financial statements are set out below.

Basis of Presentation

These financial statements have been prepared under the historical cost convention, except for the carrying value of Class A Restricted Voting Shares subject to redemption and warrant liability, which are measured at fair value as determined at each reporting date. The Corporation's functional and presentation currency is the Canadian dollar.

Financial Instruments

Financial assets and liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or are assigned and the Corporation has transferred substantially all risks and rewards of ownership in respect of the asset. Financial liabilities are derecognized when the related obligation is discharged, cancelled or expires.

Classification of financial instruments in the Corporation's financial statements depends on the purpose for which the financial instruments were acquired or incurred. Management determines the classification of financial instruments at initial recognition.

Financial assets are classified as fair value through profit or loss ("FVTPL") or loans and receivables. Financial liabilities are classified as FVTPL or other financial liabilities.

Financial instruments are recognized initially at fair value. Transaction costs that are directly attributable to the acquisition or issue of a financial instrument classified as other than at FVTPL are added to the carrying amount of the asset or liability. The fair value of financial instruments is generally determined by reference to quoted market prices at the close of trading where an active market exists. The Company uses the last traded price if it falls within the day's bid-ask spread. If the last traded price falls outside of the day's bid-ask spread, management will determine the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances. Where an active market is not available for a financial instrument, the fair value is determined using valuation techniques.

Financial instruments classified as FVTPL are carried at fair value in the statement of financial position and any gains or losses are recorded in net income (loss) in the period in which they arise. Financial instruments classified as FVTPL include Class A Restricted Voting Shares subject to redemption and warrant liability.

Loans and receivables and other financial liabilities are recognized at amortized cost using the effective interest rate method. Such accounts include prepaid expenses, accounts payable and accrued liabilities, and due to related party.

ALIGNVEST ACQUISITION II CORPORATION
Notes to the Financial Statements
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[In Canadian dollars, unless otherwise specified]

All financial instruments recognized at fair value in the statement of financial position are classified into one of three levels in the fair value hierarchy as follows:

- Level 1 ó Valuation based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities.
- Level 2 ó Valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived from or corroborated by observable market data by correlation or other means.
- Level 3 ó Valuation techniques with significant unobservable market inputs.

Impairment of Financial Assets at Amortized Cost

At each reporting date, the Corporation assesses whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Objective evidence may include significant financial difficulty of the obligor or delinquencies in interest and principal payments. If such evidence exists, the Corporation recognizes an impairment loss equal to the difference between the carrying value of the financial asset and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate for the financial asset. An impairment of a financial asset carried at amortized cost is reversed in subsequent periods if the amount of the loss decreased and the decrease can be related objectively to an event occurring after the impairment was recognized.

Income Taxes

The Corporation follows the balance sheet liability method to provide for income taxes on all transactions recorded in its financial statements. The balance sheet liability method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred income tax assets and liabilities are determined for each temporary difference and for unused tax losses and unused tax credits, as applicable, at rates expected to be in effect when the asset is realized or the liability is settled.

The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in net income or loss in the period that includes the substantive enactment date. Deferred income tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred income tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Corporation will generate taxable income in future periods in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing laws in each applicable jurisdiction. Future taxable income is also significantly dependent upon the Corporation completing a Qualifying Acquisition, the underlying structure of a Qualifying Acquisition, and the resulting nature of operations. To the extent that future cash flows and/or the probability, structure and timing, and the nature of operations of a future Qualifying Acquisition differ significantly from estimates made, the ability of the Corporation to realize a deferred income tax asset could be materially impacted.

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Earnings (Loss) Per Share

Basic earnings or loss per share is computed by dividing the net earnings or loss attributable to shareholders by the weighted average number of shares outstanding during the period, excluding Class A Restricted Voting Shares subject to redemption. Diluted earnings or loss per share, where applicable, is calculated by adjusting the weighted average number of shares outstanding for dilutive instruments by applying the treasury stock method.

Accounting Standards, Interpretations and Amendments to Existing Standards not yet Effective

IFRS 9, Financial Instruments (IFRS 9)

IFRS 9, published in July 2014, replaces IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces new requirements for the classification, measurement and impairment of financial assets and hedge accounting. It establishes two primary measurement categories for financial assets: (i) amortized cost, and (ii) fair value; establishes criteria for classification of financial assets within the measurement category based on business model and cash flow characteristics; and eliminates existing held for trading, held to maturity, available for sale, loans and receivable and other financial liabilities categories. IFRS 9 also introduces a new model for the impairment of financial assets and requires an economic relationship between the hedged item and hedging instrument. This standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company will adopt IFRS 9 on April 1, 2018, and has determined that the adoption of IFRS 9 will not have a material impact on the Company's financial statements.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS and is effective for annual periods beginning on or after January 1, 2018. The Company will adopt IFRS 15 on April 1, 2018, and has assessed that the adoption of IFRS 15 will not have a material impact on the Company's financial statements.

4. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these financial statements requires the Corporation to make judgments in applying its accounting policies and estimates and assumptions about the future. These judgments, estimates and assumptions affect the Corporation's reported amounts of assets, liabilities, and items in net income or loss, and the related disclosure of contingent assets and liabilities, if any. The Corporation evaluates its estimates on an ongoing basis. Such estimates are based on various assumptions that the Corporation believes are reasonable under the circumstances, and these estimates form the basis for making judgments about the carrying value of assets and liabilities and the reported amounts of items in net income or loss that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The following discusses the most significant accounting judgments, estimates and assumptions that the Corporation has made in the preparation of its 2018 Financial Statements.

Fair Value of Financial Instruments

Certain financial instruments are recorded in the Corporation's statement of financial position at values that are representative of or approximate their fair value. The fair value of a financial instrument that is traded in active markets at each reporting date is determined by reference to its quoted market price. Changes in the underlying trading value may significantly affect the amount of net income or loss for a particular period. Furthermore, the quoted market price

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of a financial liability may not be equal to the amount that the Corporation may have to pay in settlement of the underlying obligation, should such obligation become immediately payable. The Corporation reviews assumptions relating to financial instruments on an ongoing basis to ensure that the basis for determination of fair value is appropriate.

Warrant Valuation

Estimating the fair value of warrants requires determining the most appropriate valuation model that is dependent on the terms and conditions of the warrant. To the extent a quoted market value is not available, the Corporation applies an option-pricing model to measure the fair value of the Warrants issued and the Forward Purchase Warrants. Application of the option-pricing model requires estimates in expected dividend yields, expected volatility in the underlying assets and the expected life of the warrant. These estimates may ultimately be different from amounts subsequently realized, resulting in an overstatement or understatement of net income or loss.

Income Tax

The determination of the Corporation's income taxes and other tax assets and liabilities requires interpretation of complex laws and regulations. Judgment is required in determining whether deferred income tax assets should be recognized on the statement of financial position. Deferred income tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Corporation will generate taxable income in future periods in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing laws in each applicable jurisdiction. Future taxable income is also significantly dependent upon the Corporation completing a Qualifying Acquisition, the underlying structure of a Qualifying Acquisition, and the resulting nature of operations. To the extent that future cash flows and/or the probability, structure and timing, and the nature of operations of a future Qualifying Acquisition differ significantly from estimates made, the ability of the Corporation to realize a deferred tax asset could be materially impacted.

5. RESTRICTED CASH AND SHORT-TERM INVESTMENTS HELD IN ESCROW

Restricted cash and short-term investments held in escrow comprised of the following:

	<u>March 31, 2018</u>
	\$
Cash	-
Investment in Government of Canada Treasury Bills due May 17, 2018	404,336,552
Accrued interest	679,740
Restricted cash and short-term investments held in escrow	<u>405,016,292</u>

6. CLASS A RESTRICTED VOTING SHARES SUBJECT TO REDEMPTION

Authorized

The Corporation is authorized to issue an unlimited number of Class A Restricted Voting Shares. The holders of Class A Restricted Voting Shares have no pre-emptive rights or other subscription rights and there are no sinking fund provisions applicable to these shares.

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Voting rights

Prior to the consummation of a Qualifying Acquisition, holders of Class A Restricted Voting Shares are not entitled to vote at, or receive notice of or meeting materials in respect of customary annual general meeting matters, including the election and removal of directors and auditors. The holders of Class A Restricted Voting Shares would, however, be entitled to vote on and receive notice of meeting materials on all other matters requiring shareholder approval, including approval of an extension of the Permitted Timeline and of a proposed Qualifying Acquisition and in the latter case, the holders of the Class A Restricted Voting Shares would vote together with the Class B Shares as if they were a single class of shares.

Redemption rights

The holders of Class A Restricted Voting Shares are entitled to redeem their shares, subject to certain conditions, and are entitled to receive the escrow proceeds, net of applicable taxes and other permitted deductions, from the Escrow Account: (i) in the event that the Corporation does not complete a Qualifying Acquisition within the Permitted Timeline; (ii) in the event of a Qualifying Acquisition; and (iii) in the event of an extension to the Permitted Timeline. Upon such redemption, the rights of holders of Class A Restricted Voting Shares as shareholders will be completely extinguished.

Fair Value of Class A Restricted Voting Shares subject to redemption

The redemption rights embedded in the terms of the Corporation's Class A Restricted Voting Shares are considered by the Corporation to be outside of the Corporation's control and subject to uncertain future events. Accordingly, the Corporation has classified its "Class A Restricted Voting Shares subject to redemption" as financial liabilities at FVTPL. The fair value of the Corporation's Class A Restricted Voting Shares is determined by reference to its quoted market price on the TSX at each reporting period. As at March 31, 2018, the Class A Restricted Voting Shares closed at a price of \$9.75 per share.

Class A Restricted Voting Shares subject to redemption – Issued and Outstanding
(Subject to applicable law)

	<u>Number</u>	<u>\$</u>
Balance, April 28, 2017	-	-
Issuance of Class A Restricted Voting Shares pursuant to the Offering	35,000,000	350,000,000
Issuance of Class A Restricted Voting Shares pursuant to exercise of the over-allotment option	5,250,000	52,500,000
	40,250,000	402,500,000
Adjusted for:		
Allocation of proceeds received pursuant to the Offering and exercise of the over-allotment option attributed to Warrants		(4,025,000)
Fair value adjustment		(6,037,500)
Balance, March 31, 2018	40,250,000	392,437,500

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7. WARRANT LIABILITY

As at March 31, 2018, the Corporation had 31,175,000 Warrants issued and outstanding, comprised of 20,125,000 Warrants forming part of the Class A Restricted Voting Units and 11,050,000 Foundersø Warrants. In addition, the Forward Purchasers have also agreed to purchase one-third of a Forward Purchase Warrant per Forward Purchase Common Share for an aggregate of 3,766,659 Forward Purchase Warrants, with each whole Forward Purchase Warrant to be issuable at the time of the Qualifying Acquisition and entitle the holder to purchase one Class A Restricted Voting Share, which following the closing of a Qualifying Acquisition, will become one Common Share. The Forward Purchase Warrants will be subject to the same terms and conditions as the Warrants underlying the Class A Restricted Voting Units and the Foundersø Warrants.

All Warrants issued by the Corporation will become exercisable only commencing 30 days after the completion of a Qualifying Acquisition. Each whole Warrant is exercisable to purchase one Class A Restricted Voting Share, or one Common Share following the closing of the Qualifying Acquisition, at a price of \$11.50 per share, subject to anti-dilution adjustments. The Warrants will expire five years after the completion of a Qualifying Acquisition or may expire earlier if a Qualifying Acquisition does not occur within the Permitted Timeline or if the expiry date is accelerated. Once the Warrants become exercisable, the Corporation may accelerate the expiry date of the outstanding Warrants (excluding the Foundersø Warrants but only to the extent still held by the Founders at the date of public announcement of such acceleration and not transferred prior to the accelerated expiry date, due to the anticipated knowledge by the Founders of material undisclosed information which could limit their flexibility) by providing 30 daysø notice if, and only if, the closing share price of the Common Shares equals or exceeds \$18.00 per Common Share (as adjusted for stock splits or combinations, stock dividends, Extraordinary Dividends, reorganizations and recapitalizations and the like) for any 20 trading days within a 30-trading day period.

At the election of the holder, the Warrants may be exercised through cashless exercise. A cashless exercise permits the holder, in lieu of making a cash payment on exercise, to instead elect to surrender its Warrants and receive the number of Common Shares that is equal to the quotient obtained by multiplying (i) the number of Common Shares for which the Warrant is being exercised by (ii) the difference between the volume weighted average price of the Common Shares on the TSX for the 20 trading days immediately prior to (but not including) the date of exercise of the Warrant and the exercise price, and dividing such product by the volume weighted average price of the Common Shares on the TSX for the 20 trading days immediately prior to (but not including) the date of exercise.

The Warrants will not be entitled to the proceeds from the Escrow Account. The Warrant holders do not have the rights or privileges of holders of shares and any voting rights until they exercise their Warrants and receive corresponding Common Shares of the Corporation. After the issuance of corresponding Common Shares upon exercise of the Warrants, each holder is expected to be entitled to one vote for each Common Share held of record on all matters to be voted on by shareholders.

Restrictions on Transfer of Founders' Warrants

The Founders have agreed not to transfer any of their Foundersø Warrants until after the closing of the Qualifying Acquisition, except for transfers required due to the structuring of the Qualifying Acquisition, in which case such restriction will apply to the securities received in connection with the Qualifying Acquisition. Following completion of the Corporation's Qualifying Acquisition, the Foundersø Warrants, including Common Shares issuable on exercise of the Foundersø Warrants, may be subject to certain sale or transfer restrictions in accordance with applicable securities laws.

ALIGNVEST ACQUISITION II CORPORATION
Notes to the Financial Statements
March 31, 2018
[In Canadian dollars, unless otherwise specified]

Fair value of Warrants

As the number of Common Shares to be issued by the Corporation upon exercise of the Warrants is not fixed, it does not meet the "fixed-for-fixed" criteria for equity classification. As a result, the Warrants have been classified as derivative liabilities to be measured at FVTPL. To the extent a quoted market value is not available, the Corporation applies an option-pricing model to measure the fair value of the Warrants issued and the Forward Purchase Warrants. Application of the option-pricing model requires estimates in expected dividend yields, expected volatility in the underlying assets and the expected life of the Warrants. These estimates may ultimately be different from amounts subsequently realized, resulting in an overstatement or understatement of net income or loss.

Warrants - Issued and Outstanding

	Number	\$
Balance, April 28, 2017	-	-
Warrants issued in connection with:		
Issuance to Founders	10,000,000	10,000,000
Issuance to Founders pursuant to exercise of the over-allotment option	1,050,000	1,050,000
Issuance of Class A Restricted Voting Units pursuant to the Offering	17,500,000	3,500,000
Issuance of Class A Restricted Voting Units pursuant to exercise of the over-allotment option	2,625,000	525,000
	31,175,000	15,075,000
Adjusted for:		
Fair value adjustment for Warrants issued and Forward Purchase Warrants		3,389,581
Balance, March 31, 2018	31,175,000	18,464,581

8. SHAREHOLDERS' DEFICIENCY

A) Class B Shares

Authorized

The Corporation is authorized to issue an unlimited number of Class B Shares without nominal or par value. The holders of Founders' Shares have no pre-emptive rights or other subscription rights and there are no sinking fund provisions applicable to these shares. The Forward Purchasers as holders of Forward Purchasers' Class B Shares and pursuant to the Forward Purchase Agreements, are entitled to a right of first offer with respect to any proposed sale by the Corporation of additional equity or securities convertible into, exchangeable for, or exercisable for equity securities in connection with or prior to the closing of a Qualifying Acquisition, subject to certain limitations.

Voting rights

Holders of Class B Shares are entitled to vote at all meetings of shareholders and on all matters requiring a shareholder vote, with the exception of a vote to approve an extension of the Permitted Timeline within which the Corporation is required to complete its Qualifying Acquisition, which will only be voted upon by holders of Class A Restricted Voting Shares.

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Notes to the Financial Statements
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Redemption rights

Holders of Class B Shares do not have any redemption rights with respect to its Class B Shares, or rights to distributions from the Escrow Account if the Corporation fails to complete a Qualifying Acquisition within the Permitted Timeline.

Restrictions on Transfer, Assignment or Sale of Founders' Shares

The holders of the Founders' Shares have agreed not to transfer, assign or sell any of their Founders' Shares prior to completion of the Corporation's Qualifying Acquisition, and following completion of a Qualifying Acquisition, they have agreed not to sell or transfer any of their Founders' Shares until the earliest of:

- i. with respect to 50% of the Founders' Shares, one year following completion of the Qualifying Acquisition;
- ii. with respect to the remaining 50% of the Founders' Shares, two years following completion of the Qualifying Acquisition;
- iii. with respect to 100% of the Founders' Shares, the date following the closing of the Qualifying Acquisition on which the Corporation completes a liquidation, merger, arrangement, share exchange or other similar transaction that results in all of the holders of Common Shares receiving in exchange for or having the right to exchange their shares of the Corporation for cash, securities or other property; and
- iv. the date on which the closing share price of the Common Shares equals or exceeds \$12.00 per share (as adjusted for share splits, share capitalizations, reorganizations, Extraordinary Dividends, reorganizations and recapitalizations and the like) for any 20 trading days within a 30-trading day period at any time following the closing of the Qualifying Acquisition, subject to certain exceptions.

Following completion of the Corporation's Qualifying Acquisition, the Founders' Shares, including the Common Shares into which the Founders' Shares are convertible, may be subject to certain sale or transfer restrictions in accordance with applicable securities laws.

Restrictions on Transfer, Assignment or Sale of Forward Purchasers' Class B Shares

The Forward Purchasers have agreed not to transfer, assign or sell any of their Forward Purchasers' Class B Shares, including any Common Shares into which they are convertible, until the earliest of:

- i. one year following completion of the Qualifying Acquisition; and
- ii. the date following the closing of the Qualifying Acquisition on which the Corporation completes a liquidation, merger, arrangement, share exchange or other similar transaction that results in all of the holders of Common Shares receiving in exchange for, or having the right to exchange their Common Shares for, cash, securities or other property, in each case subject to certain exceptions.

Notwithstanding the foregoing, if, subsequent to the closing of a Qualifying Acquisition, the closing price of the Common Shares equals or exceeds \$12.00 per share (as adjusted for share splits, share capitalizations, reorganizations, Extraordinary Dividends, recapitalizations and the like) for any 20 trading days within any 30-trading day period commencing at least 150 days after the closing date of the Qualifying Acquisition, the Forward Purchasers' Class B Shares and the Common Shares into which the Forward Purchasers' Class B Shares are convertible, shall be released from such lock-up.

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Notes to the Financial Statements
March 31, 2018
[In Canadian dollars, unless otherwise specified]

Forfeiture of Forward Purchasers' Class B Shares

The Forward Purchasers' Class B Shares are subject to forfeiture in accordance with the terms of the Forward Purchase Agreements. First, if a Forward Purchaser does not fund its commitment under its Forward Purchase Agreement, such defaulting Forward Purchaser shall forfeit to the Corporation all of its Forward Purchasers' Class B Shares. If the Sponsor or an affiliate fund the amount in default, such Sponsor or affiliate shall receive a transfer of the forfeited Forward Purchasers' Class B Shares and the defaulting Forward Purchaser shall be obliged to pay 25% of the amount in default to such Sponsor or affiliate, as liquidated damages. Second, in connection with a Qualifying Acquisition, the Forward Purchasers are required to agree to certain changes to the Class B Shares or the resulting Common Shares agreed to by the Sponsor as are set out in the Forward Purchase Agreements.

Class B Shares - Issued and Outstanding

	Number	\$
Balance, April 28, 2017	1	10
Issuance of Class B Shares to Founders	11,112,270	22,225
Issuance of Class B Shares to Forward Purchasers	1,775,229	3,550
	12,887,500	25,785
Adjusted for:		
Transaction costs [note 10]		(11,835)
Balance, March 31, 2018	12,887,500	13,950

B) Common Shares

The Corporation is authorized to issue an unlimited number of Common Shares without nominal or par value. No Common Shares may be issued prior to the closing of a Qualifying Acquisition, except in connection with such closing.

9. FORWARD PURCHASE AGREEMENT

The Forward Purchasers have entered into Forward Purchase Agreements with the Corporation, pursuant to which they have agreed to purchase an aggregate of 11,300,000 Forward Purchase Common Shares and 3,766,659 Forward Purchase Warrants in a private placement to occur concurrently with the closing of a Qualifying Acquisition, at \$10 per Forward Purchase Common Share and one-third of a Forward Purchase Warrant. As at March 31, 2018, none of the Forward Purchase Common Shares or Forward Purchase Warrants have been issued by the Corporation.

The Forward Purchasers have also purchased an aggregate of 1,775,229 Forward Purchasers' Class B Shares for approximately \$0.002 per Class B Share. Pursuant to the Forward Purchase Agreements, the Forward Purchasers have also committed to vote their Forward Purchasers' Class B Shares and any Class A Restricted Voting Shares they purchase in favour of a Qualifying Acquisition proposed by the Corporation.

Each Forward Purchaser's obligation to purchase its Forward Purchase Common Shares and the Forward Purchase Warrants are subject to termination by mutual written consent of the Corporation and such Forward Purchaser, or automatically, if certain circumstances arise, for instance, if the Qualifying Acquisition is not consummated within the Permitted Timeline or the key management personnel of the Sponsor or its affiliates is no longer involved with the

ALIGNVEST ACQUISITION II CORPORATION
Notes to the Financial Statements
March 31, 2018
[In Canadian dollars, unless otherwise specified]

operations of the Corporation. The rights and obligations under the Forward Purchase Agreements may not be assigned by either the Forward Purchaser or the Corporation without the consent of the other.

Each of the Forward Purchasers has agreed that, to the extent it fails to pay the purchase price for the Forward Purchase Common Shares and Forward Purchase Warrants pursuant to its Forward Purchase Agreement, each such Forward Purchaser shall, subject to a five-day cure period, without prejudice to the Corporation's other remedies, forfeit to the Corporation all of its Forward Purchasers' Class B Shares, unless our Sponsor or an affiliate funds the amount in default. In the event that a Forward Purchaser does not provide the funds committed under the Forward Purchase Agreement to purchase the applicable Forward Purchase Common Shares and Forward Purchase Warrants, and no alternative funding is provided as contemplated in that Forward Purchase Agreement, the Sponsor and each of the other Founders has agreed to surrender for cancellation for no consideration their pro-rata share of the Founders' Shares allocated to a Forward Purchase Agreement, such that, taking into account such surrenders, the number of Class B Shares would represent 20% of the sum of the total number of issued and outstanding shares Class A Restricted Voting Shares, Class B Shares and Common Shares issued pursuant to the Forward Purchase Agreements.

10. TRANSACTION COSTS

Transaction costs consist principally of legal, accounting and underwriting costs incurred through to the date of the statement of financial position that are directly related to the Offering.

Transaction costs incurred amounted to \$22,433,384 (including \$22,137,500 in underwriters' commission of which \$14,087,500 is deferred and payable only upon completion of a Qualifying Acquisition). Transaction costs were expensed to the statement of operations as incurred, except for \$11,835 of transaction costs that were allocated to shareholders' deficiency as they were determined to be in respect of the issuance of Class B Shares.

Transaction costs incurred from commencement of operations on April 28, 2017 to March 31, 2018 were allocated as follows:

	Statement of operations	Shareholders' Equity/ (Deficiency)	Total
	\$	\$	\$
Underwriters' commission	8,050,000	-	8,050,000
Deferred underwriters' commission	14,087,500	-	14,087,500
Professional fees (legal, accounting, etc.)	209,251	8,718	217,969
Underwriters' out-of-pocket expenditures	28,800	1,200	30,000
Printing	45,998	1,917	47,915
	<u>22,421,549</u>	<u>11,835</u>	<u>22,433,384</u>

Underwriters' commission

In consideration for their services in connection with the Offering, the Corporation has agreed to pay the underwriters a commission equal to 5.5% of the gross proceeds of the Class A Restricted Voting Units issued under the Offering. The Corporation paid \$8,050,000, representing \$0.20 per Class A Restricted Voting Unit to the underwriters upon closing of the Offering and the exercise of the over-allotment option. Upon completion of a Qualifying Acquisition, the remaining \$14,087,500 of the underwriters' commission, representing \$0.35 per Class A Restricted Voting Unit, will be released to the underwriters from the funds held in the Escrow Account.

ALIGNVEST ACQUISITION II CORPORATION
Notes to the Financial Statements
March 31, 2018
[In Canadian dollars, unless otherwise specified]

11. GENERAL AND ADMINISTRATIVE EXPENSES

	From commencement of operations on April 28, 2017 to March 31, 2018
	<u>\$</u>
Public company filing and listing costs	437,116
Insurance	34,200
General office expenses	1,359,070
	<u>1,830,386</u>

12. RELATED PARTY TRANSACTIONS

On May 25, 2017, the Corporation entered into an administrative services agreement with AMC for an initial term of 24 months, subject to possible extension, for office space, utilities and administrative support, which may include payment for services of related parties, for, but not limited to, various administrative, managerial or operational services or to help effect a Qualifying Acquisition. The Corporation has agreed to pay \$25,000 per month, plus applicable taxes for such services. As at March 31, 2018, the amount incurred and payable by the Corporation in respect of these services was \$113,000.

As at March 31, 2018, the amount due to the Sponsor was \$212,795 for out-of-pocket expenses paid by the Sponsor on behalf of the Corporation. The amounts due to the Sponsor are non-interest bearing and are payable no later than the date of the consummation of a Qualifying Acquisition. Due to the short-term nature of this arrangement, the fair value of the amounts due to related party approximates their carrying amount.

The Sponsor has executed a make whole agreement and undertaking in favour of the Corporation, whereby the Sponsor has agreed to indemnify the Corporation in certain limited circumstances where the funds held in the Escrow Account are reduced to below \$10.00 per Class A Restricted Voting Share.

13. INCOME TAXES

The income tax recovery amount on pre-tax losses differs from the income tax recovery amount that would arise using the combined Canadian federal and provincial statutory tax rate of 26.5%, as a result of the following items:

	From commencement of operations on April 28, 2017 to March 31, 2018
	<u>\$</u>
Loss before tax at statutory rate of 26.5%	(5,058,247)
Effect on taxes of:	
Non-deductible expenses	4,303
Unrealized change in fair value of financial liabilities	(701,699)
Change in unrecognized temporary differences	5,755,643
Income tax recovery	<u>-</u>

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Notes to the Financial Statements
March 31, 2018
[In Canadian dollars, unless otherwise specified]

Deferred income tax assets are only given recognition in the Corporation's financial statements if management has determined that it is probable that such deferred income tax assets may be recovered. The recoverability of deferred income tax assets is partially dependent on the nature, terms and conditions of a Qualifying Acquisition that is to be completed in the future, causing uncertainty in the ability of the Corporation to benefit from deferred income tax assets. As such, management believes that the following deductible temporary differences do not currently meet the criteria for recognition:

	<u>As at March 31, 2018</u>
	\$
Tax loss carry forwards	967,032
Deferred underwriters' commissions	14,087,500
Share issue costs	6,676,707
	<u>21,731,239</u>

At March 31, 2018, the Corporation had estimated non-capital losses of \$967,032 that may be carried forward to reduce taxable income derived in future years. These non-capital losses will expire in 2038.

Transaction costs paid by the Corporation in respect of the issuance of shares, including the issuance of Class A Restricted Voting Shares, are deductible for income tax purposes on a straight line basis over a five-year period. Deferred underwriters' commissions will be deductible, if and when paid pursuant to a Qualifying Acquisition, on a straight-line basis over a five-year period.

14. FINANCIAL INSTRUMENTS

Fair Value Measurements

The following table summarizes those assets and liabilities that are included at their fair values in the Corporation's statement of financial position as at March 31, 2018, or those assets and liabilities for which fair value is otherwise disclosed in the accompanying notes to the 2018 Financial Statements. These assets and liabilities have been categorized into hierarchal levels, according to the significance of the inputs used in determining fair value measurements.

	Carrying value as at March 31, 2018 \$	Fair value as at March 31, 2018		
		Level 1 \$	Level 2 \$	Level 3 \$
Financial assets				
Restricted cash and short-term investments held in escrow	405,016,292	-	405,016,292	-
Financial liabilities				
Class A Restricted Voting Shares subject to redemption	392,437,500	392,437,500	-	-
Warrant liability	18,464,581	18,464,581	-	-

The Corporation is exposed to financial risks due to the nature of its business and the financial assets and liabilities that it holds. The Corporation's overall risk management strategy seeks to minimize potential adverse effects of the Corporation's financial performance.

ALIGNVEST ACQUISITION II CORPORATION
Notes to the Financial Statements
March 31, 2018
[In Canadian dollars, unless otherwise specified]

Market Risk

Market risk is the risk that a material loss may arise from fluctuations in the fair value of a financial instrument. For purposes of this disclosure, the Corporation segregates market risk into three categories: fair value risk, interest rate risk and currency risk.

i. Fair Value Risk

Fair value risk is the potential for loss from an adverse movement, excluding movements relating to changes in interest rates and foreign exchange rates, because of changes in market prices. The Corporation is exposed to fair value risk in respect of its Class A Restricted Voting Shares subject to redemption and warrant liability, which are carried in the Corporation's financial statements at their fair value. A 1% absolute change in the fair value of Class A Restricted Voting Shares and warrant liability would result in a change to the net loss for the period from commencement of operations of the Corporation on April 28, 2017 to March 31, 2018 of \$4,175,750.

ii. Interest Rate Risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation is exposed to interest rate risk on its restricted cash and short-term investments held in its Escrow Account. Due to the short-term nature of these financial instruments, the Corporation's exposure to interest rate risk is nominal.

iii. Currency Risk

Currency risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates relative to the Corporation's presentation currency of the Canadian dollar. The Corporation does not currently have any exposure to currency risk as the Corporation does not transact in any currency other than the Canadian dollar.

15. CAPITAL MANAGEMENT

The Corporation defines the capital that it manages as its shareholders' deficiency, net of its Class A Restricted Voting Shares subject to redemption and warrant liability. The following table summarizes the carrying value of the Corporation's capital as at March 31, 2018:

	<u>As at March 31, 2018</u>
	\$
Shareholders' deficiency	(19,073,774)
Class A Restricted Voting Shares subject to redemption	392,437,500
Warrant liability	18,464,581
	<u>391,828,307</u>

The Corporation's primary objective in managing capital is to ensure capital preservation in order to benefit from acquisition opportunities as they arise.

Liquidity

As at March 31, 2018, the Corporation had \$1,975,229 in cash. The Corporation expects to incur significant costs in pursuit of its acquisition plans.

ALIGNVEST ACQUISITION II CORPORATION
Notes to the Financial Statements
March 31, 2018
[In Canadian dollars, unless otherwise specified]

To the extent that the Corporation may require additional funding for general ongoing expenses or in connection with sourcing a proposed Qualifying Acquisition, the Corporation may obtain such funding by way of unsecured loans from the Sponsor and/or its affiliates, subject to consent of the TSX, which loans would, unless approved otherwise by the TSX, bear interest at no more than the prime rate plus 1%. The Sponsor would not have recourse under such loans against the Escrow Account, and thus the loans would not reduce the value of such Escrow Account. Such loans would collectively be subject to a maximum principal amount of \$2,500,000 in the aggregate, and may be repayable in cash following the closing of a Qualifying Acquisition and may only be convertible into Common Shares and/or Warrants in connection with the closing of a Qualifying Acquisition, subject to TSX consent. As at and during the period ended March 31, 2018, the Corporation has not drawn down on any loan amounts.

Otherwise, and subject to any relief granted by the TSX, the Corporation may seek to raise additional funds through a rights offering in respect of shares available to its shareholders, in accordance with the requirements of applicable securities legislation, and subject to placing the required funds raised in the Escrow Account in accordance with applicable TSX rules.

APPENDIX B – ALIGNVEST INTERIM FINANCIAL STATEMENTS

ALIGNVEST

ACQUISITION II CORPORATION

INTERIM CONDENSED FINANCIAL STATEMENTS - UNAUDITED

SEPTEMBER 30, 2018

ALIGNVEST ACQUISITION II CORPORATION
STATEMENT OF FINANCIAL POSITION
[Unaudited]

[expressed in Canadian dollars]

As at	Notes	September 30, 2018	March 31, 2018
ASSETS		\$	\$
Current			
Cash		1,294,718	1,975,229
Prepaid expenses		27,360	6,840
		1,322,078	1,982,069
Non-current			
Restricted cash and short-term investments held in escrow	4	407,627,232	405,016,292
TOTAL ASSETS		408,949,310	406,998,361
LIABILITIES AND SHAREHOLDERS' DEFICIENCY			
Current			
Accounts payable and accrued liabilities		1,727,759	756,759
Due to related party	10	183,580	325,795
		1,911,339	1,082,554
Non-current			
Deferred underwriters' commission		14,087,500	14,087,500
Class A Restricted Voting Shares subject to redemption	5	396,060,000	392,437,500
Warrant liability	6	14,271,582	18,464,581
		426,330,421	426,072,135
SHAREHOLDERS' DEFICIENCY			
Share capital	7	13,950	13,950
Deficit		(17,395,061)	(19,087,724)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY		408,949,310	406,998,361

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

On behalf of the Board of Directors:

(signed) Timothy Hodgson
Timothy Hodgson
Director

(signed) Adam Jiwan
Adam Jiwan
Director

ALIGNVEST ACQUISITION II CORPORATION
STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
[Unaudited]

[expressed in Canadian dollars, except per share amounts]

	Notes	For the three months ended September 30, 2018	For the three months ended September 30, 2017	For the six months ended September 30, 2018	From commencement of operations on April 28, 2017 to September 30, 2017
		\$	\$	\$	\$
REVENUE					
Interest income		1,373,529	542,416	2,610,940	755,134
EXPENSES					
Transaction costs		-	-	-	22,421,549
General and administrative	9	778,090	230,782	1,488,776	565,478
Net unrealized (gain) loss on changes in the fair value of financial liabilities	5, 6	(221,082)	1,385,830	(570,499)	5,410,830
		557,008	1,616,612	918,277	28,397,857
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD					
		816,521	(1,074,196)	1,692,663	(27,642,723)
NET INCOME (LOSS) PER SHARE					
Basic and diluted		0.06	(0.08)	0.13	(2.59)
Weighted average number of Class B Shares outstanding - basic and diluted		12,887,500	12,887,500	12,887,500	10,656,971

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

ALIGNVEST ACQUISITION II CORPORATION
STATEMENT OF CHANGES IN SHAREHOLDERS' DEFICIENCY
[Unaudited]

For the six months ended September 30, 2018
[expressed in Canadian dollars, except number of shares]

	Note	Class B Shares		Deficit	Total
		Number	Amount		
			\$	\$	\$
Balance, April 1, 2018		12,887,500	13,950	(19,087,724)	(19,073,774)
Net income and comprehensive income		-	-	1,692,663	1,692,663
Balance, September 30, 2018		12,887,500	13,950	(17,395,061)	(17,381,111)

From commencement of operations on April 28, 2017 to September 30, 2017
[expressed in Canadian dollars, except number of shares]

	Note	Class B Shares		Deficit	Total
		Number	Amount		
			\$	\$	\$
Balance, April 28, 2017		1	10	-	10
Issuance of Class B Shares to Founders	7	11,112,270	22,225	-	22,225
Issuance of Class B Shares to Forward Purchasers	7	1,775,229	3,550	-	3,550
Transaction costs	7	-	(11,835)	-	(11,835)
Net loss and comprehensive loss		-	-	(27,642,723)	(27,642,723)
Balance, September 30, 2017		12,887,500	13,950	(27,642,723)	(27,628,773)

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

ALIGNVEST ACQUISITION II CORPORATION
STATEMENT OF CASH FLOWS
[Unaudited]

[expressed in Canadian dollars]

	Notes	For the six months ended September 30, 2018	From commencement of operations on April 28, 2017 to September 30, 2017
		\$	
OPERATING ACTIVITIES			
Net income (loss) and comprehensive income (loss) for the period		1,692,663	(27,642,723)
Non-cash items included in net loss and other adjustments			
Interest income		(2,610,940)	(755,134)
Transaction costs associated with financing activities		-	22,421,549
Net unrealized (gain) loss on changes in the fair value of financial liabilities		(570,499)	5,410,830
Changes in non-cash working capital			
Prepaid expenses		(20,520)	(27,360)
Accounts payable and accrued liabilities		971,000	25,867
Due to related party	10	(142,215)	74,095
CASH USED IN OPERATING ACTIVITIES		(680,511)	(492,876)
INVESTING ACTIVITIES			
Investment in restricted cash and short-term investments held in escrow	4	-	(402,500,000)
CASH USED IN INVESTING ACTIVITIES		-	(402,500,000)
FINANCING ACTIVITIES			
Proceeds from issuance of Class B Shares to Founders	7	-	22,225
Proceeds from issuance of Class B Shares to Forward Purchasers	7, 8	-	3,550
Proceeds from issuance of Warrants to Founders	6	-	11,050,000
Proceeds from issuance of Class A Restricted Voting Units	5	-	402,500,000
Transaction costs associated with issuance of Class A Restricted Voting Shares and Warrants		-	(8,334,049)
Transaction costs associated with issuance of Class B Shares		-	(11,835)
CASH PROVIDED BY FINANCING ACTIVITIES		-	405,229,891
NET (DECREASE) INCREASE IN CASH DURING THE PERIOD		(680,511)	2,237,015
CASH, BEGINNING OF PERIOD		1,975,229	10
CASH, END OF PERIOD		1,294,718	2,237,025

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

ALIGNVEST ACQUISITION II CORPORATION
Notes to the Interim Condensed Financial Statements [Unaudited]
September 30, 2018
[In Canadian dollars, unless otherwise specified]

1. ORGANIZATION AND NATURE OF OPERATIONS

Alignvest Acquisition II Corporation (the "Corporation") is a special purpose acquisition corporation which was incorporated for the purpose of effecting an acquisition of one or more businesses or assets, by way of a merger, amalgamation, arrangement, share exchange, asset acquisition, share purchase, reorganization, or any other similar business combination involving the Corporation (a "Qualifying Acquisition"). The Corporation's business activities are carried out in a single business segment. The Corporation's Class A Restricted Voting Shares and Warrants trade on the Toronto Stock Exchange (the "TSX") under the symbols "AQY.A" and "AQY.WT", respectively.

The Corporation was incorporated on February 8, 2017, under the Business Corporations Act (Ontario) and commenced operations on April 28, 2017. The Corporation's head office, and the head office of Alignvest II LP (the "Sponsor"), is located at 100 King Street West, 70th Floor, Toronto, Ontario, Canada, M5X 1C7. The Sponsor is a limited partnership of which Alignvest II Corporation is the general partner, and which is indirectly controlled by Alignvest Management Corporation ("AMC").

2. BASIS OF PRESENTATION

These unaudited interim condensed financial statements of the Corporation as at and for the three and six months ended September 30, 2018 (the "September 2018 Interim Financial Statements") have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*.

The notes presented in these unaudited interim condensed financial statements include, in general, only significant changes and transactions occurring since the Corporation's last fiscal period end on March 31, 2018, and are not fully inclusive of all disclosures required by IFRS for annual financial statements. These unaudited interim condensed financial statements should be read in conjunction with the annual audited financial statements, including the notes thereto, for the period ended March 31, 2018 (the "March 2018 Annual Financial Statements").

The September 2018 Interim Financial Statements were authorized for issuance by the Board of Directors on November 12, 2018.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The September 2018 Interim Financial Statements have been prepared in conformity with accounting policies disclosed in the March 2018 Annual Financial Statements, except for the recently adopted accounting standards discussed below:

New Accounting Standards, Interpretations and Amendments adopted by the Corporation

IFRS 9, Financial Instruments ("IFRS 9")

Effective April 1, 2018, the Corporation adopted IFRS 9 which replaces IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 introduced new requirements for the classification, measurement and impairment of financial assets and hedge accounting. It establishes two primary measurement categories for financial assets: (i) amortized cost, and (ii) fair value; establishes criteria for classification of financial assets within the measurement category based on business model and cash flow characteristics; and eliminates existing held for trading, held to maturity, available for sale, loans and receivable and other financial liabilities categories. IFRS 9 also introduced a new model for the impairment of financial assets and requires an economic relationship between the hedged item and

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hedging instrument. The adoption of IFRS 9 did not result in any adjustments to the Corporation's interim financial statements and did not have a material impact on our accounting policies.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

Effective April 1, 2018, the Corporation adopted IFRS 15. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The adoption of IFRS 15 did not result in any adjustments to the Corporation's interim financial statements and did not have a material impact on our accounting policies.

4. RESTRICTED CASH AND SHORT-TERM INVESTMENTS HELD IN ESCROW

Restricted cash and short-term investments held in escrow comprised of the following:

	<u>September 30, 2018</u>	<u>March 31, 2018</u>
	\$	\$
Cash	-	-
Investment in Government of Canada Treasury Bills due December 13, 2018	407,200,788	-
Investment in Government of Canada Treasury Bills due May 17, 2018	-	404,336,552
Accrued interest	426,444	679,740
Restricted cash and short-term investments held in escrow	<u>407,627,232</u>	<u>405,016,292</u>

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5. CLASS A RESTRICTED VOTING SHARES SUBJECT TO REDEMPTION

The Corporation has classified its “*Class A Restricted Voting Shares subject to redemption*” as financial liabilities at Fair Value through Profit and Loss (öFVTPLö). The fair value of the Corporation’s Class A Restricted Voting Shares is determined by reference to its quoted market price on the TSX at each reporting period.

The terms of the Corporation’s Class A Restricted Voting Shares are summarized in note 6 of the Corporation’s March 2018 Annual Financial Statements.

Class A Restricted Voting Shares subject to redemption – Issued and Outstanding
(Subject to applicable law)

	Number	\$
Balance, April 28, 2017	-	-
Issuance of Class A Restricted Voting Shares pursuant to the Offering	35,000,000	350,000,000
Issuance of Class A Restricted Voting Shares pursuant to exercise of the over-allotment option	5,250,000	52,500,000
	<u>40,250,000</u>	<u>402,500,000</u>
Adjusted for:		
Allocation of proceeds received pursuant to the Offering and exercise of the over-allotment option attributed to Warrants		(4,025,000)
Fair value adjustment		(6,037,500)
Balance, March 31, 2018	<u>40,250,000</u>	<u>392,437,500</u>
Fair value adjustment		<u>3,622,500</u>
Balance, September 30, 2018	<u>40,250,000</u>	<u>396,060,000</u>

6. WARRANT LIABILITY

The Warrants have been classified as derivative liabilities to be measured at FVTPL. To the extent a quoted market value is not available, the Corporation applies an option-pricing model to measure the fair value of the Warrants issued and the Forward Purchase Warrants. Application of the option-pricing model requires estimates in expected dividend yields, expected volatility in the underlying assets and the expected life of the Warrants. These estimates may ultimately be different from amounts subsequently realized, resulting in an overstatement or understatement of net income or loss.

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The terms of the Corporation's Warrants are summarized in note 7 of the Corporation's March 2018 Annual Financial Statements.

Warrants - Issued and Outstanding

	<u>Number</u>	<u>\$</u>
Balance, April 28, 2017	-	-
Warrants issued in connection with:		
Issuance to Founders	10,000,000	10,000,000
Issuance to Founders pursuant to exercise of the over-allotment option	1,050,000	1,050,000
Issuance of Class A Restricted Voting Units pursuant to the Offering	17,500,000	3,500,000
Issuance of Class A Restricted Voting Units pursuant to exercise of the over-allotment option	2,625,000	525,000
	<u>31,175,000</u>	<u>15,075,000</u>
Adjusted for:		
Fair value adjustment for Warrants issued and Forward Purchase Warrants		3,389,581
Balance, March 31, 2018	31,175,000	18,464,581
Fair value adjustment for Warrants issued and Forward Purchase Warrants		(4,192,999)
Balance, September 30, 2018	<u>31,175,000</u>	<u>14,271,582</u>

7. SHARE CAPITAL

The terms of the Corporation's Class B shares are summarized in note 8 of the Corporation's March 2018 Annual Financial Statements.

A) Class B Shares

Class B Shares - Issued and Outstanding

	<u>Number</u>	<u>\$</u>
Balance, April 28, 2017	1	10
Issuance of Class B Shares to Founders	11,112,270	22,225
Issuance of Class B Shares to Forward Purchasers	1,775,229	3,550
	<u>12,887,500</u>	<u>25,785</u>
Adjusted for:		
Transaction costs		(11,835)
Balance, September 30, 2018 and March 31, 2018	<u>12,887,500</u>	<u>13,950</u>

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B) Common Shares

The Corporation is authorized to issue an unlimited number of Common Shares without nominal or par value. No Common Shares may be issued prior to the closing of a Qualifying Acquisition, except in connection with such closing.

8. FORWARD PURCHASE AGREEMENT

The Forward Purchasers have entered into Forward Purchase Agreements with the Corporation, pursuant to which they have agreed to purchase an aggregate of 11,300,000 Forward Purchase Common Shares and 3,766,659 Forward Purchase Warrants in a private placement to occur concurrently with the closing of a Qualifying Acquisition, at \$10 per Forward Purchase Common Share and one-third of a Forward Purchase Warrant. As at September 30, 2018, none of the Forward Purchase Common Shares or Forward Purchase Warrants have been issued by the Corporation.

The Forward Purchasers have also purchased an aggregate of 1,775,229 Forward Purchasers' Class B Shares for approximately \$0.002 per Class B Share. Pursuant to the Forward Purchase Agreements, the Forward Purchasers have also committed to vote their Forward Purchasers' Class B Shares and any Class A Restricted Voting Shares they purchase in favour of a Qualifying Acquisition proposed by the Corporation.

The terms of the Forward Purchase Agreements are summarized in note 9 of the Corporation's March 2018 Annual Financial Statements.

9. GENERAL AND ADMINISTRATIVE EXPENSES

	For the three months ended September 30, 2018	For the three months ended September 30, 2017	For the six months ended September 30, 2018	From commencement of operations on April 28, 2017 to September 30, 2017
	\$	\$	\$	\$
Public company costs	1,968	36,821	11,205	303,178
Insurance	10,260	10,260	20,520	13,680
General office expenses	765,862	183,701	1,457,051	248,620
	778,090	230,782	1,488,776	565,478

10. RELATED PARTY TRANSACTIONS

The Corporation has entered into an administrative services agreement with AMC for an initial term of 24 months, subject to possible extension, for office space, utilities and administrative support, which may include payment for services of related parties, for, but not limited to, various administrative, managerial or operational services or to help effect a Qualifying Acquisition. The Corporation has agreed to pay \$25,000 per month, plus applicable taxes for such services. As at September 30, 2018, the amount due to AMC was \$84,750 (March 31, 2018 ó \$113,000) in respect of these services.

As at September 30, 2018, the amount due to the Sponsor was \$98,830 (March 31, 2018 ó \$212,795), for out-of-pocket expenses paid by the Sponsor on behalf of the Corporation. The amounts due to the Sponsor are non-interest bearing and are payable no later than the date of the consummation of a Qualifying Acquisition. Due to the short-term nature of this arrangement, the fair value of the amounts due to related party approximates their carrying amount.

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11. INCOME TAXES

Deferred income tax assets are only given recognition in the Corporation's financial statements if management has determined that it is probable that such deferred income tax assets may be recovered. The recoverability of deferred income tax assets is partially dependent on the nature, terms and conditions of a Qualifying Acquisition that is to be completed in the future, causing uncertainty in the ability of the Corporation to benefit from deferred income tax assets. As such, management believes that the following deductible temporary differences do not currently meet the criteria for recognition:

	<u>September 30, 2018</u>
	\$
Tax loss carryforwards	184,168
Deferred underwriters' commissions	14,087,500
Share issue costs	6,086,779
	<u>20,358,447</u>

12. FINANCIAL INSTRUMENTS

Fair Value Measurements

The following table summarizes those assets and liabilities that are included at their fair values in the Corporation's statement of financial position as at September 30, 2018 and March 31, 2018, or those assets and liabilities for which fair value is otherwise disclosed in the accompanying notes to the September 2018 Interim Financial Statements. These assets and liabilities have been categorized into hierarchical levels, according to the significance of the inputs used in determining fair value measurements.

	Carrying value	Fair value		
		Level 1	Level 2	Level 3
September 30, 2018	\$	\$	\$	\$
Financial assets				
Restricted cash and short-term investments held in escrow	407,627,232	-	407,627,232	-
Financial liabilities				
Class A Restricted Voting Shares subject to redemption	396,060,000	396,060,000	-	-
Warrant liability	14,271,582	14,271,582	-	-

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March 31, 2018	Carrying value	Fair value		
		Level 1	Level 2	Level 3
	\$	\$	\$	\$
Financial assets				
Restricted cash and short-term investments held in escrow	405,016,292	-	405,016,292	-
Financial liabilities				
Class A Restricted Voting Shares subject to redemption	392,437,500	392,437,500	-	-
Warrant liability	18,464,581	18,464,581	-	-

The Corporation is exposed to financial risks due to the nature of its business and the financial assets and liabilities that it holds. The Corporation's overall risk management strategy seeks to minimize potential adverse effects of the Corporation's financial performance.

Market Risk

Market risk is the risk that a material loss may arise from fluctuations in the fair value of a financial instrument. For purposes of this disclosure, the Corporation segregates market risk into three categories: fair value risk, interest rate risk and currency risk.

i. Fair Value Risk

Fair value risk is the potential for loss from an adverse movement, excluding movements relating to changes in interest rates and foreign exchange rates, because of changes in market prices. The Corporation is exposed to fair value risk in respect of its Class A Restricted Voting Shares subject to redemption and warrant liability, which are carried in the Corporation's financial statements at their fair value. A 1% absolute change in the fair value of Class A Restricted Voting Shares and warrant liability would result in a change to the net income for the six months ended September 30, 2018 of \$4,103,316 (six months ended September 30, 2017 of \$4,189,603).

ii. Interest Rate Risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation is exposed to interest rate risk on its restricted cash and short-term investments held in its Escrow Account. Due to the short-term nature of these financial instruments, the Corporation's exposure to interest rate risk is nominal.

iii. Currency Risk

Currency risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates relative to the Corporation's presentation currency of the Canadian dollar. The Corporation does not currently have any exposure to currency risk as the Corporation does not transact in any currency other than the Canadian dollar.

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13. CAPITAL MANAGEMENT

The Corporation defines the capital that it manages as its shareholders' deficiency, net of its Class A Restricted Voting Shares subject to redemption and warrant liability. The following table summarizes the carrying value of the Corporation's capital as at September 30, 2018 and March 31, 2018:

	September 30, 2018	March 31, 2018
	\$	\$
Shareholders' deficiency	(17,381,111)	(19,073,774)
Class A Restricted Voting Shares subject to redemption	396,060,000	392,437,500
Warrant liability	14,271,582	18,464,581
	392,950,471	391,828,307

The Corporation's primary objective in managing capital is to ensure capital preservation in order to benefit from acquisition opportunities as they arise.

Liquidity

As at September 30, 2018, the Corporation had \$1,294,718 (March 31, 2018 of \$1,975,229) in cash. The Corporation expects to incur significant costs in pursuit of its acquisition plans.

To the extent that the Corporation may require additional funding for general ongoing expenses or in connection with sourcing a proposed Qualifying Acquisition, the Corporation may obtain such funding by way of unsecured loans from the Sponsor and/or its affiliates, subject to consent of the TSX, which loans would, unless approved otherwise by the TSX, bear interest at no more than the prime rate plus 1%. The Sponsor would not have recourse under such loans against the Escrow Account, and thus the loans would not reduce the value of such Escrow Account. Such loans would collectively be subject to a maximum principal amount of \$2,500,000 in the aggregate, and may be repayable in cash following the closing of a Qualifying Acquisition and may only be convertible into Common Shares and/or Warrants in connection with the closing of a Qualifying Acquisition, subject to TSX consent. As at and during the period ended September 30, 2018, the Corporation has not drawn down on any loan amounts.

Otherwise, and subject to any relief granted by the TSX, the Corporation may seek to raise additional funds through a rights offering in respect of shares available to its shareholders, in accordance with the requirements of applicable securities legislation, and subject to placing the required funds raised in the Escrow Account in accordance with applicable TSX rules.

APPENDIX C – ANNUAL MANAGEMENT’S DISCUSSION AND ANALYSIS OF ALIGNVEST

ALIGNVEST

ACQUISITION II CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

MARCH 31, 2018

ALIGNVEST ACQUISITION II CORPORATION

Management's Discussion and Analysis of Financial Condition and Results of Operations

Alignvest Acquisition II Corporation (the "Corporation" or "we" or "us") is a special purpose acquisition corporation established on February 8, 2017, and commenced operations on April 28, 2017, incorporated under the laws of the Province of Ontario for the purpose of effecting an acquisition of one or more businesses or assets, by way of a merger, amalgamation, arrangement, share exchange, asset acquisition, share purchase, reorganization, or any other similar business combination involving the Corporation (a "Qualifying Acquisition"). We have not identified any Qualifying Acquisition target and we have not, nor has anyone on our behalf, initiated any substantive discussions, directly or indirectly, with any prospective Qualifying Acquisition target. While we are not limited to a particular industry or geographic region for purposes of completing our Qualifying Acquisition, we intend to focus on acquiring companies with an estimated enterprise value of between \$500 million and \$2.5 billion.

This Management's Discussion and Analysis ("MD&A") has been prepared with an effective date of May 22, 2018 and provides an update on matters discussed in, and should be read in conjunction with the Corporation's financial statements, including the notes thereto, as at and for the period from commencement of operations of the Corporation on April 28, 2017 to March 31, 2018 (the "2018 Financial Statements"), which have been prepared using International Financial Reporting Standards ("IFRS"). All amounts in this MD&A are in Canadian dollars unless otherwise specified. This MD&A contains forward looking statements that are based on certain estimates and assumptions and involve risks and uncertainties. Actual results may vary materially from management's expectations. See the "*Cautionary Note Regarding Forward Looking Statements*" section later in this MD&A for further information.

INITIAL PUBLIC OFFERING

On May 25, 2017, the Corporation completed its initial public offering (the "Offering") of 35,000,000 units at \$10.00 per unit. Each unit consisted of one Class A restricted voting share ("Class A Restricted Voting Share") of the Corporation and one half of a warrant (together, a "Class A Restricted Voting Unit"). Upon closing of a Qualifying Acquisition, each Class A Restricted Voting Share and each Class B share ("Class B Share") will be automatically converted into one common share of the Corporation ("Common Share"), and accordingly, each whole warrant (a "Warrant") will entitle the holder of the Warrant to purchase one Common Share at an exercise price of \$11.50, subject to anti-dilution adjustments, commencing 30 days after the completion of a Qualifying Acquisition and will expire five years after the completion of a Qualifying Acquisition. At the option of the Warrant holder, the Warrants may be exercised through cashless exercise.

Concurrent with the completion of the Offering, Alignvest II LP (the "Sponsor"), a limited partnership of which Alignvest II Corporation is the general partner, and which is indirectly controlled by Alignvest Management Corporation ("AMC"), and Vince Hemmer, Azim Jamal, Anthony Lacavera, Lee Lau, Nadir Mohamed, Joe Natale, Helmut Swarovski and Donald Walker (or persons or companies controlled by them) (collectively with our Sponsor, the "Founders") purchased an aggregate of 10,000,000 share purchase warrants (the "Founders' Warrants") at an offering price of \$1.00 per Founders' Warrant for aggregate proceeds of \$10,000,000. Each whole Founders' Warrant entitles the holder thereof to purchase one Common Share at an exercise price of \$11.50, subject to anti-dilution adjustments, commencing 30 days after the completion of a Qualifying Acquisition.

As at the closing of the Offering, the Corporation issued a total of 12,887,500 Class B Shares for an aggregate price of \$25,785, or approximately \$0.002 per Class B Share, of which 11,112,271 Class B Shares were issued to the Founders ("Founders' Shares") for \$22,235 and 1,775,229 Class B Shares were issued to the Forward Purchasers ("Forward Purchasers' Class B Shares") for \$3,550.

On June 1, 2017, the underwriters exercised their over-allotment option (“Over-Allotment Option”) in full to purchase an additional 5,250,000 Class A Restricted Voting Units at a price of \$10.00 per Class A Restricted Voting Unit. Concurrent with the exercise of the Over-Allotment option, the Founders purchased an additional 1,050,000 Founders’ Warrants at an offering price of \$1 per Founders’ Warrant for aggregate proceeds of \$1,050,000.

The proceeds from the distribution of the Class A Restricted Voting Units, including the proceeds from the exercise of the Over-Allotment Option, amounting to \$402.5 million, have been deposited into an escrow account with Equity Financial Trust Company, the escrow agent of the Corporation, and will only be released upon certain prescribed conditions as further described in the Corporation’s Offering final prospectus dated May 18, 2017 (“Prospectus”).

The Corporation’s Class A Restricted Voting Shares and Warrants trade on the Toronto Stock Exchange (“TSX”) under the symbols “AQY.A” and “AQY.WT”, respectively.

FORWARD PURCHASE AGREEMENT

Certain institutional and accredited investors and certain directors or members of the advisory board (or companies controlled by them) of the Corporation (collectively, the “Forward Purchasers”), entered into forward purchase agreements with the Corporation (the “Forward Purchase Agreements”) to acquire an aggregate 11,300,000 common shares of the Corporation (the “Forward Purchase Common Shares”) and one-third of a share purchase warrant (the “Forward Purchase Warrants”) per Forward Purchase Common Share, for an aggregate of 3,766,659 Forward Purchase Warrants, through a private placement which would occur concurrently with the closing of a Qualifying Acquisition. Each whole Forward Purchase Warrant entitles the holder thereof to purchase one Common Share at an exercise price of \$11.50, subject to anti-dilution adjustments, commencing 30 days after the completion of a Qualifying Acquisition. The obligations under the Forward Purchase Agreements do not depend on the nature of a Qualifying Acquisition or the number of Class A Restricted Voting Shares redeemed by holders at the time of a Qualifying Acquisition.

The Forward Purchasers have also purchased an aggregate of 1,775,229 Forward Purchasers’ Class B Shares for approximately \$0.002 per Class B Share or \$3,550 in aggregate. Pursuant to the Forward Purchase Agreements, the Forward Purchasers have also committed to vote their Forward Purchasers’ Class B Shares and any Class A Restricted Voting Shares they purchase in favour of a Qualifying Acquisition proposed by the Corporation.

RESULTS OF OPERATIONS

During the period from commencement of operations of the Corporation on April 28, 2017 to March 31, 2018, the Corporation incurred a net loss of \$19.1 million, or a loss of \$1.61 per Class B share.

Transaction Costs

The Corporation incurred \$22.4 million in transaction costs associated with the Offering, including \$22.1 million in underwriters’ commission equal to 5.5% of the gross proceeds of the Class A Restricted Voting Units issued under the Offering. Other transaction costs included professional and printing costs associated with completion of the Offering. Of the total transaction costs incurred, \$22.4 million were expensed in the Statement of Operations and Comprehensive Income (Loss), while \$0.01 million was allocated as a charge to shareholders’ equity, as it was associated with the issuance of equity.

The Corporation paid \$8.0 million, or \$0.20 per Class A Restricted Voting Unit, to the underwriters upon closing of the Offering and the exercise of the Over-Allotment Option. Upon completion of a Qualifying Acquisition, the remaining \$14.1 million of the underwriters’ commission, representing \$0.35 per Class A Restricted Voting Unit, will be released to the underwriters from the funds held in the Escrow Account.

Interest Income

Since completion of the Offering, the Corporation's activity has been limited to the evaluation of business acquisition candidates, and we do not expect to generate any operating revenues until the closing and completion of a Qualifying Acquisition. In the interim, we expect to generate small amounts of non-operating income in the form of interest income on cash and short-term investments, including restricted cash and short-term investments held in escrow. In accordance with the Prospectus and the terms of the Corporation's escrow agreement, the Corporation's restricted cash amounts are currently invested in Canadian government treasury securities with maturities of less than 180 days. Interest income on these investments is not expected to be significant in view of current low interest rates.

For the three months ended March 31, 2018 and for the period from commencement of operations of the Corporation on April 28, 2017 to March 31, 2018, the Corporation earned interest income of \$1,028,574 and \$2,516,292, respectively.

General and Administrative Expenses

The Corporation's general and administrative expenses consist of costs required to maintain its public company status in good standing, and expenses incurred to evaluate and identify companies, businesses, assets or properties for potential acquisition. General and administrative costs for the three months ended March 31, 2018 and for the period from commencement of operations of the Corporation on April 28, 2017 to March 31, 2018 were \$589,875 and \$1,830,386, respectively.

Net Unrealized Gain (Loss) on Changes in the Fair Value of Financial Liabilities

For accounting purposes, the redemption terms of the Class A Restricted Voting Shares and the cashless exercise option of the Warrants, including the Forward Purchase Warrants, require the Corporation to account for these financial instruments as liability rather than as equity. These financial liabilities are carried in the Corporation's financial statements at their fair value as determined by the trading value of the underlying securities in the public markets at each reporting date or option-pricing model where an active market price is not available. Changes in the fair value of these financial liabilities are included in net income or loss. As at March 31, 2018, the Corporation recognized unrealized gains for the three months ended March 31, 2018 and for the period from commencement of operations of the Corporation on April 28, 2017 to March 31, 2018 of \$7.3 million and \$2.6 million respectively. Changes in the trading value of these securities may cause significant volatility in our future net income or loss.

SELECTED QUARTERLY INFORMATION

	For the three months ended March 31, 2018	For the three months ended December 31, 2017	For the three months ended September 30, 2017	For the period April 28, 2017 to June 30, 2017
Interest income	\$ 1,028,574	\$ 732,583	\$ 542,416	\$ 212,719
Transaction costs ¹	-	-	-	(22,421,549)
General and administrative expenses	(589,875)	(675,033)	(230,782)	(334,696)
Net unrealized gain (loss) on changes in the fair value of financial liabilities ²	7,253,749	805,000	(1,385,830)	(4,025,000)
Net gain (loss) attributable to owners of Class B Shares ^{1,2}	7,692,448	862,550	(1,074,196)	(26,568,526)
Gain (loss) per share – basic and diluted ^{1,2}	0.60	0.07	(0.08)	(3.57)

1. Transaction costs have been amended to include transaction costs associated with Warrants, which was previously allocated to Shareholders' Equity (Deficiency). The transaction costs and net loss attributable to owners of Class B Shares for the period from April 28, 2017 to June 30, 2017 was previously reported as \$21,311,715 and \$25,458,692, respectively. The loss per share (basic and diluted) for the period from April 28, 2017 to June 30, 2017 was previously reported as \$3.42.

2. The net unrealized gain (loss) on changes in the fair value of financial liabilities have been amended to reflect the reclassification of Warrants as derivative liabilities (see Note 7 to the 2018 Financial Statements). The net unrealized gain on changes in the fair value of financial liabilities and net gain attributable to owners of Class B Shares for the three months ended September 30, 2017 was previously reported as \$7,245,000 and \$7,556,634, respectively. The gain per share (basic and diluted) for the three months ended September 30, 2017 was previously reported as \$0.59.

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2018, investment securities in our escrow account consisted of \$405.0 million invested in Canadian government treasury bills with a maturity of less than 180 days and cash. In addition, at March 31, 2018, we had cash of \$2.0 million held outside of the escrow account available to fund the working capital requirements of the Corporation.

Selected Balance Sheet Information

As at:	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017
	\$	\$	\$	\$
Restricted cash and short-term investments held in escrow:				
Government of Canada Treasury Bills	405,016,292	403,987,717	403,255,133	402,712,718
Cash	-	-	1	1
Total restricted cash and short-term investments held in escrow	405,016,292	403,987,717	403,255,134	402,712,719
Per Class A Restricted Voting Shares subject to redemption	10.06	10.04	10.02	10.01
Cash held outside of the escrow account	1,975,229	2,061,385	2,237,025	2,520,227
Class A Restricted Voting Shares subject to redemption	392,437,500	394,450,000	395,255,000	402,500,000
Warrant liability ¹	18,464,581	23,705,830	23,705,830	6,235,000

1. The reclassification of Warrants as derivative liabilities (see Note 7 to the 2018 Financial Statements).

Prior to filing the Prospectus in respect of the Offering, the Corporation's Founders and Forward Purchasers purchased an aggregate of 12,887,500 Class B Shares for an aggregate purchase price of \$25,785. The Offering was completed on May 25, 2017 and generated gross proceeds of \$350.0 million before underwriters' commission and associated expenses. Concurrent with the closing of the Offering, we completed the sale of Warrants to the Founders, generating proceeds of \$10.0 million. On June 1, 2017, the underwriters exercised their Over-Allotment Option in full which generated further proceeds of \$52.5 million, before associated underwriters' commission and expenses. Our Founders subsequently purchased additional Founders' Warrants for gross proceeds of \$1.1 million.

In accordance with the terms of the Prospectus, an aggregate of \$402.5 million was deposited into an escrow account and will only be released upon certain prescribed conditions.

We intend to use substantially all of the funds held in the escrow account, including interest (which interest shall be net of taxes payable and certain expenses) to consummate a Qualifying Acquisition. To the extent that, after redemptions, our capital stock or debt is used, in whole or in part, as consideration to consummate a Qualifying Acquisition, the remaining proceeds held in the escrow account may be used as working capital to finance the operations of the target business or businesses, make other acquisitions and/or pursue a growth strategy.

As at March 31, 2018, we had cash held outside of our escrow account of \$2.0 million, which is available to fund our working capital requirements, including any further transaction costs that may be incurred. We expect to generate negative cash flow from operating activities in the future until our Qualifying Acquisition is completed and we commence revenue generation. We currently anticipate incurring further expenses for the following purposes:

- Due diligence and investigation of prospective target businesses;
- Legal and accounting fees relating to our public company reporting obligations and general corporate matters;
- Structuring and negotiating a Qualifying Acquisition, including the making of a deposit or the payment of exclusivity or similar fees and expenses; and
- Other miscellaneous expenses.

Management seeks to ensure that our operational and administrative costs are minimal prior to the completion of a Qualifying Acquisition, with a view to preserving the Corporation's working capital.

We do not believe that we will need to raise additional funds to meet expenditures required for operating our business until the consummation of our Qualifying Acquisition. We believe that we will have sufficient available funds outside of the escrow account to operate the business. However, we cannot be assured that this will be the case. To the extent that the Corporation may require additional funding for general ongoing expenses or in connection with sourcing a proposed Qualifying Acquisition, we may seek funding by way of unsecured loans from our Sponsor and/or its affiliates, subject to the consent of the TSX, which loans would, unless approved otherwise by the TSX, bear interest at no more than the prime rate plus 1%. Our Sponsor will not have recourse under such loans against the amounts in escrow. Such loans will collectively be subject to a maximum principal amount of \$2.5 million in the aggregate and may be repayable in cash following the closing of a Qualifying Acquisition.

Shares and Warrants Issued and Outstanding

	<u>As at March 31, 2018</u>
Class A Restricted Voting Shares subject to redemption	40,250,000
Class B Shares issued to Founders	11,112,271
Class B Shares issued to Forward Purchasers	1,775,229
Total Class B shares	12,887,500
Warrants issued to Founders	11,050,000
Warrants issued to holders of Class A Restricted Voting Units	20,125,000
Total Warrants	31,175,000

RELATED PARTY TRANSACTIONS

The Sponsor has executed a make whole agreement and undertaking in favour of the Corporation, whereby the Sponsor has agreed to indemnify the Corporation in certain limited circumstances where the funds held in escrow are reduced to below \$10.00 per Class A Restricted Voting Share.

The Corporation has entered into an administrative services agreement with AMC for an initial term of 24 months, subject to possible extension, for office space, utilities and administrative support, which may include payment for services of related parties, for, but not limited to, various administrative, managerial or operational services or to help effect a Qualifying Acquisition. The Corporation has agreed to pay \$25,000 per month, plus applicable taxes for such services.

There was no remuneration paid by the Corporation to the directors or key management during the period from commencement of operations of the Corporation on April 28, 2017 to March 31, 2018.

ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

The preparation of the Corporation's financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and items in net income or loss and the related disclosure of contingent assets and liabilities. Critical accounting estimates represent estimates made by management that are, by their very nature, uncertain. The Corporation evaluates its estimates on an ongoing basis. Such estimates are based on assumptions that the Corporation believes are reasonable under the circumstances, and these estimates form the basis for making judgments about the carrying value of assets and liabilities and the reported amount of items in net income or loss that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. A summary of the more significant judgments and estimates made by management in the preparation of its financial information is provided in note 4 to the 2018 Financial Statements.

CONTROLS AND PROCEDURES

The Corporation's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting as defined in the Canadian Securities Administrators' National Instrument 52-109, "*Certification of Disclosure in Issuer's Annual and Interim Filings*".

Under their supervision, the Chief Executive Officer and Chief Financial Officer have implemented disclosure controls and procedures and internal controls over financial reporting appropriate for the nature of operations of the Corporation. Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Corporation in the reports it files or submits under securities legislation is recorded, processed, summarized and reported on a timely basis and that such information is accumulated and reported to management, including the Corporation's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow required disclosures to be made in a timely fashion. Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Corporation's design of its internal controls over financial reporting is based on the principles set out in the "*Internal Control – Integrated Framework (2013)*" issued by *The Committee of Sponsoring Organizations of the Treadway Commission (COSO)*.

The Corporation has filed certificates signed by its Chief Executive Officer and the Chief Financial Officer certifying certain matters with respect to the design of disclosure controls and procedures and the design of internal control over financial reporting as at March 31, 2018.

MANAGING RISK

Except as otherwise disclosed in this MD&A, there have been no significant changes to the nature and scope of the risks faced by the Corporation as described in the Prospectus, which is available on SEDAR at www.sedar.com. These business risks should be considered by interested parties when evaluating the Corporation's performance and its outlook.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

Alignvest Acquisition Corporation's public communications may include written or oral forward looking statements. Statements of this type are included in this MD&A, and may be included in other filings with the Canadian regulators, stock exchanges or in other communications. All such statements constitute forward looking information within the meaning of securities law and are made pursuant to the "safe harbour" provisions of applicable securities laws. Forward looking statements may include, but are not limited to, statements about anticipated future events or results including comments with respect to the Corporation's objectives and priorities for 2017 and beyond, and strategies or further actions with respect to the Corporation, a Qualifying Acquisition, the Corporation's business operations, financial performance and condition. Forward looking statements are statements that are predictive in nature, depend

upon or refer to future events or conditions or include words such as “will”, “expects”, “anticipates”, “intends”, “plans”, “believes”, “estimates” or similar expressions concerning matters that are not historical facts. Such statements are based on current expectations of the Corporation’s management and inherently involve numerous risks and uncertainties, known and unknown, including economic factors. The forward looking information contained in this MD&A is presented for the purpose of assisting shareholders in understanding business and strategic priorities and objectives as at the periods indicated and may not be appropriate for other purposes.

A number of risks, uncertainties and other factors may cause actual results to differ materially from the forward looking statements contained in this MD&A, including, among other factors, those referenced in the section entitled “Risk Factors” in the Corporation’s Prospectus dated May 18, 2017.

Forward looking statements contained in this MD&A are not guarantees of future performance and, while forward looking statements are based on certain assumptions that the Corporation considers reasonable, actual events and results could differ materially from those expressed or implied by forward looking statements made by the Corporation. Prospective investors are cautioned to consider these and other factors carefully when making decisions with respect to the Corporation and not place undue reliance on forward looking statements. Circumstances affecting the Corporation may change rapidly. Except as may be expressly required by applicable law, the Corporation does not undertake any obligation to update publicly or revise any such forward looking statements, whether as a result of new information, future events or otherwise.

INFORMATION CONCERNING ALIGNVEST ACQUISITION CORPORATION

Additional information relating to Alignvest Acquisition II Corporation, including a copy of the Corporation’s 2018 Financial Statements, may be found on SEDAR at www.sedar.com and the Corporation’s website at www.alignvestacquisition.com/.

Toronto, Ontario

May 22, 2018

APPENDIX D – INTERIM MANAGEMENT’S DISCUSSION AND ANALYSIS OF ALIGNVEST

ALIGNVEST

ACQUISITION II CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2018

ALIGNVEST ACQUISITION II CORPORATION

Management's Discussion and Analysis of Financial Condition and Results of Operations

Alignvest Acquisition II Corporation (the "Corporation" or "we" or "us") is a special purpose acquisition corporation established on February 8, 2017, and commenced operations on April 28, 2017, incorporated under the laws of the Province of Ontario for the purpose of effecting an acquisition of one or more businesses or assets, by way of a merger, amalgamation, arrangement, share exchange, asset acquisition, share purchase, reorganization, or any other similar business combination involving the Corporation (a "Qualifying Acquisition"). The management team at the Corporation has considered a substantial number of acquisition opportunities but has not yet identified an acquisition target. While we are not limited to a particular industry or geographic region for purposes of completing our Qualifying Acquisition, we intend to focus on acquiring companies with an estimated enterprise value of between \$500 million and \$2.5 billion.

This Management's Discussion and Analysis ("MD&A") has been prepared with an effective date of November 12, 2018 and provides an update on matters discussed in, and should be read in conjunction with the Corporation's financial statements, including the notes thereto, as at and for the period from commencement of operations of the Corporation on April 28, 2017 to March 31, 2018 (the "March 2018 Annual Financial Statements") together with the accompanying MD&A for the period then ended, and with the unaudited interim condensed financial statements of the Corporation as at and for the three and six months ended September 30, 2018 (the "September 2018 Interim Financial Statements") all of which have been prepared using International Financial Reporting Standards ("IFRS"). All amounts in this MD&A are in Canadian dollars unless otherwise specified. This MD&A contains forward looking statements that are based on certain estimates and assumptions and involve risks and uncertainties. Actual results may vary materially from management's expectations. See the "Cautionary Note Regarding Forward Looking Statements" section later in this MD&A for further information.

INITIAL PUBLIC OFFERING

On May 25, 2017, the Corporation completed its initial public offering (the "Offering") of 35,000,000 units at \$10.00 per unit. Each unit consisted of one Class A restricted voting share ("Class A Restricted Voting Share") of the Corporation and one half of a warrant (together, a "Class A Restricted Voting Unit"). Upon closing of a Qualifying Acquisition, each Class A Restricted Voting Share and each Class B share ("Class B Share") will be automatically converted into one common share of the Corporation ("Common Share"), and accordingly, each whole warrant (a "Warrant") will entitle the holder of the Warrant to purchase one Common Share at an exercise price of \$11.50, subject to anti-dilution adjustments, commencing 30 days after the completion of a Qualifying Acquisition and will expire five years after the completion of a Qualifying Acquisition. At the option of the Warrant holder, the Warrants may be exercised through cashless exercise.

Concurrent with the completion of the Offering, Alignvest II LP (the "Sponsor"), a limited partnership of which Alignvest II Corporation is the general partner, and which is indirectly controlled by Alignvest Management Corporation ("AMC"), and Vince Hemmer, Azim Jamal, Anthony Lacavera, Lee Lau, Nadir Mohamed, Joe Natale, Helmut Swarovski and Donald Walker (or persons or companies controlled by them) (collectively with our Sponsor, the "Founders") purchased an aggregate of 10,000,000 share purchase warrants (the "Founders' Warrants") at an offering price of \$1.00 per Founders' Warrant for aggregate proceeds of \$10,000,000. Each whole Founders' Warrant entitles the holder thereof to purchase one Common Share at an exercise price of \$11.50, subject to anti-dilution adjustments, commencing 30 days after the completion of a Qualifying Acquisition.

As at the closing of the Offering, the Corporation issued a total of 12,887,500 Class B Shares for an aggregate price of \$25,785, or approximately \$0.002 per Class B Share, of which 11,112,271 Class B Shares were issued to the Founders ("Founders' Shares") for \$22,235 and 1,775,229 Class B Shares were issued to the Forward Purchasers ("Forward Purchasers' Class B Shares") for \$3,550.

On June 1, 2017, the underwriters exercised their over-allotment option (“Over-Allotment Option”) in full to purchase an additional 5,250,000 Class A Restricted Voting Units at a price of \$10.00 per Class A Restricted Voting Unit. Concurrent with the exercise of the Over-Allotment option, the Founders purchased an additional 1,050,000 Founders’ Warrants at an offering price of \$1 per Founders’ Warrant for aggregate proceeds of \$1,050,000.

The proceeds from the distribution of the Class A Restricted Voting Units, including the proceeds from the exercise of the Over-Allotment Option, amounting to \$402.5 million, have been deposited into an escrow account with Equity Financial Trust Company, the escrow agent of the Corporation, and will only be released upon certain prescribed conditions as further described in the Corporation’s Offering final prospectus dated May 18, 2017 (“Prospectus”).

The Corporation’s Class A Restricted Voting Shares and Warrants trade on the Toronto Stock Exchange (“TSX”) under the symbols “AQY.A” and “AQY.WT”, respectively.

FORWARD PURCHASE AGREEMENT

Certain institutional and accredited investors and certain directors or members of the advisory board (or companies controlled by them) of the Corporation (collectively, the “Forward Purchasers”), entered into forward purchase agreements with the Corporation (the “Forward Purchase Agreements”) to acquire an aggregate 11,300,000 common shares of the Corporation (the “Forward Purchase Common Shares”) and one-third of a share purchase warrant (the “Forward Purchase Warrants”) per Forward Purchase Common Share, for an aggregate of 3,766,659 Forward Purchase Warrants, through a private placement which would occur concurrently with the closing of a Qualifying Acquisition. Each whole Forward Purchase Warrant entitles the holder thereof to purchase one Common Share at an exercise price of \$11.50, subject to anti-dilution adjustments, commencing 30 days after the completion of a Qualifying Acquisition. The obligations under the Forward Purchase Agreements do not depend on the nature of a Qualifying Acquisition or the number of Class A Restricted Voting Shares redeemed by holders at the time of a Qualifying Acquisition.

The Forward Purchasers have also purchased an aggregate of 1,775,229 Forward Purchasers’ Class B Shares for approximately \$0.002 per Class B Share or \$3,550 in aggregate. Pursuant to the Forward Purchase Agreements, the Forward Purchasers have also committed to vote their Forward Purchasers’ Class B Shares and any Class A Restricted Voting Shares they purchase in favour of a Qualifying Acquisition proposed by the Corporation.

RESULTS OF OPERATIONS

Net Income (Loss) from Operations

For the three months ended September 30, 2018, the Corporation earned net income of \$0.8 million, or a gain of \$0.06 per Class B share. For the three months ended September 30, 2017, the Corporation incurred a net loss of \$1.1 million, or a loss of \$0.08 per Class B share.

For the six months ended September 30, 2018, the Corporation earned net income of \$1.7 million, or a gain of \$0.13 per Class B share. During the period from commencement of operations of the Corporation on April 28, 2017 to September 30, 2017, the Corporation incurred a net loss of \$27.6 million, or a loss of \$2.59 per Class B share.

Interest Income

Since completion of the Offering, the Corporation’s activity has been limited to the evaluation of business acquisition candidates, and we do not expect to generate any operating revenues until the closing and completion of a Qualifying Acquisition. In the interim, we expect to generate non-operating income in the form of interest income on cash and short-term investments, including restricted cash and short-term investments held in escrow. In accordance with the Prospectus and the terms of the Corporation’s escrow agreement, the Corporation’s restricted cash amounts are currently invested in Canadian government treasury securities with maturities of less than 180 days.

For the three months ended September 30, 2018 and September 30, 2017, the Corporation earned interest income of \$1,373,529 and \$542,416, respectively.

For the six months ended September 30, 2018 and during the period from commencement of operations of the Corporation on April 28, 2017 to September 30, 2017, the Corporation earned interest income of \$2,610,940 and \$755,134 respectively.

General and Administrative Expenses

The Corporation's general and administrative expenses consist of costs required to maintain its public company status in good standing, and expenses incurred to evaluate and identify companies, businesses, assets or properties for potential acquisition. General and administrative costs for the three months ended September 30, 2018 and September 30, 2017 were \$778,090 and \$230,782, respectively. General and administrative costs for the six months ended September 30, 2018 and during the period from commencement of operations of the Corporation on April 28, 2017 to September 30, 2017 were \$1,488,776 and \$565,478, respectively.

Net Unrealized Gain (Loss) on Changes in the Fair Value of Financial Liabilities

For accounting purposes, the redemption terms of the Class A Restricted Voting Shares and the cashless exercise option of the Warrants, including the Forward Purchase Warrants, require the Corporation to account for these financial instruments as liability rather than as equity. These financial liabilities are carried in the Corporation's financial statements at their fair value as determined by the trading value of the underlying securities in the public markets at each reporting date or option-pricing model where an active market price is not available. Changes in the fair value of these financial liabilities are included in net income or loss.

For the three months ended September 30, 2018 and September 30, 2017, the Corporation recognized unrealized gains of \$0.22 million and unrealized losses of \$1.38 million in the fair value of financial liabilities, respectively.

For the six months ended September 30, 2018, the Corporation recognized unrealized gains of \$0.57 million in the fair value of financial liabilities. During the period from commencement of operations of the Corporation on April 28, 2017 to September 30, 2017, the Corporation recognized unrealized losses of \$5.41 million in the fair value of financial liabilities. Changes in the trading value of these securities may cause significant volatility in our future net income or loss.

SELECTED QUARTERLY INFORMATION

<i>For the three months ended</i>	September 2018	June 2018	March 31 2018	December 2017	September 2017	June 2017
	\$	\$	\$	\$	\$	\$
Interest income	1,373,529	1,237,410	1,028,574	732,583	542,416	212,719
Transaction costs ¹		-	-	-	-	(22,421,549)
General and administrative expenses	(778,090)	(710,686)	(589,875)	(675,033)	(230,782)	(334,696)
Net unrealized gain (loss) on changes in the fair value of financial liabilities ²	221,082	349,417	7,253,749	805,000	(1,385,830)	(4,025,000)
Net gain (loss) attributable to owners of Class B Shares ^{1,2}	816,521	876,141	7,692,448	862,550	(1,074,196)	(26,568,526)
Gain (loss) per share – basic and diluted ^{1,2}	0.06	0.07	0.60	0.07	(0.08)	(3.57)

1. Transaction costs have been amended to include transaction costs associated with Warrants, which was previously allocated to Shareholders' Equity (Deficiency). The transaction costs and net loss attributable to owners of Class B Shares for the period from April 28, 2017 to June 30, 2017 was previously reported as \$21,311,715 and \$25,458,692, respectively. The loss per share (basic and diluted) for the period from April 28, 2017 to June 30, 2017 was previously reported as \$3.42.

2. The net unrealized gain (loss) on changes in the fair value of financial liabilities have been amended to reflect the reclassification of Warrants as derivative liabilities (see Note 7 to the March 2018 Annual Financial Statements). The net unrealized gain on changes in the fair value of financial liabilities and net gain attributable to owners of Class B Shares for the three months ended September 30, 2017 was previously reported as \$7,245,000 and \$7,556,634, respectively. The gain per share (basic and diluted) for the three months ended September 30, 2017 was previously reported as \$0.59.

LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2018, investment securities in our escrow account consisted of \$407.6 million invested in Canadian government treasury bills with a maturity of less than 180 days and cash. In addition, as at September 30, 2018, we had cash of \$1.3 million held outside of the escrow account available to fund the working capital requirements of the Corporation.

Selected Balance Sheet Information

As at:	September 2018	June 2018	March 2018	December 2017	September 2017	June 2017
	\$	\$	\$	\$	\$	\$
Restricted cash and short-term investments held in escrow:						
Government of Canada Treasury Bills	407,627,232	406,252,915	405,016,292	403,987,717	403,255,133	402,712,718
Cash	-	787	-	-	1	1
Total restricted cash and short-term investments held in escrow	407,627,232	406,253,702	405,016,292	403,987,717	403,255,134	402,712,719
Per Class A Restricted Voting Shares subject to redemption	10.13	10.09	10.06	10.04	10.02	10.01
Cash held outside of the escrow account	1,294,718	1,576,505	1,975,229	2,061,385	2,237,025	2,520,227
Class A Restricted Voting Shares subject to redemption	396,060,000	392,437,500	392,437,500	394,450,000	395,255,000	402,500,000
Warrant liability ¹	14,271,582	18,115,164	18,464,581	23,705,830	23,705,830	6,235,000

1. The reclassification of Warrants as derivative liabilities (see Note 7 to the March 2018 Annual Financial Statements).

Prior to filing the Prospectus in respect of the Offering, the Corporation's Founders and Forward Purchasers purchased an aggregate of 12,887,500 Class B Shares for an aggregate purchase price of \$25,785. The Offering was completed on May 25, 2017 and generated gross proceeds of \$350.0 million before underwriters' commission and associated expenses. Concurrent with the closing of the Offering, we completed the sale of Warrants to the Founders, generating proceeds of \$10.0 million. On June 1, 2017, the underwriters exercised their Over-Allotment Option in full which generated further proceeds of \$52.5 million, before associated underwriters' commission and expenses. Our Founders subsequently purchased additional Founders' Warrants for gross proceeds of \$1.1 million.

In accordance with the terms of the Prospectus, an aggregate of \$402.5 million was deposited into an escrow account and will only be released upon certain prescribed conditions.

We intend to use substantially all of the funds held in the escrow account, including interest (which interest shall be net of taxes payable and certain expenses) to consummate a Qualifying Acquisition. To the extent that, after redemptions, our capital stock or debt is used, in whole or in part, as consideration to consummate a Qualifying Acquisition, the remaining proceeds held in the escrow account may be used as working capital to finance the operations of the target business or businesses, make other acquisitions and/or pursue a growth strategy.

As at September 30, 2018, we had cash held outside of our escrow account of \$1.3 million, which is available to fund our working capital requirements, including any further transaction costs that may be incurred. We expect to generate negative cash flow from operating activities in the future until our Qualifying Acquisition is completed and we commence revenue generation. We currently anticipate incurring further expenses for the following purposes:

- Due diligence and investigation of prospective target businesses;
- Legal and accounting fees relating to our public company reporting obligations and general corporate matters;
- Structuring and negotiating a Qualifying Acquisition, including the making of a deposit or the payment of exclusivity or similar fees and expenses; and
- Other miscellaneous expenses.

Management seeks to ensure that our operational and administrative costs are minimal prior to the completion of a Qualifying Acquisition, with a view to preserving the Corporation's working capital.

We do not believe that we will need to raise additional funds to meet expenditures required for operating our business until the consummation of our Qualifying Acquisition. We believe that we will have sufficient available funds outside of the escrow account to operate the business. However, we cannot be assured that this will be the case. To the extent that the Corporation may require additional funding for general ongoing expenses or in connection with sourcing a proposed Qualifying Acquisition, we may seek funding by way of unsecured loans from our Sponsor and/or its affiliates, subject to the consent of the TSX, which loans would, unless approved otherwise by the TSX, bear interest at no more than the prime rate plus 1%. Our Sponsor will not have recourse under such loans against the amounts in escrow. Such loans will collectively be subject to a maximum principal amount of \$2.5 million in the aggregate and may be repayable in cash following the closing of a Qualifying Acquisition.

Shares and Warrants Issued and Outstanding

	<u>As at September 30, 2018</u>
Class A Restricted Voting Shares subject to redemption	40,250,000
Class B Shares issued to Founders	11,112,271
Class B Shares issued to Forward Purchasers	1,775,229
Total Class B shares	12,887,500
Warrants issued to Founders	11,050,000
Warrants issued to holders of Class A Restricted Voting Units	20,125,000
Total Warrants	31,175,000

RELATED PARTY TRANSACTIONS

The Sponsor has executed a make whole agreement and undertaking in favour of the Corporation, whereby the Sponsor has agreed to indemnify the Corporation in certain limited circumstances where the funds held in escrow are reduced to below \$10.00 per Class A Restricted Voting Share.

The Corporation has entered into an administrative services agreement with AMC for an initial term of 24 months, subject to possible extension, for office space, utilities and administrative support, which may include payment for services of related parties, for, but not limited to, various administrative, managerial or operational services or to help effect a Qualifying Acquisition. The Corporation has agreed to pay \$25,000 per month, plus applicable taxes for such services.

There was no remuneration paid by the Corporation to the directors or key management during the three months ended September 30, 2018.

ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

The preparation of the Corporation's financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and items in net income or loss and the related disclosure of contingent assets and liabilities. Critical accounting estimates represent estimates made by management that are, by their very nature, uncertain. The Corporation evaluates its estimates on an ongoing basis. Such estimates are based on assumptions that the Corporation believes are reasonable under the circumstances, and these estimates form the basis for making judgments about the carrying value of assets and liabilities and the reported amount of items in net income or loss that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. A summary of the more significant judgments and estimates made by management in the preparation of its financial information is provided in note 4 to the March 2018 Annual Financial Statements.

CONTROLS AND PROCEDURES

The Corporation's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting as defined in the Canadian Securities Administrators' National Instrument 52-109, "*Certification of Disclosure in Issuer's Annual and Interim Filings*".

Under their supervision, the Chief Executive Officer and Chief Financial Officer have implemented disclosure controls and procedures and internal controls over financial reporting appropriate for the nature of operations of the Corporation. Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Corporation in the reports it files or submits under securities legislation is recorded, processed, summarized and reported on a timely basis and that such information is accumulated and reported to management, including the Corporation's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow required disclosures to be made in a timely fashion. Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Corporation's design of its internal controls over financial reporting is based on the principles set out in the "*Internal Control – Integrated Framework (2013)*" issued by *The Committee of Sponsoring Organizations of the Treadway Commission (COSO)*.

The Corporation has filed certificates signed by its Chief Executive Officer and the Chief Financial Officer certifying certain matters with respect to the design of disclosure controls and procedures and the design of internal control over financial reporting as at September 30, 2018.

MANAGING RISK

Except as otherwise disclosed in this MD&A, there have been no significant changes to the nature and scope of the risks faced by the Corporation as described in the Prospectus, which is available on SEDAR at www.sedar.com. These business risks should be considered by interested parties when evaluating the Corporation's performance and its outlook.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

Alignvest Acquisition Corporation's public communications may include written or oral forward looking statements. Statements of this type are included in this MD&A, and may be included in other filings with the Canadian regulators, stock exchanges or in other communications. All such statements constitute forward looking information within the meaning of securities law and are made pursuant to the "safe harbour" provisions of applicable securities laws. Forward looking statements may include, but are not limited to, statements about anticipated future events or results including comments with respect to the Corporation's objectives and priorities for 2017 and beyond, and strategies or further actions with respect to the Corporation, a Qualifying Acquisition, the Corporation's business operations, financial performance and condition. Forward looking statements are statements that are predictive in nature, depend upon or refer to future events or conditions or include words such as "will", "expects", "anticipates", "intends", "plans", "believes", "estimates" or similar expressions concerning matters that are not historical facts. Such statements are based on current expectations of the Corporation's management and inherently involve numerous risks and uncertainties, known and unknown, including economic factors. The forward looking information contained in this MD&A is presented for the purpose of assisting shareholders in understanding business and strategic priorities and objectives as at the periods indicated and may not be appropriate for other purposes.

A number of risks, uncertainties and other factors may cause actual results to differ materially from the forward looking statements contained in this MD&A, including, among other factors, those referenced in the section entitled "Risk Factors" in the Corporation's Prospectus dated May 18, 2017.

Forward looking statements contained in this MD&A are not guarantees of future performance and, while forward looking statements are based on certain assumptions that the Corporation considers reasonable, actual events and results could differ materially from those expressed or implied by forward looking statements made by the Corporation. Prospective investors are cautioned to consider these and other factors carefully when making decisions with respect to the Corporation and not place undue reliance on forward looking statements. Circumstances affecting the Corporation may change rapidly. Except as may be expressly required by applicable law, the Corporation does not undertake any obligation to update publicly or revise any such forward looking statements, whether as a result of new information, future events or otherwise.

INFORMATION CONCERNING ALIGNVEST ACQUISITION CORPORATION

Additional information relating to Alignvest Acquisition II Corporation, including a copy of the Corporation's March 2018 Annual Financial Statements, may be found on SEDAR at www.sedar.com and the Corporation's website at www.alignvestacquisition.com/.

Toronto, Ontario

November 12, 2018

APPENDIX E – SAGICOR AUDITED ANNUAL FINANCIAL STATEMENTS



SAGICOR FINANCIAL CORPORATION LIMITED
FINANCIAL STATEMENTS
DECEMBER 31, 2017

Information in this document may not be copied, reproduced, distributed, transmitted or in any way disseminated without the prior written consent of Sagicor Financial Corporation Limited. Any alteration, amendment, insertion or deletion is strictly prohibited. This information is intended only for persons to whom an electronic communication from authorised Sagicor personnel is addressed and is provided for lawful purposes only. Users should be aware that electronic communication could be forwarded, intercepted or altered by others.



Independent auditor's report

To the Shareholders of Sagicor Financial Corporation Limited

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects the consolidated financial position of Sagicor Financial Corporation Limited (the Company) and its subsidiaries (together 'the Group') as of December 31, 2017, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

Sagicor Financial Corporation Limited's consolidated financial statements comprise:

- the consolidated statement of financial position as of December 31, 2017;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies.

Basis for opinion

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.



Our audit approach

Audit scope

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

How we tailored our group audit scope

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

A full scope audit was performed for six components. These six components were: Sagicor Life Inc. ('Barbados branch'), Sagicor Life Inc. ('EC branches'), Sagicor Life Inc. ('Trinidad branch'), Sagicor USA, Inc. ('Sagicor USA'), Sagicor Group Jamaica Limited ('Sagicor Jamaica') and Sagicor Financial Corporation Limited. Additionally, based on our professional judgement, four components: Barbados Farms Limited, Globe Finance Inc., Sagicor General Insurance Inc. and Sagicor Finance (2015) Limited were selected to perform an audit of specified account balances due to the materiality of certain individual balances to the Group consolidated financial statements as a whole. We performed analytical procedures with respect to the remaining components.

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

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

Revenue	89%
Total assets	89%

Materiality

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



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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

How our audit addressed the Key audit matter

Goodwill impairment

See notes 2.7(a), 3.3(a) and 8 to the consolidated financial statements for disclosures of related accounting policies, judgements and estimates.

Goodwill of \$44.2 million has arisen from a number of historic business combinations across the Group.

We focused on goodwill allocated to the Sagicor Life and Sagicor Jamaica segments as defined in note 4 to the consolidated financial statements. Sagicor Life uses an actuarial appraisal value model and Sagicor Jamaica uses fair value less costs to sell to assess goodwill impairment. We focused on these segments based on magnitude, level of headroom and the sensitivity of the impairment test to possible changes in assumptions, being primarily:

Sagicor Life

- the growth rate of new business;
- discount rates;
- mortality, persistency and expense assumptions; and
- minimum regulatory capital requirements.

Sagicor Jamaica

- the growth rate, and
- the discount rate.

With respect to the actuarial appraisal model, management uses qualified internal actuaries and an independent external actuary to assist in developing the actuarial appraisal model and in determining the related assumptions.

- We were assisted by our own internal experts to evaluate the methodology and underlying assumptions used in the assessment of the goodwill impairment testing.
- For the Sagicor Life segment, we evaluated the growth rate for new business by comparing the forecasted growth in new business to that achieved in the previous 5 years.
- We also compared the mortality, persistency and expense assumptions in the model to those used for the computation of actuarial liabilities and noted no material exceptions.
- In our testing of the actuarial appraisal model, we checked the calculations for mathematical accuracy.
- With the assistance of our internal expert, we independently determined a discount rate, which we used to sensitize the results of the model. In addition, we also reduced management's new business growth rate assumptions in an alternative sensitized scenario.

Based on the testing performed, no material adjustment to the carrying value of goodwill allocated to this segment was considered necessary.

- For the Sagicor Jamaica segment, we evaluated management's future cash flow forecasts, and the process by which they were developed. We



compared previous forecasts to actual results to assess the performance of the business and the accuracy of forecasting. We confirmed that the three year forecast used was consistent with the Board approved business plan, and that the key assumptions were subject to oversight from the Board of Directors.

We tested the assumptions and methodologies used, in particular those relating to the growth rates and discount rate as follows:

- With the assistance of our internal valuation expert, we evaluated these assumptions with reference to valuations of similar companies.
- Compared the key assumptions to externally derived data where possible, including market expectations of investment return, projected economic growth and interest rates.
- Applied sensitivities in evaluating management's assessment of the planned growth rate in cash flows.

In testing the valuation model, we checked the calculations for mathematical accuracy and considered the sensitivity of the calculation by varying the key assumptions and adjustments within management's cash flow forecast.

Based on the testing performed, no material adjustment to the carrying value of goodwill allocated to this segment was considered necessary.

Actuarial methodologies and assumptions used in the valuation of actuarial liabilities

See notes 2.11, 3.5 and 13 to the consolidated financial statements for disclosures of related accounting policies, judgements and estimates.

Actuarial liabilities are the most significant liability on the Group's statement of financial position. At December 31, 2017, actuarial liabilities totalled \$2,951 million.

We focused on this area as it involves significant judgement over uncertain future outcomes, mainly the ultimate total settlement value of long-term policyholder liabilities. Economic assumptions, such as investment return, associated discount rates and

- We were assisted by our own actuarial experts in considering industry and component specific facts and circumstances to evaluate the methodologies and assumptions utilized by management's actuarial experts.
 - We updated our understanding for any changes impacting the assumptions, specifically, we focused on mortality assumptions, persistency, investment return and associated discount rates, borrowing rates and policy expenses, all of which
-



borrowing rates, policy expenses, and operating assumptions such as mortality and persistency are the key inputs used to estimate these long-term liabilities.

Management uses qualified internal actuaries and an independent external actuary to assist in determining these assumptions and in valuing the actuarial liabilities.

are based on the component's experience or published industry studies.

- For the Sagicor Life and Sagicor Jamaica segments, we tested a sample of contracts to assess whether contract features corresponded to the data on the policy master file and tested the accuracy and completeness of the transfer of that data to the actuarial valuation systems.
- For the Sagicor USA segment, we tested a sample of contracts to assess whether policyholder data and contract features corresponded to the data in the actuarial valuation system. In addition, we compared data on a sample basis between the policy administration system and the valuation system to test completeness.
- We assessed whether the actuarial methodologies were applied on a consistent basis in valuing actuarial liabilities. Where we identified changes to either calculations or methodologies, we discussed these with our internal actuarial experts and considered whether they were refinements to the valuation of actuarial liabilities as opposed to corrections of errors or changes in accounting policy. Our testing did not identify any material changes in the application of actuarial methodologies or to the supporting calculations of actuarial liabilities that were not refinements.

We found the significant estimates and assumptions used by management to be reasonable, and that the methodologies used were established and accepted actuarial methodologies and were appropriate in the circumstances.

Valuation of financial investments held at fair value and available for sale and impairment of financial investments available for sale

See notes 2.8(a), (b), (c), (d), 3.1, 3.4 and 9 to the consolidated financial statements for disclosures of related accounting policies, judgements and estimates.

The Group's financial investments classified as fair value through income and available for sale account for \$2,770 million or 41% of total assets for the Group.

- We evaluated the Group's valuation of individual investment holdings. Where readily observable data was available, we sourced this independently and performed a comparison to management's results.
-



The Group's financial investments include financial assets at fair value through income and available for sale financial assets. The valuation of financial investments held at fair value and available for sale are based on a range of inputs. While many of the inputs required can be obtained from readily available liquid market prices and rates, certain securities are based on modelled prices, as observable market data is limited. In these instances, management is required to make significant judgements due to the complexity in the valuation model estimates resulting in estimation uncertainty risk which therefore led us to focus our attention on this area.

In addition, management is required to perform an impairment assessment for available for sale investments where certain impairment indicators exist. The main considerations for the impairment assessment for financial assets classified as available for sale include where any of the following apply:

- Significant financial difficulty of the borrower;
- Default or delinquency in interest or principal payment;
- Concessions granted to a borrower that would not otherwise be considered due to the borrower's financial difficulty;
- The probability that the borrower will enter bankruptcy or other financial reorganization;
- Observable market data indicating that there is a measureable decrease in the estimated future cash flows from the asset since the initial recognition of those assets;
- The disappearance of an active market for the financial asset as a result of financial difficulties;
- In respect of equity securities classified as available for sale, a significant or prolonged decline in the fair value below cost being an indicator of impairment.

As a result of the above estimation uncertainty and subjective judgements made by management, we focused our attention on this area.

- For more judgemental valuations, which may depend on unobservable inputs, we selected a sample of securities, which were either independently valued by our component teams or by our internal valuation experts.
- We obtained management's impairment assessment and compared assumptions and inputs to independent market observable data. We also checked the calculations for mathematical accuracy.
- We tested a sample of available for sale investments to independently assess whether they were impaired.

No material exceptions were noted as a result of our testing performed.



Other information

Management is responsible for the other information. The other information comprises Sagicor Financial Corporation Limited's Annual Report (the Annual Report) (but does not include the consolidated financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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



Other matter

This report, including the opinion, has been prepared for and only for the Company's shareholders as a body in accordance with Section 90 of the Companies Act 1981 (Bermuda) and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

The engagement partner on the audit resulting in this independent auditor's report is Michael Bynoe.

PricewaterhouseCoopers SRL

PricewaterhouseCoopers SRL
Bridgetown, Barbados
April 4, 2018

SAGICOR FINANCIAL CORPORATION LIMITED**APPOINTED ACTUARY'S****2017 REPORT TO THE SHAREHOLDERS AND
POLICYHOLDERS**

I have performed or reviewed the valuation of the consolidated policy liabilities of Sagicor Financial Corporation Limited ("Sagicor") which includes the policy liabilities of its life insurance subsidiaries:

- A — Sagicor Life Inc. (Barbados) ("SLI"), including the previous entity "Sagicor Capital Life Insurance Company Limited (Barbados) ("SCLI)" which was amalgamated into Sagicor Life,
- B — Capital Life Insurance Company Bahamas Limited (Bahamas),
- C — Sagicor Life (Eastern Caribbean) Inc. ("SLECI"),
- D — Sagicor Life Aruba NV (Aruba),
- E — Sagicor Panamá SA (Panama),
- F — Nationwide Insurance Company Limited (Trinidad & Tobago),
- G — Sagicor Life Jamaica Limited (Jamaica) *,
- H — Sagicor Life of the Cayman Islands Limited (Cayman Islands) *, and
- I — Sagicor Life Insurance Company (USA) *,

for the balance sheet, at 31st December 2017, and their change in the consolidated statement of operations, for the year then ended, for each organization and on a consolidated basis in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

The valuation of Sagicor and its Life Insurance Subsidiaries was conducted by myself or other actuaries (indicated by a "*" above), using either the Policy Premium Method ("PPM") or the Canadian Asset Liability Method ("CALM") where appropriate, assuming best-estimate assumptions together with margins for adverse deviations in accordance with the Standards of Practice (Life) of the Canadian Institute of Actuaries. For those where other actuaries completed the valuation, I have reviewed and accepted their valuation and have relied on their work in order to issue this certificate.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the financial statements fairly represent the results of the valuation.



Sylvain Goulet, FCIA, FSA, MAAA

Affiliate Member of the Institute and Faculty of Actuaries

Member of the Caribbean Actuarial Association

Appointed Actuary for Sagicor Financial Corporation Limited, and the above Life Subsidiaries A to F

20th March 2018

December 31, 2017

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION


As of December 31, 2017

Sagicor Financial Corporation Limited

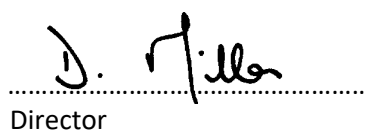
Amounts expressed in US\$000

	Note	2017	2016
ASSETS			
Investment property	5	80,816	80,662
Property, plant and equipment	7	165,560	167,723
Associates and joint ventures	6	97,223	87,293
Intangible assets	8	81,714	83,487
Financial investments	9	4,953,241	4,813,748
Reinsurance assets	10	797,391	777,344
Income tax assets	11	39,980	59,575
Miscellaneous assets and receivables	12	228,543	183,018
Cash resources		360,064	279,070
Assets of discontinued operation	38	10,110	-
Total assets		6,814,642	6,531,920

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



.....
Director



.....
Director

	Note	2017	2016
LIABILITIES			
Actuarial liabilities	13	2,950,820	2,776,362
Other insurance liabilities	14	224,159	207,122
Investment contract liabilities	15	379,018	377,576
Total policy liabilities		3,553,997	3,361,060
Notes and loans payable	16	413,805	395,213
Deposit and security liabilities	17	1,559,232	1,623,325
Provisions	18	80,027	101,292
Income tax liabilities	19	28,277	50,641
Accounts payable and accrued liabilities	20	246,976	204,975
Total liabilities		5,882,314	5,736,506
EQUITY			
Share capital	21	3,059	3,029
Share premium	21	300,470	297,050
Reserves	22	(47,482)	(64,795)
Retained earnings		367,327	300,865
Total shareholders' equity		623,374	536,149
Participating accounts	23	865	1,291
Non-controlling interest in subsidiaries		308,089	257,974
Total equity		932,328	795,414
Total liabilities and equity		6,814,642	6,531,920

CONSOLIDATED STATEMENT OF INCOME

Year ended December 31, 2017

Sagicor Financial Corporation Limited

Amounts expressed in US\$000

	Note	2017	2016		Note	2017	2016
REVENUE							
Premium revenue	24	898,354	833,918	Net income from continuing operations		105,169	107,897
Reinsurance premium expense	24	(152,722)	(169,962)	Net income from discontinued operation	38	10,110	1,412
Net premium revenue		745,632	663,956	NET INCOME FOR THE YEAR		115,279	109,309
Net investment income	25	379,236	353,352	Net income/(loss) is attributable to:			
Fees and other revenue	26	93,740	116,839	Common shareholders:			
Gain arising on disposal	37	2,261	-	From continuing operations		62,123	60,259
Total revenue		1,220,869	1,134,147	From discontinued operation		10,110	1,412
						72,233	61,671
BENEFITS				Participating policyholders		(1,044)	110
Policy benefits and change in actuarial liabilities	27	720,651	693,173	Non-controlling interests		44,090	47,528
Policy benefits and change in actuarial liabilities reinsured	27	(114,839)	(194,262)			115,279	109,309
Net policy benefits and change in actuarial liabilities		605,812	498,911	Basic earnings per common share:	34		
Interest expense	28	54,949	61,448	From continuing operations		20.4 cents	19.5 cents
Total benefits		660,761	560,359	From discontinued operation		3.3 cents	0.5 cents
						23.7 cents	20.0 cents
EXPENSES				Fully diluted earnings per common share:	34		
Administrative expenses		267,427	255,326	From continuing operations		19.9 cents	18.7 cents
Commissions and related compensation		98,749	98,570	From discontinued operation		3.2 cents	0.4 cents
Premium and asset taxes		13,569	10,679			23.1 cents	19.1 cents
Finance costs		34,746	38,333				
Depreciation and amortisation		21,871	21,283				
Total expenses		436,362	424,191				
INCOME BEFORE TAXES		123,746	149,597				
Income taxes	32	(18,577)	(41,700)				
NET INCOME FROM CONTINUING OPERATIONS		105,169	107,897				

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31, 2017

Sagicor Financial Corporation Limited

Amounts expressed in US\$000

OTHER COMPREHENSIVE INCOME	Note	2017	2016	TOTAL COMPREHENSIVE INCOME	2017	2016
Items net of tax that may be reclassified subsequently to income:	35			Net income	115,279	109,309
Available for sale assets:				Other comprehensive income / (loss)	64,042	(12,571)
Gains on revaluation		57,900	39,183	TOTAL COMPREHENSIVE INCOME FOR THE YEAR	179,321	96,738
(Gains) / losses transferred to income		(12,259)	2,675			
Net change in actuarial liabilities		(13,475)	(17,090)	Total comprehensive income / (loss) is attributable to:		
Retranslation of foreign currency operations		9,721	(28,481)	Common shareholders:		
		<u>41,887</u>	<u>(3,713)</u>	From continuing operations	96,141	45,811
Items net of tax that will not be reclassified subsequently to income:	35			From discontinued operation	10,110	1,412
(Losses) / gains on revaluation of owner-occupied property		(1,759)	5,145		<u>106,251</u>	<u>47,223</u>
Gains/ (losses) on defined benefit plans		23,914	(13,875)	Participating policyholders	(210)	132
Other items		-	(128)	Non-controlling interests	73,280	49,383
		<u>22,155</u>	<u>(8,858)</u>		<u>179,321</u>	<u>96,738</u>
OTHER COMPREHENSIVE GAIN / (LOSS) FROM CONTINUING OPERATIONS		<u>64,042</u>	<u>(12,571)</u>			

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended December 31, 2017

Sagicor Financial Corporation Limited

Amounts expressed in US\$000

	Share Capital (note 21)	Share Premium (note 21)	Reserves (note 22)	Retained Earnings	Total Shareholders' Equity	Participating Accounts (note 23)	Non-controlling Interests	Total Equity
2017								
Balance, beginning of year	3,029	297,050	(64,795)	300,865	536,149	1,291	257,974	795,414
Total comprehensive income from continuing operations	-	-	21,432	74,709	96,141	(210)	73,280	169,211
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 (note 21.3)	-	-	-	(15,216)	(15,216)	-	(19,861)	(35,077)
Transfers and other movements	-	-	2,151	(3,141)	(990)	(216)	(3,229)	(4,435)
Balance, end of year	3,059	300,470	(47,482)	367,327	623,374	865	308,089	932,328
2016								
Balance, beginning of year	299,320	-	(59,688)	266,414	506,046	1,383	231,735	739,164
Total comprehensive income from continuing operations	-	-	(4,319)	50,130	45,811	132	49,383	95,326
Total comprehensive income from discontinued operation	-	-	-	1,412	1,412	-	-	1,412
Redomiciliation adjustment net of treasury shares	(296,296)	296,296	-	-	-	-	-	-
Transactions with holders of equity instruments:								
Movements in treasury shares	5	754	-	-	759	-	-	759
Changes in reserve for equity compensation benefits	-	-	2,132	-	2,132	-	(50)	2,082
Dividends declared (note 21.3)	-	-	-	(18,880)	(18,880)	-	(17,684)	(36,564)
Transfers and other movements	-	-	(2,920)	1,789	(1,131)	(224)	(5,410)	(6,765)
Balance, end of year	3,029	297,050	(64,795)	300,865	536,149	1,291	257,974	795,414

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 2017

Sagicor Financial Corporation Limited

Amounts expressed in US\$000

	Note	2017	2016		Note	2017	2016
OPERATING ACTIVITIES				FINANCING ACTIVITIES			
Income before taxes		123,746	149,597	Movement in treasury shares		(203)	(98)
Adjustments for non-cash items, interest and dividends	36.1	(110,518)	(188,098)	Redemption of SFCL preference shares		-	(119,991)
Interest and dividends received		305,810	299,968	Shares issued to non-controlling interest		(5,504)	(6,634)
Interest paid		(83,627)	(93,620)	Other notes and loans payable, net	36.3	16,182	34,008
Income taxes paid		(43,352)	(24,948)	Dividends received from associates		2,561	1,788
Net increase in investments and operating assets	36.1	(157,602)	(100,362)	Dividends paid to common shareholders		(14,950)	(13,381)
Net increase in operating liabilities	36.1	18,052	83,793	Dividends paid to preference shareholders		-	(5,256)
Net cash flows - operating activities		52,509	126,330	Dividends paid to non-controlling interests		(19,861)	(17,824)
INVESTING ACTIVITIES				Net cash flows - financing activities		(21,775)	(127,388)
Property, plant and equipment, net	36.2	(13,385)	(17,996)	Effects of exchange rate changes		1,595	(4,645)
Associates and joint ventures		(6,908)	(188)	NET CHANGE IN CASH AND CASH EQUIVALENTS - CONTINUING OPERATIONS		13,620	(28,159)
Intangible assets		(6,182)	(4,272)	Net change in cash and cash equivalents - discontinued operation		-	(44,614)
Changes in ownership of associate, net of cash and cash equivalents		7,766	-	Cash and cash equivalents, beginning of year		312,106	384,879
Net cash flows - investing activities		(18,709)	(22,456)	CASH AND CASH EQUIVALENTS, END OF YEAR	36.4	325,726	312,106

1 INCORPORATION AND PRINCIPAL ACTIVITIES

On July 20, 2016, Sagikor Financial Corporation continued as an exempted company under the laws of Bermuda under the name Sagikor Financial Corporation Limited and registered as an external company under the Companies Act of Barbados on July 20, 2016. Bermuda law does not contemplate companies with no par value shares, as a consequence on continuance the excess of the par value of \$0.01 has been credited to share premium (note 21).

The Company was originally incorporated on December 6, 2002 under the Companies Act of Barbados as a public limited liability holding company. On December 6, 2002, Sagikor Life Inc was formed following its conversion from The Barbados Mutual Life Assurance Society (The Society). On December 30, 2002, the Company allotted common shares to the eligible policyholders of The Society and became the holding company of Sagikor Life Inc.

Sagikor and its subsidiaries 'the Group' operate across the Caribbean and in the United States of America (USA). There is a discontinued operation in the United Kingdom. Details of the Sagikor's holdings and operations are set out in notes 4 and 38.

The principal activities of the Sagikor Group are as follows:

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

For ease of reference, when the term "insurer" is used in the following notes, it refers to either one or more Group subsidiaries that engages in insurance activities.

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

2 ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas when assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

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

2.1 Basis of preparation (continued)

Amendments to IFRS

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2017, and have not been applied in preparing these consolidated financial statements (see note 2.25). There are no new standards, amendments to standards and interpretations effective for this financial year that have a significant effect on the consolidated financial statements.

2.2 Basis of consolidation

(a) Subsidiaries

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

2.2 Basis of consolidation (continued)

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

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

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

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

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

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

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

2.2 Basis of consolidation (continued)

(b) Discontinued operation

In December 2012, the Group agreed to sell Sagikor Europe Limited, its subsidiary Sagikor at Lloyd's Limited and its interest in Lloyd's of London syndicate 1206. The decision to sell resulted in the closure of the Sagikor Europe operating segment and therefore met the criteria of a discontinued operation. The sale was concluded in December 2013.

As of December 31, 2017, the future price adjustments relating to the discontinued operation are disclosed in the statement of financial position at their estimated undiscounted value.

(c) Sale of subsidiaries

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

(d) Associates and joint venture

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

2 Basis of consolidation (continued)

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

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

(e) Pension and investment funds

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

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

(f) Employees share ownership plan (ESOP)

The Company has established an ESOP Trust which either acquires Company shares on the open market, or is allotted new shares by the Company. The Trust holds the shares on behalf of employees until the employees' retirement or termination from the Group. Until distribution to employees, shares held by the Trust are accounted for as treasury shares. All dividends received by the Trust are applied towards the future purchase of Company shares.

2.3 Foreign currency translation

(a) Functional and presentational currency

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

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

(b) Reporting units

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

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

Currencies which are pegged to the United States dollar are converted at the pegged rates. Currencies which float are converted to the United States dollar by reference to the average of buying and selling rates quoted by the respective central banks or in the case of pounds sterling, according to prevailing market rates. Exchange rates of the other principal operating currencies to the United States dollar were as follows:

	2017 closing	2017 average	2016 closing	2016 average
Barbados dollar	2.0000	2.0000	2.0000	2.0000
Eastern Caribbean dollar	2.7000	2.7000	2.7000	2.7000
Jamaica dollar	124.5754	128.0938	127.9824	124.7554
Trinidad & Tobago dollar	6.7628	6.7428	6.7458	6.6190
Pound sterling	0.74020	0.77496	0.81280	0.73444

2.3 Foreign currency translation (continued)

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

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

(c) Transactions and balances

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

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

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

2.4 Segments

Reportable operating segments have been defined on the basis of performance and resource allocation decisions of the Group's Chief Executive Officer.

2.5 Investment property

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

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

Transfers to or from investment property are recorded when there is a change in use of the property. Transfers to owner-occupied property or to real estate developed for resale are recorded at the fair value at the date of change in use. Transfers from owner-occupied property are recorded at their fair value and any difference with carrying value at the date of change in use is dealt with in accordance with note 2.6.

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

Rental income is recognised on an accrual basis.

2.6 Property, plant and equipment

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

2.6 Property, plant and equipment (continued)

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

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

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

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

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

Lands are not depreciated.

2.6 Property, plant and equipment (continued)

An impairment loss is recognised for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

Gains or losses recognised in income on the disposal of property, plant and equipment are determined by comparing the net sale proceeds to the carrying value.

2.7 Intangible assets**(a) Goodwill**

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

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

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

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

2.7 Intangible assets (continued)**(b) Other intangible assets**

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

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

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

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

2.8 Financial assets

(a) Classification

The Group classifies its financial assets into four categories:

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

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

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

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

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

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

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

2.8 Financial assets (continued)

(b) Recognition and measurement

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

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

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

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

(c) Fair value

Fair value amounts represent the price (or estimates thereof) that would be agreed upon in an orderly transaction between market participants at the valuation date.

2.8 Financial assets (continued)

(d) Impaired financial assets

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

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

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

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

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

2.8 Financial assets (continued)

(e) Securities purchased for resale

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

(f) Finance leases

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

(g) Embedded derivatives

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

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

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

2.9 Real estate developed or held for resale

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

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

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

2.10 Policy contracts

(a) Classification

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

The Group defines insurance risk as an insured event that could cause an insurer to pay significant additional benefits in a scenario that has a discernible effect on the economics of the transaction.

Insurance contracts transfer insurance risk and may also transfer financial risk. Once a contract has been classified as an insurance contract, it remains an insurance contract for its duration, even if the insurance risk reduces significantly over time. Investment contracts transfer financial risk and no significant insurance risk. Financial risk includes credit risk, liquidity risk and market risk.

A reinsurance contract is an insurance contract in which an insurance entity cedes assumed risks to another insurance entity.

2.10 Policy contracts (continued)

A number of insurance contracts contain a discretionary participation feature. A discretionary participation feature entitles the holder to receive, supplementary to the main benefit, additional benefits or bonuses:

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of management; and
- that are contractually based on
 - the performance of a specified pool of contracts;
 - investment returns on a specified pool of assets held by the insurer; or
 - the profit or loss of a fund or insurer issuing the contract.

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

Residual gains in the participating accounts constitute discretionary participation features which the Group classifies as equity (see also note 2.20).

(b) Recognition and measurement

(i) Property and casualty insurance contracts

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

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

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

2.10 Policy contracts (continued)

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

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

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

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

2.10 Policy contracts (continued)

(ii) Health insurance contracts

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

Premium revenue is accrued when due for contracts where the premium is billed monthly. For contracts where the premium is billed annually or semi-annually, premium revenue is recognised as earned on a pro-rata basis over the term of the respective policy coverage. The provision for unearned premiums represents the portion of premiums written relating to the unexpired terms of coverage.

Claims are recorded on settlement. Reserves are recorded as described in note 2.11.

An insurer may obtain reinsurance coverage for its health insurance risks. The reinsurance ceded premium is expensed on a pro-rata basis over the term of the respective policy coverage or of the reinsurance contract as appropriate.

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

(iii) Long-term traditional insurance contracts

Long-term traditional insurance contracts are generally issued for fixed terms of five years or more, or for the remaining life of the insured. Benefits are typically a death, disability or critical illness benefit, a cash value on termination and/or a monthly annuity. Annuities are generally payable until the death of the beneficiaries with a proviso for a minimum number of payments. Some of these contracts have a discretionary participation feature in the form of regular bonuses or dividends. Other benefits such as disability and waiver of premium on disability may also be included in these contracts. Some contracts may allow for the advance of policy loans to the policyholder and may also allow for dividend withdrawals by the policyholder during the life of the contract.

Premium revenue is recognised when due. Typically, premiums are fixed and are required to be paid within the due period for payment. If premiums are unpaid, either the contract may terminate, an automatic premium loan may settle the premium, or the contract may continue at a reduced value.

2.10 Policy contracts (continued)

Policy benefits are recognised on the notification of death, disability or critical illness, on the termination or maturity date of the contract, on the declaration of a cash bonus or dividend or on the annuity payment date. Policy loans advanced are recorded as loans and receivables in the financial statements and are secured by the cash values of the respective policies. Policy bonuses may be “non-cash” and utilised to purchase additional amounts of insurance coverage. Accumulated cash bonuses and dividends are recorded as interest bearing policy balances.

Reserves for future policy liabilities are recorded as described in note 2.11.

An insurer may obtain reinsurance coverage for death benefit insurance risks. Typically, coverage is obtained for individual coverage exceeding prescribed limits. The reinsurance premium is expensed when due, which generally coincides with when the policy premium is due. Reinsurance claim recoveries are established at the time of claim notification.

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

(iv) Long-term universal life and unit linked insurance contracts

Universal life and unit linked insurance contracts are generally issued for fixed terms or for the remaining life of the insured. Benefits are typically a death, disability or critical illness benefit, a cash value on termination and/or a monthly annuity. Annuities are generally payable until the death of the beneficiaries with a proviso for a minimum number of payments. Benefits may include amounts for disability or waiver of premium on disability.

Universal life and unit linked contracts have either an interest bearing investment account or unit linked investment accounts. Either gross premiums or gross premiums net of allowances are deposited to the investment accounts. Investment returns are credited to the investment accounts and expenses, not included in the aforementioned allowances, are debited to the investment accounts. Interest bearing investment accounts may include provisions for minimum guaranteed returns or returns based on specified investment indices. Allowances and expense charges are in respect of applicable commissions, cost of insurance, administrative expenses and premium taxes. Fund withdrawals may be permitted.

2.10 Policy contracts (continued)

Premium revenue is recognised when received and consists of all monies received from the policyholders. Typically, premiums are fixed at the inception of the contract or periodically thereafter but additional non-recurring premiums may be paid.

Policy benefits are recognised on the notification of death, disability or critical illness, on the receipt of a withdrawal request, on the termination or maturity date of the contract, or on the annuity payment date. Reserves for future policy liabilities are recorded as described in note 2.11.

An insurer may obtain reinsurance coverage for death benefit insurance risks. Typically, coverage is obtained for individual coverage exceeding prescribed limits. The reinsurance premium is expensed when due, which generally coincides with when the policy premium is due. Reinsurance claims recoveries are established at the time of claim notification.

Commissions and premium taxes payable are generally recognised only on settlement of premiums.

(v) Reinsurance contracts assumed

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

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

(vi) Reinsurance contracts held

As noted in sections (i) to (iv) above, an insurer may obtain reinsurance coverage for insurance risks underwritten. The Group cedes insurance premiums and risk in the normal course of business in order to limit the potential for losses arising from its exposures. Reinsurance does not relieve the originating insurer of its liability.

2.10 Policy contracts (continued)

Reinsurance contracts held by an insurer are recognised and measured in a similar manner to the originating insurance contracts and in accordance with the contract terms. Reinsurance premium ceded and reinsurance recoveries on claims are offset against premium revenue and policy benefits in the income statement.

The benefits to which an insurer is entitled under its reinsurance contracts held are recognised as reinsurance assets or receivables. Reinsurance assets and receivables are assessed for impairment. If there is evidence that the asset or receivable is impaired, the impairment is recorded in the statement of income. The obligations of an insurer under reinsurance contracts held are included in accounts payable and accrued liabilities and in actuarial liabilities.

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

(vii) Deposit administration and other investment contracts

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

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

- amortised cost where the insurer is obligated to provide investment returns to the pension scheme in the form of interest;
- fair value through income where the insurer is obligated to provide investment returns to the pension scheme in direct proportion to the investment returns on specified blocks of assets.

Deposit administration contributions are recorded directly as liabilities. Withdrawals are deducted directly from the liability. The interest or investment return provided is recorded as an interest expense.

In addition, the Group may provide pension administration services to the pension schemes. The Group earns fee income for both pension administration and investment services, it is accrued monthly.

2.10 Policy contracts (continued)

Other investment contracts are recognised initially at fair value and are subsequently stated at amortised cost and are accounted for in the same manner as deposit administration contracts which are similarly classified.

(c) Embedded derivatives

Certain insurance contracts contain embedded derivatives which are options whose value may vary in response to changes in interest rates or other market variables.

The Group does not separately measure embedded derivatives that are closely related to the host insurance contract or that meet the definition of an insurance contract. Options to surrender an insurance contract for a fixed amount are also not measured separately. In these cases, the entire contract liability is measured as set out in note 2.11.

(d) Liability adequacy tests

At the date of the financial statements, liability adequacy tests are performed by each insurer to ensure the adequacy of insurance contract liabilities, using current estimates of the related expected future cash flows. If a test indicates that the carrying value of insurance contract liabilities is inadequate, then the liabilities are adjusted to correct the deficiency. The deficiency is included in the income statement under benefits.

2.11 Actuarial liabilities

(a) Life insurance and annuity contracts

The determination of actuarial liabilities of long-term insurance contracts has been done using approaches consistent with Canadian accepted actuarial standards. These liabilities consist of the amounts that, together with future premiums and investment income, are required to provide for future policy benefits, expenses and taxes on insurance and annuity contracts. Canadian standards may change from time to time, but infrequently.

2.11 Actuarial liabilities (continued)

The process of calculating life insurance and annuity actuarial liabilities for future policy benefits necessarily involves the use of estimates concerning such factors as mortality and morbidity rates, future investment yields, future expense levels and persistency, including reasonable margins for adverse deviations. As experience unfolds, these resulting provisions for adverse deviations will be included in future income to the extent they are released when they are no longer required to cover adverse experience. Assumptions used to project benefits, expenses and taxes are based on insurer and industry experience and are updated annually.

Net insurance contract liabilities represent the amount which, together with estimated future premiums and net investment income, will be sufficient to pay projected future benefits, policyholder dividends and refunds, taxes (other than income taxes) and expenses on policies in-force net of reinsurance premiums and recoveries. The determination of net insurance liabilities is based on an explicit projection of cash flows using current assumptions plus a margin for adverse deviation for each material cash flow item. Investment returns are projected using the current asset portfolios and projected reinvestment yields. The period used for the projection of cash flows is the policy lifetime for most individual insurance contracts.

The Group segments assets to support liabilities by major product segment and geographic market and establishes investment strategies for each liability segment. Projected net cash flows from these assets and the policy liabilities being supported by these assets are combined with projected cash flows from future asset purchases to determine expected rates of return on these assets for future years. Investment strategies are based on the target investment policies for each segment and the reinvestment returns are derived from current and projected market rates for fixed income investments. Investment return assumptions for each asset class make provision for expected future asset credit losses, expected investment management expenses and a margin for adverse deviation.

Under this methodology, assets of each insurer are selected to back its actuarial liabilities. Changes in the carrying value of these assets may generate corresponding changes in the carrying amount of the associated actuarial liabilities. These assets include available for sale securities, whose unrealised gains or losses in fair value are recorded in other comprehensive income. The fair value reserve for actuarial liabilities has been established in the statement of equity for the accumulation of changes in actuarial liabilities which are recorded in other comprehensive income and which arise from recognised unrealised gains or losses in fair value of available for sale securities.

2.11 Actuarial liabilities (continued)

Certain life insurance policies issued by the insurer contain equity linked policy side funds. The investment returns on these unitised funds accrue directly to the policies with the insurer assuming no credit risk. Investments held in these side funds are accounted for as financial assets at fair value through income and unit values of each fund are determined by dividing the value of the assets in the fund at the date of the financial statements by the number of units in the fund. The resulting liability is included in actuarial liabilities.

(b) Health insurance contracts

The actuarial liabilities of health insurance policies are estimated in respect of claims that have been incurred but not yet reported or settled.

2.12 Financial liabilities

During the ordinary course of business, the Group issues investment contracts or otherwise assumes financial liabilities that expose the Group to financial risk. The recognition and measurement of the Group's principal types of financial liabilities are disclosed in note 2.10(b) (vii) and in the following paragraphs.

(a) Securities sold for re-purchase

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

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

2.12 Financial liabilities (continued)

(b) Deposit liabilities

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

(c) Loans and other debt obligations

Loans and other debt obligations are recognised initially at fair value, being their issue proceeds, net of transaction costs incurred. Subsequently, obligations are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the loan obligations using the effective yield method.

Obligations undertaken for the purposes of financing operations and capital support are classified as notes or loans payable and the associated cost is classified as finance costs. Loan obligations undertaken for the purposes of providing funds for on-lending, leasing or portfolio investments are classified as deposit and security liabilities and the associated cost is included in interest expense.

(d) Fair value

Fair value amounts represent the price (or estimates thereof) that would be agreed upon in an orderly transaction between market participants at valuation date.

2.13 Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, if it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

2.14 Derivative financial instruments and hedging activities

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

2.14 Derivative financial instruments and hedging activities (continued)

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

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

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

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

2.15 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.16 Presentation of current and non-current assets and liabilities

In note 41.2, the maturity profiles of financial and insurance assets and liabilities are identified. For other assets and liabilities, balances presented in notes 5 to 8, 10 to 12, 14, 18, 19 and 33 are non-current unless otherwise stated in those notes.

2.17 Employee benefits

(a) Pension benefits

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

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

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income and retained earnings or non-controlling interest in the period in which they arise. Past service costs are charged to income in the period in which they arise.

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

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

(b) Other retirement benefits

Certain Group subsidiaries provide supplementary health and life insurance benefits to qualifying employees upon retirement. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income and retained earnings or non-controlling interest in the period in which they arise.

2.17 Employee benefits (continued)

(c) Profit sharing and bonus plans

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

(d) Equity compensation benefits

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

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

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

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

Where the equity instruments do not vest until the individual has completed a further period of service, the services received are expensed in the income statement during the vesting period, with a corresponding increase in the reserve for equity compensation benefits or in non-controlling interest.

Non-market vesting conditions are included in assumptions about the number of instruments that are expected to vest. At each reporting financial statement date, the Group revises its estimates of the number of instruments that are expected to vest based on the non-marketing vesting conditions and adjusts the expense accordingly.

Amounts held in the reserve for equity compensation benefits are transferred to share capital or non-controlling interest either on the distribution of share grants or on the exercise of share options.

2.17 Employee benefits (continued)

The grant by the Company of its equity instruments to employees of Group subsidiaries is treated as a capital contribution in the financial statements of the subsidiary. The full expense relating to the grant is recorded in the subsidiary's income statement.

(ii) Cash-settled share-based transactions with staff

The services received in a cash-settled transaction with staff and the liability to pay for those services, are recognised at fair value as the individual renders services. Until the liability is settled, the fair value of the liability is re-measured at the date of the financial statements and at the date of settlement, with any changes in fair value recognised in income during that period.

(iii) Measurement of the fair value of equity instruments granted

The equity instruments granted consist either of grants of, or options to purchase, common shares of listed entities within the Group. For common shares granted, the listed price prevailing on the grant date determines the fair value. For options granted, the fair value is determined by reference to the Black-Scholes valuation model, which incorporates factors and assumptions that knowledgeable, willing market participants would consider in setting the price of the equity instruments.

(e) Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without the possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve months after the date of the financial statements are discounted to present value.

2.18 Taxes**(a) Premium taxes**

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

Premium tax rates	Life insurance and non-registered annuities	Health insurance	Property and casualty insurance
Barbados	3% - 6%	4%	3% - 5%
Jamaica	Nil	Nil	Nil
Trinidad and Tobago	Nil	Nil	Nil
United States of America	0.75% - 3.5%	Nil	Nil

Premium tax is recognised gross in the statement of income.

(b) Asset tax

The Group is subject to an asset tax in Jamaica and Barbados. In Jamaica, the asset tax is levied on insurance, securities dealers and deposit taking institutions, and is 0.25% of adjusted assets held at the end of the year. In Barbados, the asset tax is levied on insurance, deposit taking institutions and credit unions and is 0.35% of adjusted assets held at the end of a period. Taxes are accrued monthly.

(c) Income taxes

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

2.18 Taxes (continued)

Income tax rates	Life insurance and non-registered annuities	Registered annuities	Other lines of business
Barbados	5% of gross investment income	Nil	25% of net income
Jamaica	25% of profit before tax	Nil	25% - 33.33 % of profit before tax
Trinidad and Tobago	15% (deductions granted only in respect of expenses pertaining to long-term business investment income)	Nil	25% of net income
United States of America	35% of net income	21% of net income	21% of net income

(i) Current income taxes

Current tax is the expected tax payable on the taxable income for the year, using the tax rates in effect for the year. Adjustments to tax payable from prior years are also included in current tax.

(ii) Deferred income taxes

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income taxes are computed at tax rates that are enacted or substantially enacted by the end of the reporting period. Deferred tax assets are only recognised when it is probable that taxable profits will be available against which the asset may be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to do so and once they relate to the same entity. Deferred tax, related to fair value re-measurement of available for sale investments and cash flow hedges which are recorded in other comprehensive income, is recorded in other comprehensive income and is subsequently recognised in income together with the deferred gain or loss.

2.19 Common and preference shares

(a) Common shares

In exchange for consideration received, the Company has issued common shares that are classified as equity. Incremental costs directly attributable to the issue of common shares are recorded in share capital as a deduction from the share issue proceeds.

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

(b) Preference shares

On July 18, 2011, the Company issued convertible redeemable preference shares that are accounted for as a compound financial instrument. The shares were redeemed on July 18, 2016.

The redemption value was recognised as a contractual liability, and was measured initially at its discounted fair value. The discount rate reflected as of July 18, 2011: (i) the rate of interest applicable to a similar liability with a contractual dividend rate, and (ii) the interest premium required by the shareholder for an instrument with a non-contractual dividend.

The preference shareholders' rights to receive dividends were recognised within shareholders' equity, and were measured initially as the residual fair value of the preference shares in their totality after deducting the liability for the redemptive value. The equity component was initially recorded as a preference share reserve in note 22.

Incremental costs directly attributable to the issue of the preference shares were allocated between the liability for the redemption value and the equity reserve in proportion to their initial carrying amounts. After initial recognition, the liability component was accreted to its ultimate redemption value using the effective interest yield method, with the accretion being recorded as a finance cost in the statement of income. After initial recognition, the preference share reserve was transferred to retained earnings pro-rata to the dividends declared over the period to redemption.

No preference shares were converted to common shares prior to the redemption.

2.19 Common and preference shares (continued)

(c) Dividends

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

2.20 Participating accounts

(a) "Closed" participating account

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

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

2.20 Participating accounts (continued)

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

(b) "Open" participating account

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

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

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

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

2.20 Participating accounts (continued)

(c) Financial statement presentation

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

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

2.21 Statutory reserves

Statutory reserves are established when regulatory accounting requirements result in lower distributable profits or when an appropriation of retained earnings is required or permitted by law to protect policyholders, insurance beneficiaries or depositors.

2.22 Interest income and expenses

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

2.23 Fees and other revenue

Fees and non-insurance commission income are recognised on an accrual basis when the service has been provided. Fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised rateably over the period in which the service is provided. Performance linked fees or fee components are recognised when the performance criteria are fulfilled. Other revenue is recognised on an accrual basis when the related service has been provided.

2.24 Cash flows

The following classifications apply to the cash flow statement.

Cash flows from operating activities consist of cash flows arising from revenues, benefits, expenses, taxes, operating assets and operating liabilities. Cash flows from investing activities consist of cash flows arising from long-term tangible and intangible assets to be utilised in the business and in respect of changes in subsidiary holdings, insurance businesses, and associated company and joint venture investments. Cash flows from financing activities consist of cash flows arising from the issue, redemption and exchange of equity instruments and notes and loans payable and from equity dividends payable to holders of such instruments.

Cash and cash equivalents comprise:

- cash balances,
- call deposits,
- other liquid balances with maturities of three months or less from the acquisition date,
- less bank overdrafts which are repayable on demand,
- less other borrowings from financial institutions made for the purpose of meeting cash commitments and which have maturities of three months or less from origination.

Cash equivalents are subject to an insignificant risk of change in value and excluded restricted cash.

2.25 Future accounting developments and reporting changes

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

IFRS (Effective Date)	Subject / Comments
IFRS 9 – Financial Instruments (January 1, 2018)	<p>IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. The standard is effective for accounting periods beginning on or after January 1, 2018.</p> <p>IFRS 9 replaces the guidance in IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit and loss ("FVPL"). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.</p> <p>Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest ("SPPI"). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL. Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.</p>

IFRS (Effective Date)	Subject / Comments
IFRS 9 – Financial Instruments (January 1, 2018) (continued)	<p>Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.</p> <p>Management is in the process of assessing how the Group's business model will impact the classification and measurement of financial assets in scope of IFRS 9. An Implementation Committee was created to oversee the implementation project. The project involves three phases:</p> <ul style="list-style-type: none"> Phase 1: Key decisions; this includes identification of key decisions, deciding on the measurement and classification for all products, determining stage migration and cure rate thresholds; Phase 2: Assessing availability of data, defining and determining detailed credit modelling methodology based on available data, resources and infrastructure, defining and developing methodology to estimate unadjusted credit losses and defining methodology to incorporate forward looking information; Phase 3: Implementation; this includes finalizing forward-looking information, applying multiple scenarios and determining the weight for each scenario to calculate the expected credit losses ("ECL"). <p>Currently management has completed Phase 1 and Phase 2 and management is in the process of completing Phase 3.</p> <p>Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.</p>

2.25 Future accounting developments and reporting changes (continued)

IFRS (Effective Date)	Subject / Comments
IFRS 9 – Financial Instruments (January 1, 2018)	<p>The new standard is not expected to impact the Group's consolidated financial liabilities as there are no financial liabilities which are currently designated at fair value through profit or loss without off-setting assets carried at fair value.</p> <p>IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The new standard relating to hedge accounting is not expected to impact the Group's consolidated financial statements, as the Group does not use hedge accounting.</p> <p>The impairment requirements apply to financial assets measured at amortised cost and FVOCI, lease receivables and certain loan commitments and financial guarantee contracts. At initial recognition, an allowance is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, allowance is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment are considered to be in default or otherwise credit impaired are in 'stage 3'.</p>

IFRS (Effective Date)	Subject / Comments
IFRS 9 – Financial Instruments (January 1, 2018)	<p>The assessment of whether credit risk has increased significantly since initial recognition is performed on an ongoing basis by considering the change in the risk of default occurring over the remaining life of the financial instrument, rather than by considering an increase in ECL.</p> <p>The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Group compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Group's existing risk management processes. At each reporting date, the assessment of a change in credit risk will be individually assessed for those considered individually significant. This assessment is symmetrical in nature, allowing credit risk of financial assets to move back to Stage 1 if the increase in credit risk since origination has reduced and is no longer deemed to be significant.</p> <p>When measuring ECL, the Group must consider the maximum contractual period over which the Group is exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Group is exposed to credit risk and where the credit losses would not be mitigated by management actions.</p>

2.25 Future accounting developments and reporting changes (continued)

IFRS (Effective Date)	Subject / Comments
IFRS 9 – Financial Instruments (January 1, 2018)	<p>The objective of the impairment requirements is to recognize lifetime expected credit losses for all financial instruments for which there have been a significant increases in credit risk since initial recognition – whether assessed on an individual or collective basis – considering all reasonable and supportable information, including that which is forward looking.</p> <p>The ECL is required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forward looking information specific to the counterparty as well as forecasts of economic conditions at the reporting date.</p> <p>In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39. It will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39. Any adjustment on initial adoption of this standard will impact retained earnings.</p> <p>The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.</p>
IFRS 15 - Revenue from contracts with customers (January 1, 2018)	The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

IFRS (Effective Date)	Subject / Comments
IFRS 15 - Revenue from contracts with customers (January 1, 2018)	<p>The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.</p> <p>A new five-step process must be applied before revenue can be recognised:</p> <ul style="list-style-type: none"> • identify contracts with customers • identify the separate performance obligation • determine the transaction price of the contract • allocate the transaction price to each of the separate performance obligations, and • recognise the revenue as each performance obligations is satisfied. <p>Key changes to current practice are:</p> <ul style="list-style-type: none"> • Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. • Revenue may be recognised earlier than under current standards if the consideration varies for any reasons (such as for incentives, rebates, performance fees, royalties, success of an outcome etc.) –minimum amounts must be recognised if they are not at significant risk of reversal. • The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa. • There are new specific rules on licenses, warranties, nonrefundable upfront fees and, consignment arrangements, to name a few. • As with any new standard, there are also increased disclosures.

2.25 Future accounting developments and reporting changes (continued)

IFRS (Effective Date)	Subject / Comments
IFRS 15 - Revenue from contracts with customers (January 1, 2018)	<p>Entities will have a choice of full retrospective application, or prospective application with additional disclosures.</p> <p>The Group's primary activities are insurance and banking. Insurance product revenue recognition is defined in IFRS 4.</p> <p>Banking revenue primarily arises from the recognition of income on financial assets and liabilities in accordance with the provisions of IFRS 9.</p>
IFRS 16 - Leases (January 1, 2019)	<p>IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.</p> <p>The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like Earnings before Interest Tax Depreciation and Amortization will change.</p> <p>Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.</p> <p>The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.</p> <p>The Group is yet to fully assess the impact of this standard.</p>

IFRS (Effective Date)	Subject / Comments
Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2 (January 1, 2018)	<p>The amendments made to IFRS 2 in July 2016 clarify the measurement basis for cash-settled share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. They also introduce an exception to the classification principles in IFRS 2. Where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority, the whole award will be treated as if it was equity-settled provided it would have been equity-settled without the net settlement feature.</p> <p>Entities with the following arrangements are likely to be affected by these changes:</p> <ul style="list-style-type: none"> • equity-settled awards that include net settlement features relating to tax obligations • cash-settled share-based payments that include performance conditions, and • cash-settled arrangements that are modified to equity-settled share-based payments. <p>The Group does not expect the adoption of these improvements to have any material impact.</p>
Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (January 1, 2018)	<p>In September 2016, the IASB published an amendment to IFRS 4 which addresses the concerns of insurance companies about the different effective dates of IFRS 9 Financial instruments and the forthcoming new insurance contracts standard. The amendment provides two different solutions for insurance companies: a temporary exemption from IFRS 9 for entities that meet specific requirements (applied at the reporting entity level), and the 'overlay approach'. Both approaches are optional. The Group has assessed its eligibility for deferral and has concluded that it will adopt IFRS 9 on January 1, 2018.</p>

2.25 Future accounting developments and reporting changes (continued)

IFRS (Effective Date)	Subject / Comments
Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (January 1, 2018)	<p>IFRS 4 (including the amendments) will be superseded by the forthcoming new insurance contracts standard. Accordingly, both the temporary exemption and the 'overlay approach' are expected to cease to be applicable when the new insurance standards becomes effective.</p> <p>The overlay approach will give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued.</p> <p>The Group is currently assessing the impact of this approach on its financial statements.</p>
Annual improvements 2014-2016 cycle (January 1, 2018)	<p>The following improvements were finalised in December 2016:</p> <ul style="list-style-type: none"> IFRS 1 - deleted short-term exemptions covering transition provisions of IFRS 7, IAS 19 and IFRS 10 which are no longer relevant. IAS 28 - clarifies that the election by venture capital organisations, mutual funds, unit trusts and similar entities to measure investments in associates or joint ventures at fair value through profit or loss should be made separately for each associate or joint venture at initial recognition. <p>The Group does not expect the adoption of these improvements to have any material impact.</p>
Transfers of Investment Property – Amendments to IAS 40 (January 1, 2018)	<p>The amendments clarify that transfers to, or from, investment property can only be made if there has been a change in use that is supported by evidence. A change in use occurs when the property meets, or ceases to meet, the definition of investment property. A change in intention alone is not sufficient to support a transfer.</p> <p>The list of evidence for a change of use in the standard was recharacterized as a non-exhaustive list of examples to help illustrate the principle.</p>

IFRS (Effective Date)	Subject / Comments
Transfers of Investment Property – Amendments to IAS 40 (January 1, 2018)	<ul style="list-style-type: none"> The Board provided two options for transition: prospectively, with any impact from the reclassification recognized as adjustment to opening retained earnings as at the date of initial recognition, or retrospectively - only permitted without the use of hindsight <p>Additional disclosures are required if an entity adopts the requirements prospectively.</p> <p>The Group does not expect the adoption of this amendment to have any material impact.</p>
Interpretation 22 Foreign Currency Transactions and Advance Consideration (January 1, 2019)	<p>The interpretation clarifies how to determine the date of transaction for the exchange rate to be used on initial recognition of a related asset, expense or income where an entity pays or receives consideration in advance for foreign currency-denominated contracts.</p> <p>For a single payment or receipt, the date of the transaction should be the date on which the entity initially recognises the non-monetary asset or liability arising from the advance consideration (the prepayment or deferred income/contract liability).</p> <p>If there are multiple payments or receipts for one item, a date of transaction should be determined as above for each payment or receipt.</p> <p>Entities can choose to apply the interpretation:</p> <ul style="list-style-type: none"> retrospectively for each period presented prospectively to items in scope that are initially recognised on or after the beginning of the reporting period in which the interpretation is first applied, or prospectively from the beginning of a prior reporting period presented as comparative information. <p>The Group is yet to assess the impact of this interpretation.</p>

2.25 Future accounting developments and reporting changes (continued)

IFRS (Effective Date)	Subject / Comments	IFRS (Effective Date)	Subject / Comments
<p>IFRS 17 Insurance Contracts (January 1, 2021)</p>	<p>IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of:</p> <ul style="list-style-type: none"> • discounted probability-weighted cash flows • an explicit risk adjustment, and • a contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the coverage period. <p>The standard allows a choice between recognising changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.</p> <p>An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.</p> <p>There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity's share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.</p> <p>The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.</p> <p>The Group is yet to assess the impact of IFRS 17.</p>	<p>Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28</p>	<p>The IASB has made limited scope amendments to IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures.</p> <p>The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 Business Combinations).</p> <p>Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's investors in the associate or joint venture. The amendments apply prospectively.</p> <p>** In December the IASB decided to defer the application date of this amendment until such time as the IASB has finalised its research project on the equity method.</p>

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The development of estimates and the exercise of judgment in applying accounting policies may have a material impact on the Group's reported assets, liabilities, income and other comprehensive income. The items which may have the most effect on the Group's financial statements are set out below.

3.1 Impairment of financial assets

An available for sale debt security or a loan or a receivable is considered impaired when management determines that it is probable that all amounts due according to the original contract terms will not be collected. This determination is made after considering the payment history of the borrower, the discounted value of collateral and guarantees, and the financial condition and financial viability of the borrower. The determination of impairment may either be considered by individual asset or by a grouping of assets with similar relevant characteristics.

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

3.2 Recognition and measurement of intangible assets

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

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

3.3 Impairment of intangible assets

(a) Goodwill

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

The Group updates its business unit financial projections annually and applies discounted cash flow or earnings multiple models to these projections to determine if there is any impairment of goodwill. The assessment of whether goodwill is impaired can be highly sensitive to the inputs of cash flows, income after tax, discount rate, growth rate or capital multiple, which are used in the computation. Further details of the inputs used are set out in note 8.2.

(b) Other intangible assets

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

3.4 Fair value of securities not quoted in an active market

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

3.4 Fair value of securities not quoted in an active market (continued)

The models used to determine fair values are periodically reviewed by experienced personnel. The models used for debt securities are based on net present value of estimated future cash flows, adjusted as appropriate for liquidity, and credit and market risk factors.

3.5 Valuation of actuarial liabilities

(a) Canadian Actuarial Standards

The objective of the valuation of policy liabilities is to determine the amount of the insurer's assets that, in the opinion of the Appointed Actuary (AA) and taking into account the other pertinent items in the financial statements, will be sufficient without being excessive to provide for the policy liabilities over their respective terms. The amounts set aside for future benefits are dependent on the timing of future asset and liability cash flows.

The actuarial liabilities are determined as the present value of liability cash flows discounted at effective interest rates resulting in a value equivalent to the market value of assets supporting these policy liabilities under an adverse economic scenario.

The AA identifies a conservative economic scenario forecast, and together with the existing investment portfolio as at the date of the actuarial valuation and assumed reinvestment of net asset and policy liability cash flows, calculates the actuarial liabilities required at the date of valuation to ensure that sufficient monies are available to meet the liabilities as they become due in future years.

The methodology produces the total reserve requirement for each policy group fund. In general, the methodology is used to determine the net overall actuarial liabilities required by the insurer. Actuarial liabilities are computed by major group of policies and are used to determine the amount of reinsurance balances in the reserve, the distribution of the total reserve by country (for statutory reporting), and the distribution of the reserve by policy, and other individual components in the actuarial liabilities.

Further details of the inputs used are set out in note 43.

(b) Best estimate reserve assumptions & provisions for adverse deviations

Actuarial liabilities include two major components: a best estimate reserve and a provision for adverse deviations. The latter provision is established in recognition of the uncertainty in computing best estimate reserves, to allow for possible deterioration in experience and to provide greater comfort that reserves are adequate to pay future benefits.

For the respective reserve assumptions for mortality and morbidity, lapse, future investment yields, operating expenses and taxes, best estimate reserve assumptions are determined where appropriate. The assumption for operating expenses and taxes is in some instances split by universal life and unit linked business.

Provisions for adverse deviations are established in accordance with the risk profiles of the business, and are, as far as is practicable, standardised across geographical areas. Provisions are determined within a specific range established by the Canadian Standards of Practice.

The principal assumptions and margins used in the determination of actuarial liabilities are summarised in note 13.3. However, the liability resulting from the application of these assumptions can never be definitive as to the ultimate timing or the amount of benefits payable and is therefore subject to future re-assessment.

3.6 Carrying value of the assets and liabilities of the discontinued operation

As of December 31, 2017, the asset of the discontinued operation is the estimated residual amount due from the purchaser arising from the estimated results of the syndicate for the underwriting years of account up to and including 2013, until the end of the run-off period, December 31, 2018. The reported asset is also impacted by movements in various foreign exchange rates as the insured risks are denominated in a number of different currencies. The buyer may also charge a reasonable risk premium at the end of the run-off period.

4 SEGMENTS

The management structure of Sagicor consists of the parent company Board of Directors, the Group Chief Executive Officer (CEO), subsidiary company Boards of Directors and subsidiary company CEOs. For the parent company and principal subsidiaries, there are executive management committees made up of senior management who advise the respective CEOs. The principal subsidiaries have a full management governance structure, a consequence of their being regulated insurance and financial services entities and of the range and diversity of their products and services.

The Group CEO serves as Board Chairman or as a Board Member of the principal subsidiaries and is the Group's Chief Operating decision maker. Through subsidiary company reporting, the Group CEO obtains details of company performance and of resource allocation needs. Summarisation of planning and results and prioritisation of resource allocation is done at the parent company level where strategic decisions are taken.

In accordance with the relevant financial reporting standard, the Group has determined that there are three principal subsidiary Groups within continuing operations which represent the reportable operating segments of Sagicor. These segments and other Group companies are set out in the following sections. Details of the discontinued operating segment are set out in note 38.

(a) Sagicor Life

The group of subsidiaries comprises entities conducting life, health, annuity insurance business, pension administration services and asset management. Until 2015, the segments were (i) Barbados, Eastern Caribbean, Dutch Caribbean, Bahamas and Central America and (ii) Trinidad and Tobago. During 2016, the Group combined the two segments and brought them under common executive management control to allow for greater focus and accountability in the execution of our strategies.

4 SEGMENTS (continued)

Sagicor Life Segment Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagicor Life Inc	Life and health insurance, annuities and pension administration services	Barbados	100%
Sagicor Life Aruba NV	Life and health insurance, annuities and pension administration services	Aruba	100%
Capital Life Insurance Company Bahamas Limited	Life insurance	The Bahamas	100%
Sagicor Panamá, SA	Life and health insurance	Panamá	100%
Nationwide Insurance Company Limited	Life insurance	Trinidad & Tobago	100%
Associates			
RGM Limited	Property ownership and management	Trinidad & Tobago	33%
FamGuard Corporation Limited	Investment holding company	The Bahamas	20%
Principal operating company: Family Guardian Insurance Company Limited	Life and health insurance and annuities	The Bahamas	20%
Primo Holding Limited	Property investment	Barbados	38%

4 SEGMENTS (continued)

(b) Sagicor Jamaica

This segment comprises Group subsidiaries conducting life, health, annuity, property and casualty insurance business, and pension administration services and financial services in Jamaica, Cayman Islands and Costa Rica.

All subsidiaries operating in Jamaica are now wholly owned by Sagicor Group Jamaica Limited. The companies comprising this segment are as follows.

Sagicor Jamaica Segment Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagicor Group Jamaica Limited	Group holding company	Jamaica	49.11%
Sagicor Life Jamaica Limited	Life and health insurance and annuities	Jamaica	49.11%
Sagicor Life of the Cayman Islands Limited	Life insurance	The Cayman Islands	49.11%
Sagicor Pooled Investment Funds Limited	Pension fund management	Jamaica	49.11%
Employee Benefits Administrator Limited	Pension administration services	Jamaica	49.11%
Sagicor Re Insurance Limited	Property and casualty insurance	The Cayman Islands	49.11%
Sagicor Insurance Brokers Limited	Insurance brokerage	Jamaica	49.11%
Sagicor International Administrators Limited	Group insurance administration	Jamaica	49.11%
Sagicor Insurance Managers Limited	Captive insurance management services	The Cayman Islands	49.11%

4 SEGMENTS (continued)

Sagicor Jamaica Segment Companies (continued)	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagicor Property Services Limited	Property management	Jamaica	49.11%
Sagicor Investments Jamaica Limited	Investment banking	Jamaica	49.11%
Sagicor Bank Jamaica Limited	Commercial banking	Jamaica	49.11%
Sagicor Costa Rica SCR, S.A.	Life insurance	Costa Rica	24.56%
LOJ Holdings Limited	Insurance holding company	Jamaica	100%
Sagicor Securities Jamaica Limited	Securities trading	Jamaica	49.11%
Associates			
Sagicor Real Estate X-Fund Limited (note 37)	Investment in real estate activities	St. Lucia	14.39%
Control of Sagicor Group Jamaica Limited is established through the following:			
<ul style="list-style-type: none"> The Group's effective shareholder's interest gives it the power to appoint the directors of the company and thereby direct relevant activities. The Group is exposed to the variable returns from its effective shareholder's interest. The Group has the ability to use the power to affect the amount of investor's returns 			

4 SEGMENTS (continued)

(c) Sagikor Life USA

This segment comprises Sagikor's life insurance operations in the USA and comprises the following:

Sagikor Life USA Segment Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagikor Life Insurance Company	Life insurance and annuities	USA - Texas	100%
Sagikor USA Inc	Insurance holding company	USA - Delaware	100%
Sage Distribution, LLC	Life insurance and annuities	USA - Delaware	100%
Sage Partners, LLC	Life insurance and annuities	USA - Delaware	100%
Sagikor Benfell, LLC	Life insurance and annuities	USA - Delaware	90%
Sagikor Financial Partners, LLC	Life insurance and annuities	USA - Delaware	51%

(d) Head office function and other operating companies

These comprise the following:

Other Group Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagikor Financial Corporation Limited ⁽¹⁾	Group parent company	Bermuda	100%
Sagikor General Insurance Inc	Property and casualty insurance	Barbados	53%

4 SEGMENTS (continued)

(d) Head office function and other operating companies (continued)

These comprise the following:

Other Group Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagikor Finance Inc	Loan and lease financing, and deposit taking	St. Lucia	70%
Sagikor Asset Management (T&T) Limited	Investment management	Trinidad & Tobago	100%
Sagikor Asset Management Inc	Investment management	Barbados	100%
Sagikor Asset Management (Eastern Caribbean) Limited	Investment management	Barbados	100%
Barbados Farms Limited	Farming and real estate development	Barbados	77%
Sagikor Funds Incorporated	Mutual fund holding company	Barbados	100%
Globe Finance Inc	Loan and lease financing, and deposit taking	Barbados	51%
The Mutual Financial Services Inc	Financial services holding company	Barbados	73%
Sagikor Finance Limited	Group financing vehicle	The Cayman Islands	100%
Sagikor Finance (2015) Limited	Group financing vehicle	The Cayman Islands	100%

⁽¹⁾ On July 20, 2016, Sagikor Financial Corporation continued as an exempted company under the laws of Bermuda under the name Sagikor Financial Corporation Limited.

4.1 Statement of income by segment

2017	Sagikor Life	Sagikor Jamaica	Sagikor Life USA	Head office and other	Adjustments	Total
Net premium revenue	308,602	320,067	86,719	30,244	-	745,632
Interest income	77,450	159,462	48,842	8,987	-	294,741
Other investment income	10,350	47,459	26,160	669	(143)	84,495
Fees and other revenues	11,895	62,580	(2,539)	21,836	(32)	93,740
Gain arising on business combinations, acquisitions and divestitures	-	2,261	-	-	-	2,261
Inter-segment revenues	12,931	-	-	71,150	(84,081)	-
	421,228	591,829	159,182	132,886	(84,256)	1,220,869
Net policy benefits	197,716	171,038	87,606	27,125	-	483,485
Net change in actuarial liabilities	11,908	83,338	27,081	-	-	122,327
Interest expense	12,217	37,501	2,144	3,087	-	54,949
Administrative expenses	68,113	127,855	28,298	41,320	1,841	267,427
Commissions and premium and asset taxes	45,613	42,967	15,071	8,667	-	112,318
Finance costs	-	1,089	156	(251)	33,752	34,746
Depreciation and amortisation	6,437	9,219	2,491	3,724	-	21,871
Inter-segment expenses	5,647 ⁽¹⁾	1,858	(3,031) ⁽¹⁾	12,582	(17,056)	-
	347,651	474,865	159,816	96,254	18,537	1,097,123
Segment income / (loss) before taxes	73,577	116,964	(634)	36,632	(102,793)	123,746
Income taxes	(9,868)	(22,824)	14,127	(12)	-	(18,577)
Net income / (loss) from continuing operations	63,709	94,140	13,493	36,620	(102,793)	105,169
Net income/(loss) attributable to shareholders from continuing operations	64,753	46,235	13,493	6,683	(69,041)	62,123
Total comprehensive income/(loss) attributable to shareholders from continuing operations	59,864	75,876	21,555	6,564	(67,718)	96,141

⁽¹⁾ During 2015, Sagikor Life USA entered into a reinsurance agreement with Sagikor Life; included in the inter-segment expenses is \$4,700 relating to this transaction.

4.1 Statement of income by segment (continued)

2016	Sagikor Life	Sagikor Jamaica	Sagikor Life USA	Head office and other	Adjustments	Total
Net premium revenue	299,565	268,482	74,383	21,526	-	663,956
Interest income	77,394	157,758	47,958	9,758	-	292,868
Other investment income	3,114	42,753	10,450	2,883	1,284	60,484
Fees and other revenues	19,107	54,968	16,095	26,654	15	116,839
Inter-segment revenues	11,946	-	-	60,129	(72,075)	-
	411,126	523,961	148,886	120,950	(70,776)	1,134,147
Net policy benefits	196,116	168,757	79,625	9,161	-	453,659
Net change in actuarial liabilities	3,152	38,350	3,750	-	-	45,252
Interest expense	13,393	41,455	2,853	3,747	-	61,448
Administrative expenses	68,990	112,156	32,752	40,040	1,388	255,326
Commissions and premium and asset taxes	44,152	39,979	15,584	9,534	-	109,249
Finance costs	-	-	63	(136)	38,406	38,333
Depreciation and amortisation	6,505	8,017	1,551	5,210	-	21,283
Inter-segment expenses	5,720 ⁽¹⁾	1,419	(3,575) ⁽¹⁾	11,581	(15,145)	-
	338,028	410,133	132,603	79,137	24,649	984,550
Segment income / (loss) before taxes	73,098	113,828	16,283	41,813	(95,425)	149,597
Income taxes	(8,177)	(23,678)	(5,797)	(3,544)	(504)	(41,700)
Net income / (loss) from continuing operations	64,921	90,150	10,486	38,269	(95,929)	107,897
Net income/(loss) attributable to shareholders from continuing operations	64,811	44,275	10,486	(1,790)	(57,523)	60,259
Total comprehensive income/(loss) attributable to shareholders from continuing operations	50,414	45,840	12,802	(3,378)	(59,867)	45,811

⁽¹⁾ During 2015, Sagikor Life USA entered into a reinsurance agreement with Sagikor Life; included in the inter-segment expenses is \$4,819 relating to this transaction.

4.1 Statement of income by segment (continued)

The principal non-controlling interests in the Group are in respect of Sagicor Group Jamaica Limited (Sagicor Jamaica).

Out of the total net income attributable to non-controlling interests of \$44,090 (2016 - \$47,528), Sagicor Jamaica contributed \$47,905 (2016 - \$45,876).

4.2 Variations in segment income

Variations in segment income may arise from non-recurring or other significant factors. The most common factors contributing to variations in segment income are as follows.

(i) Investment gains

Fair value investment gains are recognised on:

- the revaluation of investment property;
- the revaluation of debt and equity securities classified as at fair value through income;
- the disposal of debt and equity securities classified as available for sale or loans and receivables.

Therefore, significant gains and losses may be triggered by changes in market prices and / or by decisions to dispose of investments.

(ii) Allowances for impairment of financial investments

Significant impairment losses may be triggered by changes in market prices and economic conditions.

(iii) Gains on acquisitions/divestitures

On acquisition of a business or portfolio, if the fair value of the net assets acquired exceeds the total consideration transferred, the difference is recognized directly in the statement of income. Similarly on sale if the consideration received exceeds the carrying value of the business or portfolio a gain is recognised in the statement of income.

4.2 Variations in segment income (continued)

(iv) Foreign exchange gains and losses

Movements in foreign exchange rates may generate significant exchange gains or losses when the foreign currency denominated monetary assets and liabilities are re-translated at the date of the financial statements.

(v) Movements in actuarial liabilities arising from changes in assumptions

The change in actuarial liabilities for the year includes the effects arising from changes in assumptions. The principal assumptions in computing the actuarial liabilities on life and annuity contracts relate to mortality and morbidity, lapse, investment yields, asset default and operating expenses and taxes. Because the process of changes in assumptions is applied to all affected insurance contracts, changes in assumptions may have a significant effect in the period in which they are recorded.

4.2 Variations in segment income (continued)

The table below summarises by segment the individual line items within income from continuing operations which are impacted by the foregoing factors.

Variations in income by segment	2017					2016				
	Sagikor Life	Sagikor Jamaica	Sagikor Life USA	Head Office and Other	Total	Sagikor Life	Sagikor Jamaica	Sagikor Life USA	Head Office and Other	Total
Investment gains / (losses)	5,136	47,768	24,815	696	78,415	999	42,669	15,586	2,882	62,136
Impairment of financial investments	56	(8,251)	-	(166)	(8,361)	(328)	(4,652)	(4,488)	(153)	(9,621)
Foreign exchange gains	514	(4,864)	-	172	(4,178)	8,725	3,566	-	273	12,564
Gains on acquisitions/ divestitures	-	2,261	-	-	2,261	-	-	-	-	-
Decrease / (increase) in actuarial liabilities from changes in assumptions	23,602	27,417	(11,120)	-	39,899	21,682	3,805	(18,176)	-	7,311
	29,308	64,331	13,695	702	108,036	31,078	45,388	(7,078)	3,002	72,390

4.3 Other comprehensive income

Variations in other comprehensive income may arise also from non-recurring or other significant factors. The most common are as follows:

(i) Unrealised investment gains and losses

Fair value investment gains and losses are recognised on the revaluation of debt and equity securities classified as available for sale. Therefore, significant gains and losses may be triggered by changes in market prices.

(ii) Changes in actuarial liabilities

Changes in unrealised investment gains identified in (i) above may also generate significant changes in actuarial liabilities as a result of the use of asset liability matching in the liability estimation process.

(iii) Foreign exchange gains and losses

Movements in foreign exchange rates may generate significant exchange gains or losses on the re-translation of the financial statements of foreign currency reporting units.

(iv) Defined benefit plans gains and losses

Experience adjustments and changes in actuarial assumptions gives rise to gains or losses on defined benefit plans.

The table below summarises by segment the individual line items within other comprehensive income from continuing operations which are impacted by the foregoing factors.

	Variations in other comprehensive income by segment					Total
	Sagikor Life	Sagikor Jamaica	Sagikor Life USA	Head Office and other	Adjustments	
2017						
Unrealised investment gains	6,873	26,143	22,147	194	2,543	57,900
Changes in actuarial liabilities	(4,122)	5,135	(14,488)	-	-	(13,475)
Retranslation of foreign currency operations	(444)	11,405	-	(1,139)	(101)	9,721
Gains on defined benefit plans	99	22,249	-	1,566	-	23,914
2016						
Unrealised investment (losses) / gains	(2,474)	32,226	11,034	(137)	(1,466)	39,183
Changes in actuarial liabilities	961	(5,647)	(12,404)	-	-	(17,090)
Retranslation of foreign currency operations	(7,490)	(21,058)	-	10	57	(28,481)
Losses on defined benefit plans	(4,924)	(7,369)	-	(1,582)	-	(13,875)

4.4 Statement of financial position by segment

	Sagicor Life	Sagicor Jamaica	Sagicor Life USA	Head office and other	Adjustments	Total
2017						
Financial investments	1,386,182	2,291,191	1,123,623	152,245	-	4,953,241
Other external assets	351,871	531,671	856,271	182,468	(70,990)	1,851,291
Assets of discontinued operation	-	-	-	10,110	-	10,110
Inter-segment assets	214,767	13,347	2,505	62,101	(292,720)	-
Total assets	1,952,820	2,836,209	1,982,399	406,924	(363,710)	6,814,642
Policy liabilities	1,296,525	766,550	1,495,300	66,612	(70,990)	3,553,997
Other external liabilities	89,643	1,505,444	194,836	538,394	-	2,328,317
Inter-segment liabilities	27,285	4,098	51,587	209,750	(292,720)	-
Total liabilities	1,413,453	2,276,092	1,741,723	814,756	(363,710)	5,882,314
Net assets	539,367	560,117	240,676	(407,832)	-	932,328
2016						
Financial investments	1,403,870	2,212,153	1,068,244	129,481	-	4,813,748
Other external assets	324,570	450,104	829,889	189,807	(76,198)	1,718,172
Inter-segment assets	199,858	11,555	2,759	54,006	(268,178)	-
Total assets	1,928,298	2,673,812	1,900,892	373,294	(344,376)	6,531,920
Policy liabilities	1,272,500	675,019	1,434,678	55,061	(76,198)	3,361,060
Other external liabilities	86,871	1,544,651	203,929	539,995	-	2,375,446
Inter-segment liabilities	39,434	3,715	43,838	181,191	(268,178)	-
Total liabilities	1,398,805	2,223,385	1,682,445	776,247	(344,376)	5,736,506
Net assets	529,493	450,427	218,447	(402,953)	-	795,414

4.4 Statement of financial position by segment (continued)

The principal non-controlling interests in the Group are in respect of Sagicor Group Jamaica Limited (Sagicor Jamaica). Out of the total non-controlling interests in the statement of financial position of \$308,089 (2016 - \$257,974), Sagicor Jamaica contributed \$274,211 (2016 - \$219,361).

4.5 Additions to non-current assets by segment

Segment operations include certain non-current assets comprising investment property, property, plant and equipment, investment in associated companies and intangible assets. Additions to these categories for the year are as follows:

	2017	2016
Sagicor Life	9,822	4,534
Sagicor Jamaica	17,297	8,922
Sagicor Life USA	3,175	5,782
Head office and other	1,649	5,565
	<u>31,943</u>	<u>24,803</u>

4.6 Products and services

Total external revenues relating to the Group's products and services are summarised as follows:

	2017	2016
Life, health and annuity insurance contracts issued to individuals	678,848	635,288
Life, health and annuity insurance and pension administration contracts issued to groups	307,046	276,893
Property and casualty insurance	42,026	36,621
Banking, investment management and other financial services	162,497	157,573
Farming and unallocated revenues	30,451	27,772
	<u>1,220,869</u>	<u>1,134,147</u>

4.7 Geographical areas

The Group operates in certain geographical areas which are determined by the location of the subsidiary or branch initiating the business.

Group operations in geographical areas include certain non-current assets comprising investment property, property, plant and equipment, investment in associated companies and intangible assets.

Total external revenues and non-current assets by geographical area are summarised in the following table.

	External revenue		Non-current assets	
	2017	2016	2017	2016
Barbados	169,135	170,271	188,005	193,522
Jamaica	560,906	495,476	133,275	120,178
Trinidad & Tobago	173,027	166,066	65,559	66,115
Other Caribbean	158,759	152,161	28,465	30,025
USA	159,042	150,173	10,009	9,325
	<u>1,220,869</u>	<u>1,134,147</u>	<u>425,313</u>	<u>419,165</u>

5 INVESTMENT PROPERTY

The movement in investment property for the year is as follows:

	2017	2016
Balance, beginning of year	80,662	79,172
Additions at cost	-	7
Transfer from real estate developed for resale (note 12)	-	555
Transfer (to) / from property, plant and equipment (note 7)	-	846
Disposals	-	(825)
Change in fair values	74	1,847
Effects of exchange rate changes	80	(940)
Balance, end of year	80,816	80,662

Investment property includes \$9,971 (2016 - \$10,603) which represents the Group's proportionate interest in joint operations summarised in the following table.

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

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

6 ASSOCIATES AND JOINT VENTURES

6.1 Interest in Associates and Joint Ventures

Name of Entity	Country of Incorporation	% of ownership interest		Nature of relationship	Measurement Method	Carrying Amount	
		2017	2016			2017	2016
RGM Limited	Trinidad & Tobago	33%	33%	Associate	Equity Method	22,348	22,346
FamGuard Corporation Limited ⁽¹⁾	Bahamas	20%	20%	Associate	Equity Method	15,088	13,700
Primo Holding Limited	Barbados	38%	38%	Associate	Equity Method	330	355
Sagicor Costa Rica SCR, S.A.	Costa Rica	50%	50%	Joint Venture	Equity Method	2,860	3,107
Sagicor Real Estate X-Fund Limited ⁽²⁾⁽³⁾	St. Lucia	29%	29%	Associate	Equity Method	56,597	47,785
						<u>97,223</u>	<u>87,293</u>

⁽¹⁾ FamGuard Corporation Limited is listed on the Bahamas International Securities Exchange. The proportionate share of market value calculated on the basis of the year-end closing rate of \$6.00 per share was \$12,000 (2016 – \$11,000).

⁽²⁾ The Sagicor Real Estate X Fund Limited traded on the Jamaica Stock Exchange. The proportionate share of market value calculated on the basis of the year-end closing rate of \$0.12 (J\$15.00) per share was \$78,895 (2016 - \$66,508).

⁽³⁾ The Group both acquired and sold shares in Sagicor Real Estate X-Fund Limited during the year. These movements and the resulting gain on disposal are disclosed in note 37.

6.2 Commitments

Commitments at the year-end if called are \$374 (2016 – Nil).

6.3 Summarised Financial Information

	RGM Limited		FamGuard Corporation Limited		Primo Holding Limited		Sagikor Costa Rica SCR, S.A.		Sagikor Real Estate X-Fund Limited	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
ASSETS										
Financial investments	-	-	283,967	269,154	-	-	8,581	9,765	129,115	122,129
Cash resources	4,077	6,688	15,402	15,685	-	-	3,612	3,561	7,756	9,478
Other investments and assets	126,423	126,117	62,678	61,288	1,000	1,050	11,357	4,950	241,075	214,553
Total assets	130,500	132,805	362,047	346,127	1,000	1,050	23,550	18,276	377,946	346,160
LIABILITIES										
Policy liabilities	-	-	225,334	220,829	-	-	1,067	3,761	-	-
Other liabilities	63,457	65,771	13,216	13,073	219	204	16,761	8,299	195,739	190,669
Total liabilities	63,457	65,771	238,550	233,902	219	204	17,828	12,060	195,739	190,669
Net Assets	67,043	67,034	123,497	112,225	781	846	5,722	6,216	182,207	155,491

6.3 Summarised Financial Information (continued)

	RGM Limited		FamGuard Corporation Limited		Primo Holding Limited		Sagikor Costa Rica SCR, S.A.		Sagikor Real Estate X-Fund Limited	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Reconciliation to carrying amounts:										
Investment, beginning of year	22,346	23,199	13,700	14,059	355	362	3,107	6,326	47,785	40,584
Additions	-	-	-	-	-	-	152	188	6,756	-
Transfers/Disposals	-	-	-	-	-	-	-	(2,886)	(6,221)	-
Dividends received	(1,281)	(470)	(480)	(580)	-	-	-	-	(800)	(738)
Share of income/(loss) before taxes	1,531	1,158	1,683	240	(25)	(7)	(76)	66	6,736	3,968
Share of amortisation or impairment of intangible assets which were identified on acquisition	-	-	(72)	(72)	-	-	-	-	-	-
Share of income taxes	(191)	(402)	-	-	-	-	-	-	-	-
Share of other comprehensive income/(loss)	-	-	257	53	-	-	(400)	(264)	828	6,762
Effects of exchange rate changes	(57)	(1,139)	-	-	-	-	77	(323)	1,513	(2,791)
Investment, end of year	22,348	22,346	15,088	13,700	330	355	2,860	3,107	56,597	47,785

Year ended December 31, 2017

6.3 Summarised Financial Information (continued)

	RGM Limited		FamGuard Corporation Limited		Primo Holding Limited		Sagikor Costa Rica SCR, S.A.		Sagikor Real Estate X-Fund Limited	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Summarised statement of comprehensive income										
REVENUE										
Net premium revenue	-	-	92,705	90,753	-	-	12,735	5,785	-	-
Net investment and other income	24,768	23,522	23,331	28,593	-	-	1,029	668	101,547	82,865
Total revenue	24,768	23,522	116,036	119,346	-	-	13,764	6,453	101,547	82,865
BENEFITS AND EXPENSES										
Benefits	-	-	71,701	78,106	-	-	9,118	3,393	-	-
Expenses	19,663	19,916	36,092	36,762	66	18	4,269	2,626	77,986	67,411
Total benefits and expenses	19,663	19,916	107,793	114,868	66	18	13,387	6,019	77,986	67,411
INCOME BEFORE TAXES	5,105	3,606	8,243	4,478	(66)	(18)	377	434	23,561	15,454
Income taxes	(572)	(1,195)	-	-	-	-	(529)	(301)	(2,087)	(1,916)
NET INCOME FOR THE PERIOD	4,533	2,411	8,243	4,478	(66)	(18)	(152)	133	21,474	13,538
Other comprehensive income	-	-	1,413	634	-	-	(632)	(670)	2,824	23,070
Total comprehensive income	4,533	2,411	9,656	5,112	(66)	(18)	(784)	(537)	24,298	36,608
Dividends received from associates and joint ventures	1,281	470	480	580	-	-	-	-	800	738

7 PROPERTY, PLANT AND EQUIPMENT

	2017					2016				
	Owner-occupied property		Office furnishings, equipment & vehicles	Operating lease vehicles & equipment	Total	Owner-occupied properties		Office furnishings, equipment & vehicles	Operating lease vehicles & equipment	Total
	Lands	Land & buildings				Land	Land & buildings			
Net book value, beginning of year	37,185	77,855	41,179	11,504	167,723	38,031	80,694	39,310	12,214	170,249
Additions at cost	-	3,175	15,101	577	18,853	-	2,680	13,787	3,869	20,336
Transfer (to) / from investment property (note 5)	-	-	-	-	-	(846)	-	-	-	(846)
Transfer to intangible assets (note 8)	-	-	(729)	-	(729)	-	-	(2,885)	-	(2,885)
Other transfers	-	(121)	(50)	(1,368)	(1,539)	-	-	613	-	613
Transfers to real estate developed or held for sale (note 12)	-	(1,575)	-	-	(1,575)	-	-	-	-	-
Disposals	-	-	(349)	(3,282)	(3,631)	-	(753)	(508)	(1,612)	(2,873)
Change in fair values	(1,953)	(274)	-	-	(2,227)	-	(1,583)	-	-	(1,583)
Depreciation charge	-	(1,098)	(9,211)	(1,865)	(12,174)	-	(1,105)	(8,370)	(2,967)	(12,442)
Effects of exchange rate changes	-	503	356	-	859	-	(2,078)	(768)	-	(2,846)
Net book value, end of year	35,232	78,465	46,297	5,566	165,560	37,185	77,855	41,179	11,504	167,723
Represented by:										
Cost or valuation	35,232	81,697	134,103	11,897	262,929	37,185	81,004	120,299	18,755	257,243
Accumulated depreciation	-	(3,232)	(87,806)	(6,331)	(97,369)	-	(3,149)	(79,120)	(7,251)	(89,520)
	35,232	78,465	46,297	5,566	165,560	37,185	77,855	41,179	11,504	167,723

Owner-occupied lands are largely utilised for farming operations.

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

8 INTANGIBLE ASSETS

8.1 Analysis of intangible assets and changes for the year

	2017				2016			
	Goodwill	Customer & broker relationships	Software	Total	Goodwill	Customer & broker relationships	Software	Total
Net book value, beginning of year	43,911	13,737	25,839	83,487	45,272	16,441	26,470	88,183
Additions at cost	-	-	6,182	6,182	-	-	4,272	4,272
Transfer from property, plant and equipment (note 7)	-	-	729	729	-	-	2,885	2,885
Amortisation/impairment charges	-	(1,674)	(7,951)	(9,625)	-	(1,719)	(7,050)	(8,769)
Divestitures and disposals	-	-	-	-	-	-	-	-
Effects of exchange rate changes	323	328	290	941	(1,361)	(985)	(738)	(3,084)
Net book value, end of year	44,234	12,391	25,089	81,714	43,911	13,737	25,839	83,487
Represented by:								
Cost or valuation	44,234	36,552	71,006	151,792	43,911	35,579	63,466	142,956
Accumulated depreciation and impairments	-	(24,161)	(45,917)	(70,078)	-	(21,842)	(37,627)	(59,469)
	44,234	12,391	25,089	81,714	43,911	13,737	25,839	83,487

8.2 Impairment of intangible assets

Goodwill arises from past acquisitions and is allocated to cash generating units (CGUs). Goodwill is tested annually for impairment. The recoverable amount of a CGU is determined as the higher of its value in use or its fair value less costs to sell.

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

As disclosed in note 2.7 (a) goodwill is allocated to the Group's reportable operating segments. During 2016, as disclosed in note 4, the Group combined the Barbados, Eastern Caribbean, Dutch Caribbean, the Bahamas and Central America segment with its Trinidad and Tobago operating segment. Goodwill is allocated to this combined segment and has been tested for impairment at this level.

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

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

(a) *Sagikor Life operating segment*

	2017	2016
Carrying value of goodwill	26,552	26,576

8.2 Impairment of intangible assets (continued)

(i) *Years ended December 31, 2017 & 2016*

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

- Discount rates of 10% (2016, 7 - 11%) for individual life and annuity inforce business,
- New individual life and annuity business was included for the seven year period 2018 to 2024, (five year period 2017 to 2021)
- Annual growth rate for new individual life and annuity business was 12.4% - 21.0% for 2018 and 5% - 16.8 % from 2019 to 2024 (2017 - 0% - 21.8% and 5% to 19.7% from 2018 to 2021),
- Discount rates of 14% (2016, 11 - 15%) for new individual life and annuity business,
- Required Minimum Continuing Capital and Surplus Ratio (MCCSR) of 175% (2016 - 175%).

Sensitivity

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

Sagikor Life Inc Segment			MCCSR target ratio		
			Low	Mid	High
Discount rate	Inforce	New business	150%	175%	200%
Low	8%	12%	253,334	245,807	237,899
Mid	10%	14%	102,371	90,688	78,481
High	12%	16%	(10,104)	(24,348)	(39,153)

8.2 Impairment of intangible assets (continued)

(b) Sagikor Jamaica operating segment

	2017	2016
Carrying value of goodwill	13,398	13,051

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

Sensitivity

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

	2017 test		
	Scenario 1	Scenario 2	Scenario 3
After tax earnings multiples	8.6	7.3	4.9
Reduction in forecast earnings	n/a	10%	10%
Excess of recoverable amount (of 49.11% interest)	150,046	73,893	n/a
Impairment (of 49.11% interest)	Nil	Nil	(38,679)

8.2 Impairment of intangible assets (continued)

(c) Sagikor General Insurance Inc

	2017	2016
Carrying value of goodwill	4,284	4,284

The Group recognised goodwill on the acquisition of its interests in Sagikor General Insurance Inc. The value in use methodology has been used to test goodwill impairment in both years. The pre-tax discount factor was 20.8% (2016 –12.8%) which was derived from an after tax factor of 15.0% (2016 – 12.5%) using an iterative method. The residual growth rate was 2.5% (2016 – 4.4%).

Sensitivity

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

	2017 test		
	Scenario 1	Scenario 2	Scenario 3
After tax discount factor	15.0	15.0	18.0
Residual growth rate	2.5	2.1	2.1
Reduction in residual growth rate	n/a	16%	16%
Increase in after tax discount factor	n/a	n/a	20%
Excess of recoverable amount (of 53.0% interest)	21,394	19,115	17,375
Impairment (of 53.0% interest)	Nil	Nil	Nil

9 FINANCIAL INVESTMENTS

9.1 Analysis of financial investments

	2017		2016	
	Carrying value	Fair value	Carrying value	Fair value
Held to maturity securities:				
Debt securities	-	-	20,665	21,688
Available for sale securities:				
Debt securities	2,266,275	2,266,275	2,271,020	2,271,020
Equity securities	86,862	86,862	96,684	96,684
	2,353,137	2,353,137	2,367,704	2,367,704
Financial assets at fair value through income:				
Debt securities	180,484	180,484	164,005	164,005
Equity securities	158,621	158,621	123,524	123,524
Derivative financial instruments (note 41.6)	32,477	32,477	28,980	28,980
Mortgage loans	45,447	45,447	40,347	40,347
	417,029	417,029	356,856	356,856
Loans and receivables:				
Debt securities	1,051,683	1,155,331	985,664	1,042,108
Mortgage loans	296,939	296,867	291,419	291,154
Policy loans	142,132	149,995	137,940	148,141
Finance loans and finance leases	564,399	551,922	508,975	491,131
Securities purchased for re-sale	16,518	16,518	5,227	5,227
Deposits	111,404	111,404	139,298	139,298
	2,183,075	2,282,037	2,068,523	2,117,059
Total financial investments	4,953,241	5,052,203	4,813,748	4,863,307

9.1 Analysis of financial investments (continued)

	2017	2016
Non-derivative financial assets at fair value through income comprise:		
Assets designated at fair value upon initial recognition	375,917	316,700
Assets held for trading	8,635	11,176
Debt securities comprise:		
Government and government-guaranteed debt securities	1,701,250	1,765,558
Collateralised mortgage obligations	240,363	214,320
Corporate debt securities	1,444,086	1,352,387
Other securities	112,743	109,089
	3,498,442	3,441,354

Debt securities include \$804 (2016 - \$1,836) that contain options to convert to common shares of the issuer.

Corporate debt securities include \$28,496 (2016 - \$29,693) in bonds issued by an associated company.

Equity securities include \$166,899 (2016 - \$146,708) in mutual funds managed by the Group.

9.2 Pledged assets

Debt and equity securities include \$140,418 (2016 - \$275,250) as collateral for loans payable and other funding instruments.

Collateral for the obligation to the Federal Home Loan Bank of Dallas (FHLB) which is included in other funding instruments (note 17), consists of an equity holding in the FHLB with a market value of \$6,520 (2016 - \$5,982), and mortgages and mortgage backed securities having a total market value of \$155,636 (2016 - \$139,630).

Debt securities are pledged as collateral under repurchase agreements with customers and other financial institutions and for security relating to overdraft and other facilities with other financial institutions. As of December 31, 2017, these pledged assets totalled \$514,674 (2016 - \$328,062). Of these assets pledged as security, \$513,468 (2016 - \$326,884) represents collateral for securities sold under agreements to repurchase in instances when the transferee has the right by contract or by custom to sell or re-pledge the collateral.

9.3 Returns accruing to the benefit of contract-holders

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

	2017	2016
Debt securities	143,167	133,862
Equity securities	154,775	123,524
Mortgage loans	45,381	40,271
	<u>343,323</u>	<u>297,657</u>

9.4 Reclassification of financial investments

In 2008, the Group reclassified certain securities from the available for sale classification to the loans and receivables classification. The assets reclassified were primarily:

- Government of Jamaica debt securities with a maturity date of 2018 and after, which are held to back long-term insurance liabilities; and
- Non-agency collateralised mortgage obligations in the USA.

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

The following disclosures are in respect of these reclassified assets.

	2017		2016	
	Carrying value	Fair value	Carrying value	Fair value
Government debt securities maturing after September 2018	26,344	35,367	27,591	35,879
Other debt securities	922	1,239	1,624	2,217
	<u>27,266</u>	<u>36,606</u>	<u>29,215</u>	<u>38,096</u>
			2017	2016
Cumulative net fair value gain, beginning of year			5,090	4,263
Net fair value gains			3,245	1,887
Disposals			(778)	(971)
Effect of exchange rate changes			84	(89)
Cumulative net fair value gain, end of year			<u>7,641</u>	<u>5,090</u>

9.4 Reclassification of financial investments (continued)

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

10 REINSURANCE ASSETS

	2017	2016
Reinsurers' share of:		
Actuarial liabilities (note 13.1)	736,547	713,252
Policy benefits payable (note 14.2)	41,571	35,994
Provision for unearned premiums (note 14.3)	11,561	21,775
Other items	7,712	6,323
	<u>797,391</u>	<u>777,344</u>

The provision for unearned premiums and other items are expected to mature within one year of the financial statements date.

11 INCOME TAX ASSETS

	2017	2016
Deferred income tax assets (note 33)	20,477	36,279
Income and withholding taxes recoverable	19,503	23,296
	<u>39,980</u>	<u>59,575</u>

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

12 MISCELLANEOUS ASSETS AND RECEIVABLES

	2017	2016
Net defined benefit assets (note 31)	6,059	1,333
Real estate developed or held for resale (ii)	12,986	10,162
Prepaid and deferred expenses (ii)	22,885	21,047
Premiums receivable	53,446	46,530
Legal claim (iii)	70,946	52,720
Other assets and accounts receivable (i)	62,221	51,226
	<u>228,543</u>	<u>183,018</u>

(i) Other assets and accounts receivables include \$7,892 (2016 - \$9,880) due from managed funds.

(ii) Real estate developed for resale includes \$7,291 (2016 - \$7,878) which is expected to be realised within one year of the financial statements date. Prepaid and deferred expenses are also expected to be realised within one year of the financial statements date.

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

This claim pre-dated the acquisition of the Bank by Sagikor Group Jamaica Limited, and also pre-dated the acquisition of control of the Bank by RBTT from Finsac Limited ("Finsac") in 2001.

By virtue of the Share Sale Agreement entered into between Finsac, RBTT Financial Holdings Limited and RBTT International Limited, Finsac agreed to fully indemnify RBTT International Limited against any loss the bank may suffer in this matter. As the current owner of Sagikor Bank Jamaica Limited, Sagikor Group, is the current beneficiary of the Indemnity. The Indemnity from Finsac is further supported by a Government of Jamaica Guarantee on a full indemnity basis.

The decision of the Supreme Court was appealed and is pending as at December 31, 2017. The amount previously awarded to the Claimant has been recorded as receivable from Finsac/Government of Jamaica and correspondingly payable to the claimant with accrued interest. (note 20)

During 2017, interest was accrued on this liability and resulted in an increase in the amount outstanding to \$70.9 million.

13 ACTUARIAL LIABILITIES

13.1 Analysis of actuarial liabilities

	Gross liability		Reinsurers' share	
	2017	2016	2017	2016
Contracts issued to individuals:				
Life insurance - participating policies	238,695	238,604	51	51
Life insurance and annuity - non-participating policies	1,971,894	1,889,653	719,494	694,882
Health insurance	13,189	13,926	433	438
Unit linked funds	219,533	177,454	-	-
Reinsurance contracts held	30,121	28,894	-	-
	2,473,432	2,348,531	719,978	695,371
Contracts issued to groups:				
Life insurance	32,057	30,404	79	118
Annuities	411,259	362,980	16,418	17,660
Health insurance	34,072	34,447	72	103
	477,388	427,831	16,569	17,881
Total actuarial liabilities	2,950,820	2,776,362	736,547	713,252

The following notes are in respect of the foregoing table:

- Life insurance includes coverage for disability and critical illness.
- Actuarial liabilities include \$83,277 (2016 - \$83,238) in assumed reinsurance.
- The liability for reinsurance contracts held occurs because the reinsurance premium costs exceed the mortality costs assumed in determining the gross liability of a policy contract.

13.2 Movement in actuarial liabilities

	Gross liability		Reinsurers' share	
	2017	2016	2017	2016
Balance, beginning of year	2,776,362	2,632,387	713,252	601,597
Changes in actuarial liabilities:				
Recorded in income (note 27)	145,656	156,983	23,329	111,731
Recorded in other comprehensive income	19,213	23,769	-	-
Other movements	(227)	1	2	(62)
Effect of exchange rate changes	9,816	(36,778)	(36)	(14)
Balance, end of year	2,950,820	2,776,362	736,547	713,252
Analysis of changes in actuarial liabilities				
Arising from increments and decrements of inforce policies and from the issuance of new policies	171,398	206,505	18,089	105,642
Arising from changes in assumptions for mortality, lapse, expenses, investment yields and asset default	(39,899)	(7,311)	-	-
Other changes:				
Actuarial modelling, refinements, improvements and corrections	1,917	(12,915)	-	-
Other items	31,453	(5,527)	5,240	6,089
Total	164,869	180,752	23,329	111,731

13.3 Assumptions – life insurance and annuity contracts

(a) Process used to set actuarial assumptions and margins for adverse deviations

At each date for valuation of actuarial liabilities, the Appointed Actuary (AA) of each insurer reviews the assumptions made at the last valuation date. The AA reviews the validity of each assumption by referencing current data, and where appropriate, changes the assumptions for the current valuation. A similar process of review and assessment is conducted in the determination of margins for adverse deviations.

Any changes in actuarial standards and practice are also incorporated in the current valuation.

(b) Assumptions for mortality and morbidity

Mortality rates are related to the incidence of death in the insured population. Morbidity rates are related to the incidence of sickness and disability in the insured population.

Annually, insurers update studies of recent mortality experience. The resulting experience is compared to external mortality studies including tables from the Canadian Institute of Actuaries. Appropriate modification factors are selected and applied to underwritten and non-underwritten business respectively. Annuitant mortality is determined by reference to CIA tables or to other established scales.

Assumptions for morbidity are determined after taking into account insurer and industry experience.

(c) Assumptions for lapse

Policyholders may allow their policies to lapse prior to the maturity date either by choosing not to pay premiums or by surrendering their policy for its cash value. Lapse studies are updated annually by insurers to determine the persistency of the most recent period. Assumptions for lapse experience are generally based on moving averages.

13.3 Assumptions – life insurance and annuity contracts (continued)

(d) Assumptions for investment yields

Returns on existing variable rate securities, shares, investment property and policy loans are linked to the current economic scenario. Yields on reinvested assets are also tied to the current economic scenario. Returns are however assumed to decrease and it is assumed that at the end of twenty years from the valuation date, all investments, except policy loans, are reinvested in long-term, default free government bonds.

The ultimate rate of return is the assumed rate that will ultimately be earned on long-term government bonds. It is established for each geographic area and is summarised in the following table.

Ultimate rate of return	2017	2016
Barbados	7.00%	6.75%
Jamaica	6.0%	5.0%
Trinidad & Tobago	5.0%	5.0%
Other Caribbean	4.5% - 7.00%	4.5% - 6.75%
USA	0.85% - 3.65%	0.85% - 3.65%

(e) Assumptions for operating expenses and taxes

Policy acquisition and policy maintenance expense costs for the long-term business of each insurer are measured and monitored using internal expense studies. Policy maintenance expense costs are reflected in the actuarial valuation after adjusting for expected inflation. Costs are updated annually and are applied on a per policy basis.

Taxes reflect assumptions for future premium taxes and income taxes levied directly on investment income. For income taxes levied on net income, actuarial liabilities are adjusted for policy related recognised deferred tax assets and liabilities.

13.3 Assumptions – life insurance and annuity contracts (continued)

(f) Asset defaults

The AA of each insurer includes a provision for asset default in the modelling of the cash flows. The provision is based on industry and Group experience and includes specific margins, where appropriate, for assets backing the actuarial liabilities, e.g. for investment property, equity securities, debt securities, mortgage loans and deposits.

(g) Margins for adverse deviations

Margins for adverse deviations are determined for the assumptions in the actuarial valuations. The application of these margins resulted in provisions for adverse deviations being included in the actuarial liabilities as set out in the following table.

Provisions for adverse deviations	2017	2016
Mortality and morbidity	96,090	89,986
Lapse	69,365	63,855
Investment yields and asset default	68,930	69,109
Operating expenses and taxes	10,807	11,136
Other	10,765	10,486
	255,957	244,572

13.4 Assumptions – health insurance contracts

The outstanding liabilities for health insurance claims incurred but not yet reported and for claims reported but not yet paid are determined by statistical methods using expected loss ratios which have been derived from recent historical data. No material claim settlements are anticipated after one year from the date of the financial statements.

14 OTHER INSURANCE LIABILITIES**14.1 Analysis of other insurance liabilities**

	2017	2016
Dividends on deposit and other policy balances	63,744	65,719
Policy benefits payable	127,801	107,219
Provision for unearned premiums	32,614	34,184
	224,159	207,122

14.2 Policy benefits payable

	Gross liability		Reinsurers' share	
	2017	2016	2017	2016
Analysis of policy benefits payable:				
Life insurance and annuity benefits	86,562	79,445	22,809	22,084
Health claims	4,280	4,284	2,122	1,686
Property and casualty claims	36,959	23,490	16,640	12,224
	127,801	107,219	41,571	35,994

14.2 Policy benefits payable (continued)

	Gross liability		Reinsurers' share	
	2017	2016	2017	2016
Movement for the year:				
Balance, beginning of year	107,219	105,910	35,994	37,816
Policy benefits incurred	581,238	541,502	101,671	93,314
Policy benefits paid	(559,981)	(538,459)	(94,673)	(94,898)
Effect of exchange rate changes	(675)	(1,734)	(1,421)	(238)
Balance, end of year	127,801	107,219	41,571	35,994

14.3 Provision for unearned premiums

	Gross liability		Reinsurers' share	
	2017	2016	2017	2016
Analysis of the provision:				
Property and casualty insurance	32,177	33,777	11,561	21,775
Health insurance	437	407	-	-
	32,614	34,184	11,561	21,775

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

14.3 Provision for unearned premiums (continued)

	Gross liability		Reinsurers' share	
	2017	2016	2017	2016
Movement for the year:				
Balance, beginning of year	34,184	33,710	21,775	21,356
Premiums written	74,305	75,004	29,676	48,939
Premium revenue	(74,619)	(74,434)	(38,388)	(48,463)
Effect of exchange rate changes	(1,256)	(96)	(1,502)	(57)
Balance, end of year	32,614	34,184	11,561	21,775

15 INVESTMENT CONTRACT LIABILITIES

	2017		2016	
	Carrying value	Fair value	Carrying value	Fair value
At amortised cost:				
Deposit administration liabilities	121,483	121,483	128,345	128,345
Other investment contracts	117,782	119,915	118,563	121,051
	239,265	241,398	246,908	249,396
At fair value through income:				
Unit linked deposit administration liabilities	139,753	139,753	130,668	130,668
	379,018	381,151	377,576	380,064

16 NOTES AND LOANS PAYABLE

	2017		2016	
	Carrying value	Fair value	Carrying value	Fair value
8.875% senior notes due 2022	317,028	364,131	315,383	364,095
8.25% convertible redeemable preference shares due 2020 (b)	11,310	11,887	-	-
7.75% convertible redeemable preference shares due 2018 (b)	5,181	5,433	-	-
4.85% / 5.0% notes due 2019 (a)	74,929	76,199	74,825	75,491
Bank loans & other funding instruments	5,357	5,357	5,005	5,005
	413,805	463,007	395,213	444,591

- (a) On March 22, 2016, the Company repaid, before maturity, the \$43,386 eighteen month 4.6% notes. On March 21, 2016, the Company issued fourteen month notes with a par value of \$75 million which were repayable in 2017 and carried a 5.0% annual rate of interest. Effective December 20, 2016, the notes were extended at an annual rate of interest of 4.85% with a maturity date of August 14, 2019. Financial covenants in respect of these notes are summarised in Note 46.3 (b).
- (b) On March 2, 2017, Sagicor Bank Jamaica Limited issued:
- Cumulative redeemable preference shares with a tenor of three (3) years at 8.25% interest per annum.
 - Cumulative redeemable preference shares with a tenor of eighteen (18) months at 7.75% interest per annum.

17 DEPOSIT AND SECURITY LIABILITIES

	2017		2016-	
	Carrying value	Fair value	Carrying value	Fair value
At amortised cost:				
Other funding instruments	279,874	284,980	349,514	346,216
Customer deposits	750,948	749,834	915,155	915,419
Securities sold for re-purchase	476,034	473,771	320,574	320,574
Bank overdrafts	2,568	2,568	1,939	1,939
	<u>1,509,424</u>	<u>1,511,153</u>	<u>1,587,182</u>	<u>1,584,148</u>
At fair value through income:				
Structured products	47,576	47,576	34,779	34,779
Derivative financial instruments (note 41.6)	2,232	2,232	1,364	1,364
	<u>49,808</u>	<u>49,808</u>	<u>36,143</u>	<u>36,143</u>
	<u>1,559,232</u>	<u>1,560,961</u>	<u>1,623,325</u>	<u>1,620,291</u>

Other funding instruments consist of loans from banks and other financial institutions and include balances of \$148,583 (2016 - \$134,321) due to the Federal Home Loan Bank of Dallas (FHLB). The Group participates in the FHLB program in which funds received from the Bank are invested in mortgages and mortgage backed securities.

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

Collateral for other funding instruments and securities sold under agreements to resell is set out in note 9.2.

18 PROVISIONS

	2017	2016
Net defined benefit liabilities (note 31)	77,110	101,235
Cash settled share based payment liabilities ⁽¹⁾	2,823	-
Other provisions	94	57
	<u>80,027</u>	<u>101,292</u>

⁽¹⁾ As of March 31, 2017, certain options are recorded using the cash-settled method of accounting. This resulted in a transfer of \$4,873 from reserves to provisions at that date.

19 INCOME TAX LIABILITIES

	2017	2016
Deferred income tax liabilities (note 33)	25,092	36,238
Income taxes payable	3,185	14,403
	<u>28,277</u>	<u>50,641</u>

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

20 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2017	2016
Amounts due to policyholders	22,385	20,525
Amounts due to reinsurers	22,590	17,179
Legal claim (i)	70,946	52,720
Other accounts payable and accrued liabilities	131,055	114,551
	<u>246,976</u>	<u>204,975</u>

On March 17, 2014 the Supreme Court of Jamaica granted judgement in favour of a claimant in a case brought against Sagicor Bank Jamaica Limited (formerly RBC Royal Bank Jamaica Limited). This claim pre-dated the acquisition of the Bank by Sagicor Group Jamaica Limited, and also pre dated the acquisition of control of the Bank by RBTT from Finsac Limited ("Finsac") in 2001.

By virtue of the Share Sale Agreement entered into between Finsac, RBTT Financial Holdings Limited and RBTT International Limited, Finsac agreed to fully indemnify RBTT International Limited against any loss the bank may suffer in this matter. As the current owner of Sagicor Bank Jamaica Limited, Sagicor Group, is the current beneficiary of the Indemnity. The Indemnity from Finsac is further supported by a Government of Jamaica Guarantee on a full indemnity basis. The decision of the Supreme Court was appealed and is pending as at December 31, 2017. The amount previously awarded to the Claimant has been recorded as payable to the claimant with accrued interest and correspondingly receivable from Finsac/Government of Jamaica (note 12).

21 COMMON AND PREFERENCE SHARES

The Company is authorised to issue:

- 650,000,000 common shares,
- 320,000,000 convertible redeemable preference shares.

In each case the shares have a par value of US\$0.01.

21.1 Common shares

	2017				2016			
	Number in 000's	Share capital	Share premium	Total	Number in 000's	Share capital	Share premium	Total
Issued and fully paid:								
Balance, beginning of year	304,494	3,045	299,111	302,156	304,494	302,156	-	302,156
Redomiciliation adjustment ⁽¹⁾	-	-	-	-	-	(299,111)	299,111	-
Allotments arising from LTI	2,062	21	2,021	2,042	-	-	-	-
Balance, end of year	306,556	3,066	301,132	304,198	304,494	3,045	299,111	302,156
Treasury shares:								
Shares held for LTI and ESOP, end of year (note 30.1)	(673)	(7)	(662)	(669)	(1,646)	(16)	(2,061)	(2,077)
Total	305,883	3,059	300,470	303,529	302,848	3,029	297,050	300,079

The common shares are listed on the Barbados, Trinidad & Tobago and London stock exchanges.

⁽¹⁾The redomiciliation adjustment includes \$2,815 in share premium relating to treasury shares.

21.2 Convertible redeemable preference shares

On July 18, 2016, the Company redeemed the 120,000,000 convertible redeemable preference shares which were originally issued on July 18, 2011 with the following features:

- Issue price of US \$1.00 or Barbados \$2.00 per share;
- Annual dividend rate of 6.5%, dividends to be declared by the Company's directors and payable half yearly on May 15 and November 15;
- Convertible into common shares at a ratio of 1.98 preference shares to 1.00 common shares, conversion to be at the option of the shareholder and exercisable on May 16 or November 16 in any year prior to the redemption date;

21.2 Convertible redeemable preference shares (continued)

The preference shares were accounted for as a compound financial instrument and were initially recognised in the statement of financial position as a financial liability (note 16) and also as equity (note 22). The preference shares were listed on the Barbados and Trinidad & Tobago stock exchanges.

21.3 Dividends

The dividends declared and paid during the year in respect of the Company's convertible redeemable preference shares and common shares are set out in the following table.

	2017		2016	
	Per share	Total	Per share	Total
Dividends declared and paid:				
Preference shares	-	-	4.38 ¢	5,256
Common shares	5.0¢	15,216	4.5 ¢	13,624
		15,216		18,880

The dividends declared after the date of the financial statements in respect of the Company's convertible redeemable preference shares and common shares are set out in the following table.

	2017		2016	
	Per share	Total	Per share	Total
Dividends proposed:				
Common shares - final for current year	2.5 ¢	7,664	2.5 ¢	7,612
		7,664		7,612

21.4 Restrictions on common share dividends

The Company's Constitutive documents include the following limitations on the payment of common share dividends.

- (i) For any 6 month period that the convertible redeemable preference shares are not paid, dividends on common shares shall be suspended for that period plus the next 6 month period, and the Company shall not repurchase any of its common shares, except when pursuant to the LTI plan and ESOP. The preference shares were redeemed on July 18, 2016.
- (ii) The Company shall not pay any dividends on its common shares, in respect of the 2011 financial year or thereafter, or repurchase any of its common shares, other than a repurchase pursuant to the LTI plan and ESOP, if the cumulative amount of such dividends and repurchases after July 31, 2011 would exceed 50% of the cumulative amount of Group net income from January 1, 2011. This requirement was repealed on June 16, 2017.

22 RESERVES

	<<<<< Fair value reserves >>>>>			Currency translation reserves	Preference share reserves	Other reserves	Total reserves
	Owner occupied property	Available for sale assets	Actuarial liabilities				
2017							
Balance, beginning of year	27,184	(6,111)	(6,735)	(114,480)	-	35,347	(64,795)
Other comprehensive income from continuing operations allocated to reserves	(2,132)	35,458	(16,544)	4,650	-	-	21,432
Transactions with holders of equity instruments:							
Allocated to reserve for equity compensation benefits	-	-	-	-	-	5,039	5,039
Eliminated from reserve for equity compensation benefits	-	-	-	-	-	(11,309)	(11,309)
Transfers to retained earnings and other movements	101	390	-	-	-	1,660	2,151
Balance, end of year	25,153	29,737	(23,279)	(109,733)	-	30,737	(47,482)
2016							
Balance, beginning of year	25,047	(33,305)	8,773	(96,339)	4,219	31,917	(59,688)
Other comprehensive income from continuing operations allocated to reserves	2,137	27,194	(15,509)	(18,141)	-	-	(4,319)
Transactions with holders of equity instruments:							
Allocated to reserve for equity compensation benefits	-	-	-	-	-	5,280	5,280
Eliminated from reserve for equity compensation benefits	-	-	-	-	-	(3,148)	(3,148)
Transfers to retained earnings and other movements	-	-	1	-	(4,219)	1,298	(2,920)
Balance, end of year	27,184	(6,111)	(6,735)	(114,480)	-	35,347	(64,795)

Other reserves comprise reserves for equity compensation benefits of \$10,282 (2016 - \$16,552) and statutory reserves of \$20,455 (2016 - \$18,795).

23 PARTICIPATING ACCOUNTS

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

	Closed participating account		Open participating account	
	2017	2016	2017	2016
Movement for the year:				
Balance, beginning of year	(1,281)	(607)	2,572	1,990
Total comprehensive income / (loss)	(266)	(677)	56	809
Return of transfer to support profit distribution, to shareholders	-	3	(216)	(227)
Balance, end of year	(1,547)	(1,281)	2,412	2,572
Financial statement amounts:				
Assets	80,559	82,306	196,995	196,999
Liabilities	82,106	83,587	194,583	194,427
Revenues	7,129	7,557	23,552	22,261
Benefits	6,786	7,669	22,303	18,917
Expenses	414	428	1,474	1,630
Income taxes	131	187	617	877

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

24 PREMIUM REVENUE

	Gross premium		Ceded to reinsurers	
	2017	2016	2017	2016
Life insurance	419,085	388,287	29,833	30,876
Annuity	257,940	225,204	79,567	86,490
Health insurance	154,015	153,666	4,934	4,077
Property and casualty insurance	67,314	66,761	38,388	48,519
	898,354	833,918	152,722	169,962

25 NET INVESTMENT INCOME

	2017	2016
Investment income:		
Interest income	294,741	292,868
Dividend income	3,790	3,088
Rental income from investment property	3,865	3,816
Net investment gains	78,415	62,136
Share of operating income of associates and joint venture	9,849	5,425
Other investment income	300	(57)
	<u>390,960</u>	<u>367,276</u>
Investment expenses:		
Allowances for impairment losses	8,361	9,621
Direct operating expenses of investment property	1,964	2,107
Other direct investment expenses	1,399	2,196
	<u>11,724</u>	<u>13,924</u>
Net investment income	<u>379,236</u>	<u>353,352</u>

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

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

25 NET INVESTMENT INCOME (continued)

Further details of interest income and investment gains are set out in the following table.

	2017	2016
Interest income:		
Debt securities	204,037	205,068
Mortgage loans	18,675	19,908
Policy loans	9,678	9,053
Finance loans and finance leases	58,686	56,166
Securities purchased for re-sale	542	584
Deposits	2,865	1,902
Other balances	258	187
	<u>294,741</u>	<u>292,868</u>
Net investment gains / (losses):		
Debt securities	28,741	37,341
Equity securities	27,939	15,982
Investment property	74	1,847
Other financial instruments	21,661	6,966
	<u>78,415</u>	<u>62,136</u>

26 FEES AND OTHER REVENUE

	2017	2016
Fee income – assets under administration	29,179	25,470
Fee income – deposit administration and policy funds	2,000	1,739
Commission income on insurance and reinsurance contracts	9,530	29,375
Other fees and commission income	33,558	28,288
Foreign exchange (losses) / gains	(4,178)	12,564
Other operating and miscellaneous income	23,651	19,403
	<u>93,740</u>	<u>116,839</u>

28 INTEREST EXPENSE

	2017	2016
Insurance contracts	1,827	2,866
Investment contracts	15,796	16,833
Other funding instruments	6,514	6,981
Customer deposits	16,535	16,204
Securities sold for re-purchase	14,245	18,519
Other items	32	45
	<u>54,949</u>	<u>61,448</u>

27 POLICY BENEFITS AND CHANGE IN ACTUARIAL LIABILITIES

	Gross benefit		Ceded to reinsurers	
	2017	2016	2017	2016
Life insurance benefits	215,472	199,946	13,976	16,966
Annuity benefits	203,072	199,037	61,327	51,566
Health insurance claims	118,848	119,499	5,254	3,995
Property and casualty claims	37,603	17,708	10,953	10,004
Total policy benefits	<u>574,995</u>	<u>536,190</u>	<u>91,510</u>	<u>82,531</u>
Change in actuarial liabilities (note 13.2)	145,656	156,983	23,329	111,731
Total policy benefits and change in actuarial liabilities	<u>720,651</u>	<u>693,173</u>	<u>114,839</u>	<u>194,262</u>

The Group manages its interest-bearing obligations by the type of obligation (i.e. investment contracts, securities etc). Therefore, the interest expense is presented consistently with management practice, rather than by accounting classification.

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

29 EMPLOYEE COSTS

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

	2017	2016
Administrative staff salaries, directors' fees and short-term benefits	107,431	107,329
Social security and defined contribution retirement costs	9,553	9,125
Equity-settled compensation benefits (note 30.1 to 30.2)	10,302	5,365
Cash-settled compensation benefits (note 30.1)	(1,182)	-
Defined benefit expense (note 31 (b))	13,561	11,528
	139,665	133,347

30 EQUITY COMPENSATION BENEFITS**30.1 The Company**

Effective December 31, 2005, the Company introduced a Long Term Incentive (LTI) plan for designated executives of the Sagikor Group and an Employee Share Ownership Plan (ESOP) for permanent administrative employees and sales agents of the Group. A total of 26,555,274 common shares of the Company (or 10% of shares then in issue) have been set aside for the purposes of the LTI plan and the ESOP.

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

(a) LTI plan – restricted share grants

Restricted share grants have been granted to designated key management of the Group. Share grants may vest over a four year period beginning at the grant date. The vesting of share grants is conditional upon the relative profitability of the Group as compared to a number of peer companies. Relative profitability is measured with reference to the financial year preceding the vesting date.

30.1 The Company (continued)

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

	2017		2016	
	Number of grants '000	Weighted average price	Number of grants '000	Weighted Average price
Balance, beginning of year	4,637	US\$0.92	3,527	US\$0.93
Grants issued	3,366	US\$1.13	3,552	US\$0.94
Grants vested	(3,054)	US\$1.00	(1,854)	US\$0.94
Grants lapsed/forfeited	(230)	US\$0.96	(588)	US\$1.05
Balance, end of year	4,719	US\$1.02	4,637	US\$0.92

Grants issued may be satisfied out of new shares issued by the Company or by shares acquired in the market. The shares acquired in the market and/or distributed during the year were as follows:

	2017		2016	
	Number in 000's	\$000	Number in 000's	\$000
Balance, beginning of year	1	3	1	3
Shares acquired	170	203	-	-
Balance, end of year	171	206	1	3

During 2016 a cash settlement was made in lieu of share issue.

30.1 The Company (continued)

(b) LTI plan – share options

Share options have been granted to designated key management of the Group during the year. Up to 2008, options were granted at the fair market price of the Company shares at the time that the option was granted. From 2009, options are granted at the fair market price of the Company shares prevailing one year before the option is granted. Options vest over four years, 25% each on the first four anniversaries of the grant date. Options are exercisable up to 10 years from the grant date.

The movement in share options for the year and details of the share options and assumptions used in determining their pricing are as follows:

	2017		2016	
	Number of options '000	Weighted average exercise price	Number of options '000	Weighted average exercise price
Balance, beginning of year	19,800	US\$1.30	16,397	US\$1.48
Options granted	4,873	US\$1.00	4,927	US\$0.86
Options exercised	(4,555)	US\$1.04	-	-
Options lapsed/forfeited	(1,431)	US\$1.81	(1,524)	US\$1.82
Balance, end of year	18,687	US\$1.25	19,800	US\$1.30
Exercisable at the end of the year	8,354	US\$1.59	10,197	US\$1.61
Share price at grant date	US \$0.86 – 2.50		US \$0.86 – 2.50	
Fair value of options at grant date	US\$0.16 – 0.69		US\$0.16 – 0.69	
Expected volatility	18.3% – 35.8%		19.3% – 35.8%	
Expected life	7.0 years		7.0 years	
Expected dividend yield	2.6% - 4.7%		2.6% - 4.7%	
Risk-free interest rate	4.8% - 6.8%		4.8% - 6.8%	

30.1 The Company (continued)

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

As disclosed in Note 18, share options which were previously settled in the Company's shares are now cash-settled.

(c) ESOP

From 2006, the Company approved awards under the ESOP in respect of permanent administrative employees and sales agents of the Company and certain subsidiaries. The ESOP is administered by Trustees under a discretionary trust. The amount awarded is used by the Trustees to acquire Company shares. Administrative employees and sales agents are required to serve a qualifying period of five years from the award date in order to qualify as a beneficiary. Shares are distributed to beneficiaries upon their retirement or termination of employment. During 2012, the rules were amended so that vesting will take place in four equal annual instalments commencing one year after the award. The change came into effect during 2013. The shares acquired by the Trustees during the year were as follows:

	2017		2016	
	Number in 000's	\$000	Number in 000's	\$000
Balance, beginning of year	1,645	2,074	2,125	2,833
Shares acquired	-	-	100	98
Shares distributed	(1,143)	(1,611)	(580)	(857)
Balance, end of year	502	463	1,645	2,074

30.2 Sagikor Group Jamaica Limited

(a) Long-term incentive plan

The Group offers stock grants and stock options to senior executives as part of its long-term incentive plan. The Group has set aside 150,000,000 of its authorised but un-issued shares at no par value for the stock grants and stock options.

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

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

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

30.2 Sagikor Group Jamaica Limited (continued)

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

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

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

(b) Employee share purchase plan

Sagikor Group Jamaica Limited has in place a share purchase plan which enables its administrative and sales staff to purchase shares at a discount. The proceeds from shares issued under this plan totalled \$1,944 (2016 – \$1,298).

31 EMPLOYEE RETIREMENT BENEFITS

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

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

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

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

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

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

All disclosures in sections 31 (a) to (d) of this note relate only to defined benefit plans.

31 EMPLOYEE RETIREMENT BENEFITS (continued)**(a) Amounts recognised in the statement of financial position**

	2017	2016
Present value of funded pension obligations	249,357	239,330
Fair value of retirement plan assets	(257,893)	(214,502)
	(8,536)	24,828
Present value of unfunded pension obligations	51,656	45,975
Present value of unfunded medical and life benefits	27,931	29,099
Net liability	71,051	99,902
Represented by:		
Amounts held on deposit by the Group as deposit administration contracts	48,921	44,382
Other recognised liabilities	28,189	56,853
Total recognised liabilities (note 18)	77,110	101,235
Recognised assets (note 12)	(6,059)	(1,333)
Net liability	71,051	99,902

Pension plans have purchased annuities from insurers in the Group to pay benefits to plan retirees. These obligations are included in actuarial liabilities in the statement of financial position and are excluded from the table above.

31 EMPLOYEE RETIREMENT BENEFITS (continued)

(b) Movements in balances

	2017				2016			
	Medical and life benefits	Retirement obligations	Retirement plan assets	Total	Medical and life benefits	Retirement obligations	Retirement plan assets	Total
Net liability / (asset), beginning of year	29,099	285,305	(214,502)	99,902	26,053	253,443	(192,612)	86,884
Current service cost	1,581	6,680	-	8,261	1,429	6,278	-	7,707
Interest expense / (income)	2,598	20,581	(17,879)	5,300	2,107	17,333	(15,366)	4,074
Past service cost and gains / losses on settlements	-	-	-	-	-	(253)	-	(253)
Net expense recognised in income	4,179	27,261	(17,879)	13,561	3,536	23,358	(15,366)	11,528
(Gains) / losses from changes in assumptions	7,002	8,885	(702)	15,185	(2,593)	(6,896)	314	(9,175)
(Gains) / losses from changes in experience	(12,479)	(21,032)	(14,928)	(48,439)	4,401	26,332	(7,537)	23,196
Return on plan assets excluding interest income	-	-	828	828	-	-	2,442	2,442
Net losses recognised in other comprehensive income	(5,477)	(12,147)	(14,802)	(32,426)	1,808	19,436	(4,781)	16,463
Contributions made by the Group	-	-	(9,971)	(9,971)	-	-	(12,219)	(12,219)
Contributions made by employees and retirees	-	6,252	(5,765)	487	-	7,248	(5,373)	1,875
Benefits paid	(612)	(16,371)	14,896	(2,087)	(547)	(12,805)	11,054	(2,298)
Other items	-	6,241	(5,279)	962	-	3,968	(3,658)	310
Effect of exchange rate movements	742	4,472	(4,591)	623	(1,751)	(9,343)	8,453	(2,641)
Other movements	130	594	(10,710)	(9,986)	(2,298)	(10,932)	(1,743)	(14,973)
Net liability / (asset), end of year	27,931	301,013	(257,893)	71,051	29,099	285,305	(214,502)	99,902

31 EMPLOYEE RETIREMENT BENEFITS (continued)

(c) Retirement plan assets

	2017	2016
Equity unit linked pension funds under Group management:		
Sagikor Equity Fund (Barbados)	(37,407)	(32,103)
Sagikor Bonds Fund (Barbados)	(27,028)	(23,189)
Sagikor Pooled Investment Funds (Jamaica):		
Equity Funds	(56,240)	(35,820)
Mortgage & Real Estate Fund	(29,969)	(26,486)
Fixed Income Fund	(15,864)	(15,526)
Foreign Currency Funds	(23,576)	(18,185)
Money Market Fund	(2,347)	(2,258)
Other Funds	(15,697)	(17,307)
	(208,128)	(170,874)
Other assets	(49,765)	(43,628)
Total plan assets	(257,893)	(214,502)

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

31 EMPLOYEE RETIREMENT BENEFITS (continued)

(d) Significant actuarial assumptions

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

Pension plans	Barbados & Eastern Caribbean	Jamaica	Trinidad
Discount rate - local currency benefits	7.75%	8.00%	5.00%
Discount rate - US\$ indexed benefits	n/a	5.00%	n/a
Expected return on plan assets	7.75%	8.00%	5.00%
Future promotional salary increases	0.00% – 2.50%	7.50%	0.00%
Future inflationary salary increases	2.00%	5.00%	2.00%
Future pension increases	2.00%	1.00%	0.00%
Future increases in National Insurance Scheme Ceilings	3.50%	n/a	0.00%
Mortality table	UP94 with projection scale AA	GAM1994 with 5 year improvement	UP94 with projection scale AA
Termination of active members	3% - 8.40% up to age 30, reducing to 1 - 2.1% at age 50, 0% at age 51	2% - 5.8% up to age 30, reducing to 3.8% - 5.8% at age 50, 2.7% - 3.8% at age 51	3% up to age 30, reducing to 1% at age 50, 0% at age 51
Early retirement	100% at the earliest possible age to receive unreduced benefits	n/a	100% at the earliest possible age to receive unreduced benefits

31 EMPLOYEE RETIREMENT BENEFITS (continued)

Group medical and life plans	Jamaica
Long term increase in health costs	7.00%

(e) Sensitivity of actuarial assumptions

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

	Barbados & Eastern Caribbean	Jamaica	Trinidad
Base pension obligation	80,615	167,810	14,266
Change in absolute assumption	Increase / (decrease) in pension obligations		
Decrease discount rate by 1.0%	7,761	10,061	1,421
Increase discount rate by 1.0%	(5,635)	(7,672)	(1,046)
Decrease salary growth rate by 0.5%	(446)	(2,957)	(265)
Increase salary growth rate by 0.5%	809	3,403	297
Increase average life expectancy by 1 year	1,511	795	399
Decrease average life expectancy by 1 year	(1,946)	(811)	(162)

31 EMPLOYEE RETIREMENT BENEFITS (continued)

(e) Sensitivity of actuarial assumptions

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

	Jamaica
Base medical and life obligation	27,931
Change in absolute assumption	Increase / (decrease) in medical and life obligations
Decrease discount rate by 1.0%	6,553
Increase discount rate by 1.0%	(4,927)
Decrease salary growth rate by 0.5%	(239)
Increase salary growth rate by 0.5%	283
Increase average life expectancy by 1 year	913
Decrease average life expectancy by 1 year	(910)

(f) Amount, timing and uncertainty of future cash flows

In addition to the annual actuarial valuations prepared for the purpose of annual financial statement reporting, full actuarial valuations of pension plans are conducted every 3 years. These full valuations contain recommendations for Group and employee contribution levels which are implemented by the Group as the recommendations are made.

For the 2018 financial year, the total Group contributions to its defined benefits pension plans are estimated at \$13,636.

32 INCOME TAXES

Group companies are taxed according to the taxation rules of the country where the operations are carried out. The principal rates of taxation are summarised in note 2.18(c). The income tax expense and the income subject to taxation in the statement of income are set out in the following table.

	2017	2016
Income tax expense:		
Current tax		
Current tax on profits for the year	32,112	34,872
Adjustments to current tax of prior periods	152	232
Total current tax expense	32,264	35,104
Deferred tax		
Decrease/(increase) in deferred tax assets	523	498
(Decrease)/increase in deferred tax liabilities	(14,401)	5,696
Total deferred tax expense	(13,878)	6,194
Share of tax of associated companies	191	402
	18,577	41,700

32 INCOME TAXES (continued)

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

	2017	2016
Income before income tax expense	123,746	149,597
Taxation at the applicable rates on income subject to tax	42,071	46,090
Adjustments to current tax for items not subject to / allowed for tax	(24,962)	(23,996)
Other current tax adjustments	32	(221)
Adjustments for current tax of prior periods	152	232
Movement in unrecognised deferred tax asset	11,091	13,926
Deferred tax relating to the origination of temporary differences	(91)	(18)
Deferred tax relating to changes in tax rates or new taxes	(14,584)	(35)
Deferred tax that arises from the write down / (reversal of a write down) of a tax asset	(86)	296
Tax on distribution of profits from policyholder funds	1,666	670
Other taxes	3,288	4,756
	18,577	41,700

In addition to the above, the income tax on items in other comprehensive income is set out in note 35.

33 DEFERRED INCOME TAXES

	2017	2016
Analysis of deferred income tax assets:		
Defined benefit liabilities	7,100	13,581
Unrealised losses on financial investments	(574)	6,918
Unused tax losses	13,541	14,993
Other items	410	787
Total deferred income tax assets (note 11)	20,477	36,279
Deferred income tax assets to be recovered within one year	2,516	3,230
Unrecognised tax losses	302,051	265,699
Potential deferred income tax assets	75,517	66,428
Expiry period for unrecognised tax losses:		
2017	-	19,635
2018	23,551	24,888
2019	27,571	28,153
2020	24,863	25,540
2021	20,165	19,399
2022	37,441	37,007
2023	30,579	29,577
2024	33,727	33,586
2025	49,116	47,914
After 2025	55,038	-
	302,051	265,699

33 DEFERRED INCOME TAXES (continued)

Deferred income tax assets movements:	Defined benefit liabilities	Unrealised losses on financial investments	Unused tax losses	Other items	Total
2017					
Balance, beginning of year as previously reported	13,581	6,918	14,993	787	36,279
(Charged)/credited to:					
Profit or Loss	1,769	(268)	(1,746)	(278)	(523)
Other comprehensive income	(8,426)	(7,203)	(31)	(110)	(15,770)
Effects of exchange rate changes	176	(21)	325	11	491
Balance, end of year	7,100	(574)	13,541	410	20,477
2016					
Balance, beginning of year as previously reported	11,031	12,406	21,870	(4,284)	41,023
(Charged)/credited to:					
Profit or Loss	689	297	(5,756)	4,272	(498)
Other comprehensive income	2,608	(5,141)	-	687	(1,846)
Effects of exchange rate changes	(747)	(644)	(1,121)	112	(2,400)
Balance, end of year	13,581	6,918	14,993	787	36,279

33 DEFERRED INCOME TAXES (continued)

Analysis of deferred income tax liability:

	2017	2016
Accelerated tax depreciation	1,666	1,640
Policy liabilities taxable in the future	33,464	62,738
Defined benefit assets	334	343
Accrued interest	1,111	1,000
Unrealised gains on financial investments	15,323	6,398
Off-settable tax assets in respect of unused tax losses and other items	(27,205)	(36,280)
Total other items	399	399
Total (note 19)	25,092	36,238
Deferred income tax liabilities to be settled within one year	6,680	8,035

33 DEFERRED INCOME TAXES (continued)

Deferred income tax liabilities movements:	Accelerated tax depreciation	Policy liabilities taxable in the future	Defined benefit assets	Accrued interest	Unrealised gains on financial investments	Off-settable tax assets in respect of unused tax losses and other items	Other Items	Total
2017								
Balance, beginning of year as previously reported	1,640	62,738	343	1,000	6,398	(36,280)	399	36,238
Charged/(credited) to:								
Profit or Loss	26	(23,536)	(65)	109	(10)	9,075	-	(14,401)
Other comprehensive income	-	(5,738)	56	2	8,933	-	-	3,253
Effects of exchange rate changes	-	-	-	-	2	-	-	2
Balance, end of year	1,666	33,464	334	1,111	15,323	(27,205)	399	25,092
2016								
Balance, beginning of year as previously reported	1,806	58,377	133	944	(1,023)	(30,851)	399	29,785
Charged/(credited) to:								
Profit or Loss	(167)	11,034	189	75	(6)	(5,429)	-	5,696
Other comprehensive income	-	(6,679)	21	(8)	7,428	-	-	762
Effects of exchange rate changes	1	6	-	(11)	(1)	-	-	(5)
Balance, end of year	1,640	62,738	343	1,000	6,398	(36,280)	399	36,238

34 EARNINGS PER COMMON SHARE

The basic earnings per common share is computed by dividing earnings attributable to common shareholders by the weighted average number of shares in issue during the year, after deducting treasury shares. Earnings attributable to common shareholders recognise the impact on net income of the Company's convertible redeemable preference shares (note 21.2).

The table below derives the earnings attributable to common shareholders and the basic earnings per common share.

	2017	2016
Net income attributable to common shareholders	72,233	61,671
Finance costs attributable to preference share subscription	-	4,368
Amortisation of issue expenses allocated to preference share reserve	-	(149)
Preference share dividends declared	-	(5,256)
Earnings attributable to common shareholders	72,233	60,634
Weighted average number of shares in issue in thousands	304,732	303,572
Basic earnings per common share	23.7¢	20.0¢
Attributable to:		
Continuing operations	20.4¢	19.5¢
Discontinued operation	3.3¢	0.5¢

The computation of diluted earnings per common share recognises the dilutive impact of LTI share grants and share options (note 30.1), ESOP shares grants (note 30.1), and the convertible redeemable preference shares. In computing diluted earnings per share, the income attributable to common shareholders is adjusted by the dilutive impact of the convertible preference shares and the weighted average number of common shares is adjusted by the dilutive impacts of the aforementioned share grants, options and preference shares.

34 EARNINGS PER COMMON SHARE (continued)

The table below derives the adjusted earnings attributable to common shareholders, the adjusted weighted average number of common shares, and the fully diluted earnings per common share.

	2017	2016
Earnings attributable to common shareholders	72,233	60,634
Preference share dividends declared	-	5,256
Amortisation of issue expenses allocated to preference share reserve	-	149
Finance costs attributable to preference share subscription	-	(4,368)
Preference share liability finance cost	-	4,104
	72,233	65,775
Weighted average number of shares in issue in thousands	304,732	303,572
LTI restricted share grants	5,492	4,706
ESOP shares	2,395	2,103
Convertible redeemable preference shares	-	33,209
Adjusted weighted average number of shares in issue	312,619	343,590
Fully diluted earnings / (loss) per common share	23.1¢	19.1¢
Attributable to:		
Continuing operations	19.9¢	18.7¢
Discontinued operation	3.2¢	0.4¢

35 OTHER COMPREHENSIVE INCOME (OCI)

Schedule to OCI from continuing operations

	2017					2016				
	OCI tax impact	After tax OCI is attributable to				OCI tax impact	After tax OCI is attributable to			
		Shareholders	Participating policyholders	Non-controlling interests	Total		Shareholders	Participating policyholders	Non-controlling interests	Total
Items that may be reclassified subsequently to income:										
Available for sale assets:										
Gains / (losses) arising on revaluation	(16,004)	44,239	380	13,281	57,900	(11,058)	24,082	(1,292)	16,393	39,183
(Gains) / losses transferred to income	(141)	(8,781)	-	(3,478)	(12,259)	(1,491)	3,112	-	(437)	2,675
Net change in actuarial liabilities	5,738	(16,544)	456	2,613	(13,475)	6,679	(15,509)	1,293	(2,874)	(17,090)
Retranslation of foreign currency operations	-	4,650	(2)	5,073	9,721	-	(18,141)	21	(10,361)	(28,481)
	(10,407)	23,564	834	17,489	41,887	(5,870)	(6,456)	22	2,721	(3,713)
Items that will not be reclassified subsequently to income:										
Gains / (losses) arising on revaluation of owner-occupied property	(248)	(2,132)	-	373	(1,759)	(939)	2,137	-	3,008	5,145
Defined benefit gains / (losses)	(8,512)	12,586	-	11,328	23,914	2,588	(10,001)	-	(3,874)	(13,875)
Other items	-	-	-	-	-	-	(128)	-	-	(128)
	(8,760)	10,454	-	11,701	22,155	1,649	(7,992)	-	(866)	(8,858)
Total OCI movements	(19,167)	34,018	834	29,190	64,042	(4,221)	(14,448)	22	1,855	(12,571)
Allocated to equity reserves		21,432					(4,319)			
Allocated to retained earnings		12,586					(10,129)			
		34,018					(14,448)			

36 CASH FLOWS

36.1 Operating activities

	2017	2016
Adjustments for non-cash items, interest and dividends:		
Interest and dividend income	(298,531)	(295,956)
Net investment gains	(78,415)	(62,136)
Gain arising on disposal	(2,261)	-
Net increase in actuarial liabilities	122,327	45,252
Interest expense and finance costs	89,695	99,781
Depreciation and amortisation	21,871	21,283
Increase in provision for unearned premiums	8,644	59
Other items	26,152	3,619
	<u>(110,518)</u>	<u>(188,098)</u>
Net increase in investments and operating assets:		
Investment property	-	818
Debt securities	7,272	30,495
Equity securities	4,324	1,037
Mortgage loans	(11,538)	(1,989)
Policy loans	(4,386)	(6,115)
Finance loans and finance leases	(34,822)	(99,130)
Securities purchased for re-sale	13	1,913
Deposits	(93,917)	10,236
Other assets and receivables	(24,548)	(37,627)
	<u>(157,602)</u>	<u>(100,362)</u>

36.1 Operating activities (continued)

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

	2017	2016
Investment property:		
Disbursements	-	(7)
Disposal proceeds	-	825
	<u>-</u>	<u>818</u>
Debt securities:		
Disbursements	(1,789,622)	(1,931,861)
Disposal proceeds	1,796,894	1,962,356
	<u>7,272</u>	<u>30,495</u>
Equity securities:		
Disbursements	(36,335)	(118,139)
Disposal proceeds	40,659	119,176
	<u>4,324</u>	<u>1,037</u>
Net increase in operating liabilities:		
Insurance liabilities	13,544	6,486
Investment contract liabilities	(8)	20,012
Other funding instruments	(59,173)	(29,788)
Deposits	(169,229)	286,658
Securities sold for re-purchase	203,160	(200,610)
Other liabilities and payables	29,758	1,035
	<u>18,052</u>	<u>83,793</u>

36.2 Investing activities

	2017	2016
Property, plant and equipment:		
Purchases	(18,853)	(20,336)
Disposal proceeds	5,468	2,340
	<u>(13,385)</u>	<u>(17,996)</u>

36.3 Financing activities

	2017	2016
Other notes and loans payable:		
Proceeds	18,146	78,050
Repayments	(1,964)	(44,042)
	<u>16,182</u>	<u>34,008</u>

36.4 Cash and cash equivalents

	2017	2016
Cash resources	268,402	279,070
Call deposits and other liquid balances	72,515	110,652
Bank overdrafts	(2,568)	(1,939)
Other short-term borrowings	(12,623)	(75,677)
	<u>325,726</u>	<u>312,106</u>

37 SUBSIDIARY ACQUISITION AND OWNERSHIP CHANGES

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

In October 2017, the Sagikor Group Jamaica Limited reduced its holdings in Sagikor Real Estate X Fund Limited by 3.41% to 29.31% when it sold 76,470,770 shares. This resulted in a \$2,261 gain on disposal.

38 DISCONTINUED OPERATION

On July 29, 2013, the Company entered into an agreement to sell Sagikor Europe and its subsidiaries to AmTrust Financial Services, Inc. (AmTrust), subject to regulatory approvals. Final regulatory approvals were obtained on December 23, 2013, on which date the sale was completed.

The operations of the Sagikor Europe operating segment are presented as discontinued operations in these financial statements.

The terms of the sale required the Company to take certain actions and provide certain commitments which included future price adjustments to the consideration up to December 31, 2018, representing adjusted profits or losses from January 1, 2013 in the run-off of the 2011, 2012 and 2013 underwriting years of account of syndicates 1206 and 44, the total price adjustments subject to a limit.

38 DISCONTINUED OPERATION (continued)

As of December 31, 2017, the price adjustments have been estimated as outlined below:

	2017	2016
March 31, 2019	(10,110)	-
	(10,110)	-

After accounting for its status as a discontinued operation and for the details of the sale agreement the net gain recognised in the statement of income is set out below. The statement of comprehensive income is as follows:

Movement in Price Adjustments

	2017	2016
Balance payable, beginning of year	-	46,026
Payment made	-	(44,614)
Experience (gain) / loss	(10,110)	415
Net currency movements	-	(1,827)
(Receivable) / payable, end of year	(10,110)	-

The price adjustments are subject to a limit based on the terms of the agreement. These results are subject to further underwriting, investment and foreign currency adjustments constrained by the limit as the experience develops.

38 DISCONTINUED OPERATION (continued)

The net gain / (loss) recognised in the statement of income and the statement of comprehensive income is as follows.

Statement of income	2017	2016
Currency translation gain	-	1,827
Other expenses	-	(884)
Movement in price adjustment	10,110	469
Net gain and total comprehensive gain	10,110	1,412

39 CONTINGENT LIABILITIES

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

	2017	2016
Customer guarantees and letters of credit ⁽¹⁾	31,235	22,513

⁽¹⁾ There are equal and offsetting claims against customers in the event of a call on the above commitments for customer guarantees and letters of credit.

(a) Legal proceedings

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

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

Significant matters are outlined below:

- (i) Suit has been filed by a customer against one of the Group's, subsidiaries for breach of contract, and breach of trust in the amount of US\$8,928,500, being loss allegedly suffered as a result of what the claimants say is the unlawful withholding of insurance proceeds by the subsidiary. No provision was made in these financial statements for this claim as the outcome of this matter cannot be properly assessed until it has been heard.

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

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

(b) Tax assessments

The Group is also subject to tax assessments during the normal course of business. Adequate provision has been made for all assessments received to date and for tax liabilities accruing in accordance with management's understanding of tax regulations. Potential tax assessments may be received by the Group which are in addition to accrued tax liabilities. No provisions have been made in these financial statements for such potential tax assessments.

40 FAIR VALUE OF PROPERTY

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

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

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

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

The results of applying the fair value hierarchy to the Group's property as of December 31, 2017 are as follows:

	Level 1	Level 2	Level 3	Total
Investment property	-	-	80,816	80,816
Owner-occupied lands	-	-	35,232	35,232
Owner-occupied land and buildings	-	-	78,465	78,465
	-	-	194,513	194,513

40 FAIR VALUE OF PROPERTY (continued)

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

	Investment property	Owner-occupied property		Total
		Lands	Land and buildings	
Balance, beginning of year	80,662	37,185	77,855	195,702
Additions	-	-	3,175	3,175
Transfers in / (out)	-	-	(1,696)	(1,696)
Fair value changes recorded in net investment income	74	-	-	74
Fair value changes recorded in other comprehensive income	-	(1,953)	(274)	(2,227)
Depreciation	-	-	(1,098)	(1,098)
Effect of exchange rate changes	80	-	503	583
Balance, end of year	80,816	35,232	78,465	194,513

41 FINANCIAL RISK

The Group's activities of issuing insurance contracts, of accepting funds from depositors, of investing insurance premium and deposit receipts in a variety of financial and other assets, banking and dealing in securities, exposes the Group to various insurance and financial risks. Financial risks include credit default, liquidity and market risks. Market risks arise from changes in interest rates, equity prices, currency exchange rates or other market factors. The principal insurance risks are identified in notes 42 and 43.

The overriding objective of the Group's risk management framework is to enhance its capital base through competitive earnings growth and to protect capital against inherent business risks. This means that the Group accepts certain levels of risk in order to generate returns, and the Group manages the levels of risk assumed through enterprise wide risk management policies and procedures. Identified risks are assessed as to their potential financial impact and as to their likelihood of occurrence.

The amounts disclosed in this note and in notes 42 and 43, exclude amounts in the statement of financial position classified as liabilities of discontinued operation.

41.1 Credit risk

Credit risk is the exposure that the counterparty to a financial instrument is unable to meet an obligation, thereby causing a financial loss to the Group. Credit risks are primarily associated with financial investments and reinsurance contracts held.

Credit risk from financial investments is minimised through holding a diversified portfolio of investments, purchasing securities and advancing loans only after careful assessment of the borrower, obtaining collateral before advancing loans, and placing deposits with financial institutions with a strong capital base. Limits may be placed on the amount of risk accepted in relation to one borrower.

The Group has developed an internal credit rating standard. The internal rating is a 10 point scale which allows for distinctions in risk characteristics and is referenced to the rating scales of international credit rating agencies. The scale is set out in the following table.

Category	Sagikor Risk Rating	Classification	S&P	Moody's	Fitch	AM Best
Investment grade	1	Minimal risk	AAA, AA	Aaa, Aa	AAA, AA	aaa, aa
	2	Low risk	A	A	A	a
	3	Moderate risk	BBB	Baa	BBB	bbb
Non-investment grade	4	Acceptable risk	BB	Ba	BB	bb
	5	Average risk	B	B	B	b
Watch	6	Higher risk	CCC, CC	Caa, Ca	CCC, CC	ccc, cc
	7	Special mention	C	C	C	c
Default	8	Substandard			DDD	
	9	Doubtful	D	C	DD	d
	10	Loss			D	

41.1 Credit risk (continued)

The Group applies this rating scale to three categories of exposures:

- Investment portfolios, comprising debt securities, deposits, securities purchased for re-sale, and cash balances;
- Lending portfolios, comprising mortgage, policy and finance loans and finance leases;
- Reinsurance exposures, comprising reinsurance assets for life, annuity and health insurance (see note 43.3) or realistic disaster scenarios for property and casualty insurance (see note 42.3).

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

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

	2017		2016	
	\$000	%	\$000	%
Investment portfolios	3,986,428	64.6	3,864,949	65.5
Lending portfolios	1,048,917	17.0	978,681	16.6
Reinsurance assets	785,830	12.7	755,569	12.8
Other financial assets	219,090	3.5	179,456	3.0
Total financial statement exposures	6,040,265	97.8	5,778,655	97.9
Loan commitments	78,985	1.3	82,088	1.4
Customer guarantees and letters of credit	31,235	0.5	22,513	0.4
Other	24,902	0.4	15,262	0.3
Total off financial statement exposures	135,122	2.2	119,863	2.1
Total	6,175,387	100.0%	5,898,518	100.0%

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

41.1 Credit risk (continued)

The Group's largest exposures to individual counterparty credit risks as of December 31, 2017 and 2016 are set out below. The individual ratings reflect the rating of the counterparty listed below, while the amounts include exposures with subsidiaries of the counterparty.

	Sagicor Risk Rating	2017	Sagicor Risk Rating	2016
Investment portfolios:				
Government of Jamaica	5	861,252	5	804,051
Government of Trinidad and Tobago	3	265,174	2	226,094
Government of Barbados	6	280,407	5	303,973
The Bank of Nova Scotia	2	56,357	2	29,457
Government of St Lucia	5	71,617	3	80,965
The Federal National Mortgage Association	1	106,882	1	106,341
The Federal Home Loan Mortgage Corporation	1	61,574	1	63,664
Lending portfolios:				
Value Assets International S.A. and Egret Limited	4	29,085	4	28,704
Reinsurance assets:				
Guggenheim Partners ⁽¹⁾	3	531,310	3	585,561

⁽¹⁾The reinsurance asset held in the name of Guggenheim Partners are secured by assets held in trust totalling \$574,135 (2016 - \$596,785).

41.1 Credit risk (continued)

(a) Investment portfolios

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

Investment portfolios					
Risk Rating	Classification	2017		2016	
		Exposure \$000	Exposure %	Exposure \$000	Exposure %
1	Minimal risk	329,099	8%	337,503	9%
2	Low risk	459,919	12%	657,285	17%
3	Moderate risk	1,445,870	36%	1,018,985	26%
4	Acceptable risk	172,175	4%	250,267	6%
5	Average risk	1,242,095	31%	1,497,421	39%
6	Higher risk	298,546	8%	58,447	2%
7	Special mention	3,335	0%	15	0%
8	Substandard	485	0%	707	0%
TOTAL RATED EXPOSURES		3,951,524	99%	3,820,630	99%
UN-RATED EXPOSURES		34,904	1%	44,319	1%
TOTAL		3,986,428	100%	3,864,949	100%

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

41.1 Credit risk (continued)

(b) Lending portfolios

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

Lending portfolios					
Risk Rating	Classification	2017		2016	
		Exposure \$000	Exposure %	Exposure \$000	Exposure %
1	Minimal risk	514,455	49%	434,061	43%
2	Low risk	121,435	12%	142,469	15%
3	Moderate risk	267,220	25%	220,827	22%
4	Acceptable risk	57,670	5%	76,993	8%
5	Average risk	41,651	4%	35,200	4%
6	Higher risk	12,800	1%	25,338	3%
7	Special mention	11,307	1%	15,330	2%
8	Substandard	4,205	1%	8,703	1%
9	Doubtful	7,043	1%	7,532	1%
10	Loss	11,048	1%	12,154	1%
TOTAL RATED EXPOSURES		1,048,834	100%	978,607	100%
UN-RATED EXPOSURES		83	0%	74	0%
TOTAL		1,048,917	100%	978,681	100%

41.1 Credit risk (continued)

Exposure to credit risk is also managed in part by obtaining collateral and guarantees for lending portfolios. For mortgage loans, the collateral is real estate property, and the approved loan limit is 75% to 95% of collateral value. For finance loans and finance leases, the collateral often comprises a vehicle or other form of security and the approved loan / lease limit is 50% to 100% of the collateral value. Unsecured finance loans and finance leases are only granted when the initial amount is less than \$4,900.

Policy loans are advanced on the security of the underlying insurance policy cash values. Cash loans are advanced to a maximum of 80% to 100% of the cash surrender value. Automatic premium loans may be advanced to the extent of available cash surrender value.

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

	2017	2016
Barbados	202,098	195,597
Jamaica	519,770	463,675
Trinidad & Tobago	154,660	145,409
Other Caribbean	106,805	113,301
USA	65,584	60,699
	1,048,917	978,681

(c) Past due and impaired financial assets

A financial asset is past due when a counterparty has failed to make payment when contractually due. The Group is most exposed to the risk of past due assets with respect to its debt securities, mortgage loans, finance loans and finance leases.

Debt securities are assessed for impairment when amounts are past due, when the borrower is experiencing cash flow difficulties, or when the borrower's credit rating has been downgraded.

41.1 Credit risk (continued)

Mortgage loans less than 90 to 180 days past due and finance loans and finance leases less than 90 to 180 days past due are not assessed for impairment unless other information is available to indicate the contrary.

The assessment for impairment includes a review of the collateral. If the past due period is less than the trigger for impairment review, the collateral is not normally reviewed and re-assessed. Accumulated allowances for impairment reflect the Group's assessment of total individually impaired assets at the date of the financial statements. The following tables set out the carrying values of debt securities, mortgage loans, finance loans and finance leases, analysed by past due or impairment status.

	Debt securities	Mortgage loans	Finance loans & leases
2017			
Neither past due nor impaired	3,490,549	291,123	521,860
Past due up to 3 months, but not impaired	7,010	23,255	34,195
Past due up to 12 months, but not impaired	-	3,487	1,598
Past due up to 5 years, but not impaired	-	4,005	-
Past due over 5 years, but not impaired	-	2,257	-
Total past due but not impaired	7,010	33,004	35,793
Impaired assets (net of impairment)	883	18,259	6,746
Total carrying value	3,498,442	342,386	564,399
Accumulated allowances on impaired assets	619	7,390	14,414
Accrued interest on impaired assets	8	392	-

41.1 Credit risk (continued)

	Debt securities	Mortgage loans	Finance loans & leases
2016			
Neither past due nor impaired	3,429,408	270,089	429,066
Past due up to 3 months, but not impaired	9,568	25,312	72,947
Past due up to 12 months, but not impaired	-	3,580	679
Past due up to 5 years, but not impaired	-	10,206	-
Past due over 5 years, but not impaired	-	3,051	-
Total past due but not impaired	9,568	42,149	73,626
Impaired assets (net of impairment)	2,378	19,528	6,283
Total carrying value	3,441,354	331,766	508,975
Accumulated allowances on impaired assets	4,944	7,624	10,795
Accrued interest on impaired assets	19	468	-

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

(d) Repossessed assets

The Group may foreclose on overdue mortgage loans and finance loans and finance leases by repossessing the pledged asset. The pledged asset may consist of real estate, equipment or vehicles which the Group will seek to dispose of by sale. In some instances, the Group may provide re-financing to a new purchaser on customary terms.

41.1 Credit risk (continued)

(e) Renegotiated assets

The Group may renegotiate the terms of any financial investment to facilitate borrowers in financial difficulty. Arrangements to waive, adjust or postpone scheduled amounts due may be entered into. The Group classifies these amounts as past due, unless the original agreement is formally revised, modified or substituted.

41.2 Liquidity risk

Liquidity risk is the exposure that the Group may encounter difficulty in meeting obligations associated with financial or insurance liabilities that are settled by cash or by another financial asset. Liquidity risk also arises when excess funds accumulate resulting in the loss of opportunity to increase investment returns.

Asset liability matching is a tool used by the Group to mitigate liquidity risks particularly in operations with significant maturing short-term liabilities. For long-term insurance contracts, the Group has adopted a policy of investing in assets with cash flow characteristics that closely match the cash flow characteristics of its policy liabilities. The primary purpose of this matching is to ensure that cash flows from these assets are synchronised with the timing and the amounts of payments that must be paid to policyholders.

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

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

41.2 Liquidity risk (continued)

(a) Insurance liabilities

The Group's monetary insurance liabilities mature in periods which are summarised in the following table. Amounts are stated at their carrying values recognised in the financial statements and are analysed by their expected due periods, which have been estimated by actuarial or other statistical methods.

	Expected discounted cash flows			Total
	Maturing within 1 year	Maturing 1 to 5 years	Maturing after 5 years	
2017				
Actuarial liabilities	208,151	696,530	2,046,139	2,950,820
Other insurance liabilities	118,584	20,875	52,086	191,545
Total	326,735	717,405	2,098,225	3,142,365
2016				
Actuarial liabilities	224,827	678,161	1,873,374	2,776,362
Other insurance liabilities	104,860	15,297	52,781	172,938
Total	329,687	693,458	1,926,155	2,949,300

41.2 Liquidity risk (continued)

(b) Financial liabilities and commitments

Contractual cash flow obligations of the Group in respect of its financial liabilities and commitments are summarised in the following table. Amounts are analysed by their earliest contractual maturity dates and consist of the contractual un-discounted cash flows. Where the interest rate of an instrument for a future period has not been determined as of the date of the financial statements, it is assumed that the interest rate then prevailing continues until final maturity.

	2017 - Contractual un-discounted cash flows				2016 - Contractual un-discounted cash flows			
	On demand or within 1 year	1 to 5 years	After 5 years	Total	On demand or within 1 year	1 to 5 years	After 5 years	Total
Financial liabilities:								
Investment contract liabilities	320,760	53,878	11,154	385,792	354,549	18,819	10,702	384,070
Notes and loans payable	41,034	526,404	-	567,438	34,158	197,760	348,400	580,318
Deposit and security liabilities:								
Other funding instruments	222,353	64,701	17,959	305,013	335,928	15,752	12,033	363,713
Customer deposits	687,085	71,037	8,706	766,828	905,685	43,952	138	949,775
Structured products	35,009	15,356	-	50,365	19,391	15,388	-	34,779
Securities sold for re-purchase	477,940	-	-	477,940	325,495	717	-	326,212
Derivative financial instruments	2,008	224	-	2,232	355	1,010	-	1,365
Bank overdrafts	2,568	-	-	2,568	1,939	-	-	1,939
Accounts payable and accrued liabilities	173,720	91,742	1,000	266,462	151,436	53,436	2,447	207,319
Total financial liabilities	1,962,477	823,342	38,819	2,824,638	2,128,936	346,834	373,720	2,849,490
Off financial statement commitments:								
Loan commitments	76,192	981	1,812	78,985	82,088	-	-	82,088
Non-cancellable operating lease and rental payments	4,977	8,300	-	13,277	4,839	9,528	977	15,344
Capital commitments	17,765	-	-	17,765	7,500	-	-	7,500
Customer guarantees and letters of credit	17,831	1,846	11,558	31,235	15,476	2,454	4,583	22,513
Total off financial statements commitments	116,765	11,127	13,370	141,262	109,903	11,982	5,560	127,445
Total	2,079,242	834,469	52,189	2,965,900	2,238,839	358,816	379,280	2,976,935

41.2 Liquidity risk (continued)

(c) Financial and insurance assets

The contractual maturity periods of monetary financial assets and the expected maturity periods of monetary insurance assets are summarised in the following table. Amounts are stated at their carrying values recognised in the financial statements. For this disclosure, monetary insurance assets comprise policy loans and reinsurance assets.

	2017 – Contractual or expected discounted cash flows				2016 – Contractual or expected discounted cash flows			
	Maturing within 1 year	Maturing 1 to 5 years	Maturing after 5 years	Total	Maturing within 1 year	Maturing 1 to 5 years	Maturing after 5 years	Total
Debt securities	402,939	536,581	2,558,922	3,498,442	471,274	622,930	2,347,690	3,441,894
Mortgage loans	16,521	31,886	293,979	342,386	15,883	39,082	276,801	331,766
Policy loans	3,495	14,127	124,510	142,132	5,010	21,085	111,845	137,940
Finance loans and finance leases	125,568	159,581	279,250	564,399	133,440	152,738	222,797	508,975
Securities purchased for re-sale	16,518	-	-	16,518	5,227	-	-	5,227
Deposits	103,248	6,086	2,070	111,404	137,860	159	1,279	139,298
Derivative financial instruments	32,253	224	-	32,477	27,970	1,010	-	28,980
Reinsurance assets: share of actuarial liabilities	95,109	284,649	356,789	736,547	96,222	285,264	331,766	713,252
Reinsurance assets: other	49,082	-	201	49,283	36,963	5,149	205	42,317
Premiums receivable	53,446	-	-	53,446	46,530	-	-	46,530
Other assets and accounts receivable	61,269	71,081	817	133,167	41,484	55,447	7,015	103,946
Cash resources	351,967	-	8,097	360,064	263,191	-	15,879	279,070
Total	1,311,415	1,104,215	3,624,635	6,040,265	1,281,054	1,182,864	3,315,277	5,779,195

41.3 Interest rate risk

The Group is exposed to interest rate risks. Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates. The occurrence of an adverse change in interest rates on invested assets may result in financial loss to the Group in fulfilling the contractual returns on insurance and financial liabilities.

The return on investments may be variable, fixed for a term or fixed to maturity. On reinvestment of a matured investment, the returns available on the new investment may be significantly different from the returns formerly achieved. This is known as reinvestment risk.

Guaranteed minimum returns exist within cash values of long term traditional insurance contracts, long term universal life insurance contracts, annuity options, deposit administration liabilities and policy funds on deposit. Where the returns credited exceed the guaranteed minima, the insurer usually has the option to adjust the return from period to period. For other financial liabilities, returns are usually contractual and may only be adjusted on contract renewal or contract re-pricing.

The Group is therefore exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase or decrease as a result of such changes. Interest rate changes may also result in losses if asset and liability cash flows are not closely matched with respect to timing and amount.

The Group is exposed to risk under embedded derivatives contained in a host insurance contract. These risks include exposures to investment returns which may produce losses to the insurer arising from the following contract features:

- minimum annuity rates which are guaranteed to be applied at some future date;
- minimum guaranteed death benefits which are applicable when the performance of an interest bearing or unit linked fund falls below expectations;
- minimum guaranteed returns in respect of cash values and universal life investment accounts.

41.3 Interest rate risk (continued)

The Group manages its interest rate risk by a number of measures, including where feasible the selection of assets which best match the maturity of liabilities, the offering of investment contracts which match the maturity profile of assets, the re-pricing of interest rates on loans receivable, policy contracts and financial liabilities in response to market changes. In certain Caribbean markets, where availability of suitable investments is often a challenge, the Group holds many of its fixed rate debt securities to maturity and therefore mitigates the transient interest rate changes in these markets.

41.3 Interest rate risk (continued)

The table following summarises the exposures to interest rates on the Group's monetary insurance and financial liabilities (excluding actuarial liabilities which are disclosed in note 43). It includes liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. Insurance liabilities are categorised by their expected maturities.

	2017					2016				
	Exposure within 1 year	Exposure 1 to 5 years	Exposure after 5 years	Not exposed to interest	Total	Exposure within 1 year	Exposure 1 to 5 years	Exposure after 5 years	Not exposed to interest	Total
Other insurance liabilities	7,920	4,756	52,086	126,783	191,545	31,706	4,705	52,781	83,746	172,938
Investment contract liabilities	319,503	50,194	9,321	-	379,018	352,503	15,984	9,089	-	377,576
Notes and loans payable	7,604	406,148	-	53	413,805	1,964	77,756	316,895	(1,402)	395,213
Deposit and security liabilities:										
Other funding instruments	211,648	49,773	18,043	410	279,874	342,292	1,565	5,184	473	349,514
Customer deposits	679,555	69,462	-	1,931	750,948	703,049	86,798	138	125,170	915,155
Structured products	40,578	6,670	-	328	47,576	19,318	15,289	-	172	34,779
Securities sold for re-purchase	474,579	-	-	1,455	476,034	318,685	697	-	1,192	320,574
Derivative financial instruments	-	-	-	2,232	2,232	-	-	-	1,364	1,364
Bank overdrafts	2,568	-	-	-	2,568	1,939	-	-	-	1,939
Accounts payable and accrued liabilities	1,917	70,946	-	174,113	246,976	5,217	52,721	-	147,037	204,975
Total	1,745,872	657,949	79,450	307,305	2,790,576	1,776,673	255,515	384,087	357,752	2,774,027

41.3 Interest rate risk (continued)

The table following summarises the exposures to interest rate and reinvestment risks of the Group's monetary insurance and financial assets. Assets are stated at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. Reinsurance assets and policy loans are categorised by their expected maturities.

	2017					2016				
	Exposure within 1 year	Exposure 1 to 5 years	Exposure after 5 years	Not exposed to interest	Total	Exposure within 1 year	Exposure 1 to 5 years	Exposure after 5 years	Not exposed to interest	Total
Debt securities	626,248	472,660	2,350,813	48,721	3,498,442	647,158	557,849	2,186,167	50,180	3,441,354
Equity securities	-	-	-	245,483	245,483	-	-	-	220,208	220,208
Mortgage loans	19,996	36,452	284,703	1,235	342,386	19,295	50,617	258,480	3,374	331,766
Policy loans	2,591	13,855	120,899	4,787	142,132	4,110	20,752	108,507	4,571	137,940
Finance loans and leases	486,854	37,773	38,191	1,581	564,399	463,487	24,520	20,391	577	508,975
Securities purchased for re-sale	16,435	-	-	83	16,518	5,178	-	-	49	5,227
Deposits	108,940	340	1,700	424	111,404	137,123	159	1,279	737	139,298
Derivative financial instruments	-	-	-	32,477	32,477	-	-	-	28,980	28,980
Reinsurance assets: other	47	-	200	49,036	49,283	1,043	-	205	41,069	42,317
Premiums receivable	184	-	-	53,262	53,446	2,302	-	-	44,228	46,530
Other assets and accounts receivable	4,172	71,170	-	57,825	133,167	3,632	53,044	-	47,270	103,946
Cash resources	270,267	-	-	89,797	360,064	221,380	-	-	57,690	279,070
Total	1,535,734	632,250	2,796,506	584,711	5,549,201	1,504,708	706,941	2,575,029	498,933	5,285,611

41.3 Interest rate risk (continued)

The table below summarises the average interest yields on financial assets and liabilities held during the year in respect of continuing operations.

	2017	2016
Financial assets:		
Debt securities	6.1%	6.2%
Mortgage loans	5.7%	6.1%
Policy loans	7.2%	6.9%
Finance loans and finance leases	11.6%	12.6%
Securities purchased for re-sale	5.1%	9.2%
Deposits	2.3%	1.0%
Financial liabilities:		
Investment contract liabilities	5.6%	6.1%
Notes and loans payable	9.5%	9.4%
Other funding instruments	2.1%	1.9%
Deposits	2.0%	2.1%
Securities sold for re-purchase	3.6%	4.5%

a) Sensitivity

Sensitivity to interest rate risk is considered by operating subsidiaries. The effects of changes in interest rates of assets backing actuarial liabilities are disclosed in note 43.4. The Group's property and casualty operations are not exposed to a significant degree of interest rate risk, since the majority of its interest bearing instruments has short-term maturities. The sensitivity of the Group's principal operating subsidiaries engaged in banking, investment management and other financial services are considered in the following paragraphs.

41.3 Interest rate risk (continued)

Sagicor Investments Jamaica Limited and Sagicor Bank Jamaica Limited

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

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

2017				2016			
Change in interest rate		Effect on net income	Effect on TCI	Change in interest rate		Effect on net income	Effect on TCI
JMD	USD			JMD	USD		
- 1%	- 0.5%	8,525	21,297	- 1%	- 0.5%	1,057	13,141
+1%	+ 0.5%	(8,856)	(19,691)	+2.5%	+ 2%	(3,690)	(46,516)

41.4 Foreign exchange risk

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

In order to manage the risk associated with movements in currency exchange rates, the Group seeks to maintain investments and cash in each operating currency, which are sufficient to match liabilities denominated in the same currency. Exceptions are made to invest amounts in United States dollar assets which are held to back liabilities in Caribbean currencies. Management considers that these assets diversify the range of investments available in the Caribbean, and in the long-term are likely to either maintain capital value and/or provide satisfactory returns.

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

41.4 Foreign exchange risk (continued)

2017	US\$ 000 equivalents of balances denominated in						Total
	Barbados \$	Jamaica \$	Trinidad \$	Eastern Caribbean \$	US \$	Other Currencies	
ASSETS							
Financial investments ⁽¹⁾	444,488	942,730	430,696	140,655	2,598,363	150,826	4,707,758
Reinsurance assets	5,037	312	7,564	8,476	762,719	1,722	785,830
Receivables ⁽¹⁾	16,335	124,204	7,858	16,947	15,291	6,003	186,638
Cash resources	30,474	103,260	28,523	16,004	122,939	58,864	360,064
Total monetary assets	496,334	1,170,506	474,641	182,082	3,499,312	217,415	6,040,290
Other assets ⁽²⁾	203,652	360,583	72,786	20,247	108,991	(2,017)	764,242
Total assets of continuing operations	699,986	1,531,089	547,427	202,329	3,608,303	215,398	6,804,532
LIABILITIES							
Actuarial liabilities	401,388	351,912	337,729	54,441	1,710,151	95,199	2,950,820
Other insurance liabilities ⁽¹⁾	69,223	23,065	30,411	19,796	38,595	10,455	191,545
Investment contracts	34,252	71,648	149,381	44,735	70,084	8,918	379,018
Notes and loans payable	-	16,491	-	-	397,314	-	413,805
Deposit and security liabilities	82,293	547,756	1,348	15,674	895,363	16,798	1,559,232
Provisions	29,424	28,364	12,894	710	1,814	6,821	80,027
Accounts payable and accruals	43,000	133,292	16,855	4,578	42,880	6,371	246,976
Total monetary liabilities	659,580	1,172,528	548,618	139,934	3,156,201	144,562	5,821,423
Other liabilities ⁽²⁾	14,828	1,195	15,732	4,099	22,794	2,243	60,891
Total liabilities of continuing operations	674,408	1,173,723	564,350	144,033	3,178,995	146,805	5,882,314
Net position	25,578	357,366	(16,923)	58,296	429,308	68,593	922,218

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

41.4 Foreign exchange risk (continued)

2016	US\$ 000 equivalents of balances denominated in						Total
	Barbados \$	Jamaica \$	Trinidad \$	Eastern Caribbean \$	US \$	Other Currencies	
ASSETS							
Financial investments ⁽¹⁾	452,914	817,968	384,175	148,864	2,619,819	169,800	4,593,540
Reinsurance assets	5,758	336	10,432	1,820	736,067	1,156	755,569
Receivables ⁽¹⁾	20,613	86,232	10,271	13,226	13,939	6,059	150,340
Cash resources	15,064	43,379	28,492	15,430	135,180	41,525	279,070
Total monetary assets	494,349	947,915	433,370	179,340	3,505,005	218,540	5,778,519
Other assets ⁽²⁾	207,993	337,791	82,129	28,264	99,446	(2,222)	753,401
Total assets of continuing operations	702,342	1,285,706	515,499	207,604	3,604,451	216,318	6,531,920
LIABILITIES							
Actuarial liabilities	386,276	302,777	329,544	61,905	1,605,596	90,264	2,776,362
Other insurance liabilities ⁽¹⁾	65,787	20,504	27,874	10,105	37,273	11,395	172,938
Investment contracts	33,733	66,482	140,242	52,451	76,301	8,367	377,576
Notes and loans payable	-	-	-	-	395,213	-	395,213
Deposit and security liabilities	86,251	483,291	1,413	14,414	1,021,431	16,525	1,623,325
Provisions	31,160	48,198	12,487	844	1,784	6,819	101,292
Accounts payable and accruals	42,710	89,992	16,484	2,831	50,073	2,885	204,975
Total monetary liabilities	645,917	1,011,244	528,044	142,550	3,187,671	136,255	5,651,681
Other liabilities ⁽²⁾	13,848	12,794	19,315	3,492	33,751	1,625	84,825
Total liabilities of continuing operations	659,765	1,024,038	547,359	146,042	3,221,422	137,880	5,736,506
Net position	42,577	261,668	(31,860)	61,562	383,029	78,438	795,414

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

41.4 Foreign exchange risk (continued)

(a) Sensitivity

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

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

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

This occurs when a monetary balance is denominated in a currency other than the functional currency of the reporting unit to which it belongs. In this instance, a change in currency exchange rates results in the monetary balances being retranslated at the date of the financial statements and the exchange gain or loss is taken to income (note 26).

- Currency risk of reported results of foreign operations

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

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

This occurs when a reporting unit's functional currency depreciates or appreciates in value when retranslated to the USD, which is the Group's presentational currency. In this instance, the conversion of the reporting unit's assets and liabilities at a different rate of exchange results in a currency loss or gain which is recorded in the currency translation reserve (note 22). If the reporting unit was disposed of, either wholly or in part, then the corresponding accumulated loss or gain in the currency translation reserve would be transferred to income or retained earnings.

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

41.4 Foreign exchange risk (continued)

JMD currency risk

The effect of a 10% depreciation in the JMD relative to the USD arising from JMD reporting units as of December 31, 2017 and for the year then ended are considered in the following table.

	Amounts denominated in		Total amounts	Effect of a 10% depreciation
	JMD	USD		
Financial position:				
Assets	1,566,473	1,112,196	2,678,669	(156,647)
Liabilities	1,121,819	988,958	2,110,777	(112,182)
Net position	444,654	123,238	567,892	(44,465)
Represented by:				
Currency risk of the Group's investment in foreign operations				(44,465)
Income statement:				
Revenue	483,662	71,483	555,145	(36,381)
Benefits	(226,671)	(46,464)	(273,135)	22,667
Expenses	(157,339)	(14,856)	(172,195)	15,734
Income taxes	(22,826)	-	(22,826)	2,283
Net income	76,826	10,163	86,989	4,303
Represented by:				
Currency risk relating to the future cash flows of monetary balances				11,985
Currency risk of reported results of foreign operations				(7,682)
				4,303

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

41.5 Fair value of financial instruments

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.

41.5 Fair value of financial instruments (continued)

In assessing the fair value of non-traded financial liabilities, the Group uses a variety of methods including obtaining dealer quotes for specific or similar instruments and the use of internally developed pricing models, such as the use of discounted cash flows. If the non-traded liability is backed by a pool of assets, then its value is equivalent to the value of the underlying assets.

Certain of the Group's policy liabilities are unit linked, i.e. derive their value from a pool of assets which are carried at fair value. The Group assigns a fair value hierarchy of Level 2 to the contract liability if the liability represents the unadjusted fair value of the underlying pool of assets.

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

A financial instrument is classified as Level 3 if:

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

Level 3 available for sale securities include corporate and government agency debt instruments issued in the Caribbean, primarily in Jamaica and Trinidad. The fair values of these instruments have been derived from December 31 market yields of government instruments of similar durations in the country of issue of the instruments.

Level 3 assets designated fair value through income include mortgage loans, debt securities and equities for which the full income return and capital returns accrue to holders of unit linked policy and deposit administration contracts. These assets are valued with inputs other than observable market data.

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

41.5 Fair value of financial instruments (continued)

(a) Financial instruments carried at fair value

	2017				2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Available for sale securities:								
Debt securities	653,516	1,610,263	2,496	2,266,275	604,786	1,663,306	2,928	2,271,020
Equity securities	23,314	53,167	10,381	86,862	35,350	51,732	9,602	96,684
	676,830	1,663,430	12,877	2,353,137	640,136	1,715,038	12,530	2,367,704
Investments at fair value through income:								
Debt securities	19,185	62,542	98,757	180,484	35,720	32,436	95,849	164,005
Equity securities	14,269	144,352	-	158,621	3,992	119,532	-	123,524
Derivative financial instruments	-	2,232	30,245	32,477	-	1,364	27,616	28,980
Mortgage loans	-	-	45,447	45,447	-	-	40,347	40,347
	33,454	209,126	174,449	417,029	39,712	153,332	163,812	356,856
Total assets	710,284	1,872,556	187,326	2,770,166	679,848	1,868,370	176,342	2,724,560
Total assets by percentage	26%	68%	6%	100%	25%	69%	6%	100%
Investment contracts:								
Unit linked deposit administration liabilities	-	-	139,753	139,753	-	-	130,668	130,668
Deposit and security liabilities:								
Structured products	-	-	47,576	47,576	-	-	34,779	34,779
Derivative financial instruments	-	2,232	-	2,232	-	1,364	-	1,364
	-	2,232	47,576	49,808	-	1,364	34,779	36,143
Total liabilities	-	2,232	187,329	189,561	-	1,364	165,447	166,811
Total liabilities by percentage	0%	1%	99%	100%	0%	1%	99%	100%

41.5 Fair value of financial instruments (continued)

Transfers from Level 1 to Level 2 in 2017 - Nil (2016 - \$59,752). Transfers from Level 2 to Level 1 in 2017 – \$19,819 (2016 - Nil).

For Level 3 instruments, reasonable changes in inputs which could be applied to the valuation of available for sale securities would affect other comprehensive income. Reasonable changes in inputs which could be applied to the valuations of investments designated at fair value are largely offset in income, since the changes in fair value are borne by contract holders. Changes in the valuations of structured products reflect changes in the underlying securities and are borne by the contract holders. The following table presents the movements in Level 3 instruments for the year.

	2017			2016		2017		2016	
	Available for sale securities	Investments at fair value through income	Derivative instruments	Total assets	Total assets	Policy liabilities	Structured products	Total liabilities	Total liabilities
Balance, beginning of year	12,530	136,196	27,616	176,342	189,936	130,668	34,779	165,447	160,289
Additions	5,849	53,820	19,213	78,882	44,262	-	-	-	-
Transfers into Level 3 classification	-	-	-	-	76	-	-	-	-
Issues	-	-	-	-	-	15,467	28,718	44,185	35,664
Settlements	-	-	-	-	-	(8,242)	(20,014)	(28,256)	(22,751)
Fair value changes recorded within net investment income	-	176	20,868	21,044	8,135	-	-	-	-
Fair value changes recorded within interest expense	-	-	-	-	-	125	-	125	188
Fair value changes recorded in other comprehensive income	(98)	-	-	(98)	(308)	-	-	-	-
Disposals	(5,133)	(45,229)	(37,452)	(87,814)	(58,148)	-	-	-	-
Transfers (out of) Level 3 classification	(6)	(10)	-	(16)	-	-	-	-	-
Transfers to instruments carried at amortised cost	-	-	-	-	-	-	3,682	3,682	(252)
Effect of exchange rate changes	(265)	(749)	-	(1,014)	(7,611)	1,735	411	2,146	(7,691)
Balance, end of year	12,877	144,204	30,245	187,326	176,342	139,753	47,576	187,329	165,447
Fair value changes recorded in investment income for instruments held at end of year	-	176	11,411	11,587	10,067	-	-	-	-
Fair value changes recorded in interest expense for instruments held at end of year	-	-	-	-	-	125	-	125	188

41.5 Fair value of financial instruments (continued)

(b) Financial instruments carried at amortised cost

The carrying values of the Group's non-traded financial assets and financial liabilities carried at amortised cost approximate their fair value in notes 10, 12, and 20. The fair value hierarchy of other financial instruments carried at amortised cost as of December 31, 2017 is set out in the following tables.

	Level 1	Level 2	Level 3	Total
Held to maturity securities:				
Debt securities	-	-	-	-
Loans and receivables:				
Debt securities	-	445,543	709,788	1,155,331
Mortgage loans	-	-	296,867	296,867
Policy loans	-	-	149,995	149,995
Finance loans and finance leases	-	-	551,922	551,922
Securities purchased for resale	-	-	16,518	16,518
	-	445,543	1,725,090	2,170,633
	-	445,543	1,725,090	2,170,633

41.5 Fair value of financial instruments (continued)

	Level 1	Level 2	Level 3	Total
Investment contracts:				
Deposit administration liabilities	-	-	121,483	121,483
Other investment contracts	-	-	119,915	119,915
	-	-	241,398	241,398
Notes and loans payable:				
Convertible redeemable preference shares	-	-	17,320	17,320
Notes and lease payables	-	364,131	81,556	445,687
	-	364,131	98,876	463,007
Deposit and security liabilities				
Other funding instruments	-	-	284,980	284,980
Customer deposits	-	1,396	748,438	749,834
Securities sold for repurchase	-	-	473,771	473,771
	-	1,396	1,507,189	1,508,585
	-	365,527	1,847,463	2,212,990

41.5 Fair value of financial instruments (continued)

(c) Equity price risk

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

Sensitivity

The sensitivity to fair value changes in equity securities arises from those instruments classified as available for sale. There is no significant sensitivity to those instruments classified at fair value through income, since fair value changes are borne by policy contract holders.

The effects of an across the board 20% change in equity prices of the Group's available for sale equity securities as of December 31, 2017 on total comprehensive income before tax (TCIBT) are as follows.

Available for sale equities	Carrying value	20% change on TCIBT
Listed on Caribbean stock exchanges and markets	17,003	3,401
Listed on US stock exchanges and markets	45,528	9,106
Listed on other exchanges and markets	24,331	4,866
	86,862	17,373

41.6 Derivative financial instruments and hedging activities

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

41.6 Derivative financial instruments and hedging activities (continued)

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

	Contract / notional amount	Fair value	
		Assets	Liabilities
2017			
Derivatives held for trading:			
Equity indexed options	713,452	32,477	2,232
	713,452	32,477	2,232
2016			
Derivatives held for trading:			
Equity indexed options	673,264	28,980	1,364
	673,264	28,980	1,364

41.6 Derivative financial instruments and hedging activities (continued)

(i) *Equity indexed options*

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

For certain structured product contracts with customers (note 17), equity indexed options give the holder the ability to participate in the upward movement of an equity index while being protected from downward risk. The Group is exposed to credit risk on purchased options only, and only to the extent of the carrying amount, which is their fair value.

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

41.7 Offsetting Financial Assets and Liabilities

The Group is eligible to present certain financial assets and financial liabilities on a net basis on the balance sheet pursuant to criteria described in Note 1 "Accounting Policies: 2.15 Offsetting financial instruments".

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

2017	Gross amounts of financial assets	Gross amounts set off on the balance sheet	Net amounts of financial assets presented on the balance sheet	Impact of master netting arrangements	Financial instruments collateral	Net amount
ASSETS						
Financial investments	4,904,246	-	4,904,246	(1,211,913)	(206,987)	3,485,346
Securities purchases under resale agreement	16,518	-	16,518	-	-	16,518
Derivative financial instruments	32,477	-	32,477	(2,232)	-	30,245
	4,953,241	-	4,953,241	(1,214,145)	(206,987)	3,532,109
LIABILITIES						
Security liabilities	1,557,000	-	1,557,000	(1,191,066)	(188,722)	177,212
Derivative financial instruments	2,232	-	2,232	(2,232)	-	-
	1,559,232	-	1,559,232	(1,193,298)	(188,722)	177,212
2016						
ASSETS						
Financial investments	4,779,541	-	4,779,541	(821,168)	(260,443)	3,697,930
Securities purchases under resale agreement	5,227	-	5,227	-	-	5,227
Derivative financial instruments	28,980	-	28,980	(1,364)	-	27,616
	4,813,748	-	4,813,748	(822,532)	(260,443)	3,730,773
LIABILITIES						
Security liabilities	1,621,961	-	1,621,961	(415,910)	(220,100)	985,951
Derivative financial instruments	1,364	-	1,364	(1,364)	-	-
	1,623,325	-	1,623,325	(417,274)	(220,100)	985,951

42 INSURANCE RISK – PROPERTY & CASUALTY CONTRACTS

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

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

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

42.1 Underwriting risk

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

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

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

42.2 Claims risk

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

- attritional losses, which are expected to be of reasonable frequency and are less than established threshold amounts;

42.2 Claims risk (continued)

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

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

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

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

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

Total insurance coverage on insurance policies provides a quantitative measure of absolute risk. However, claims arising in any one year are a very small proportion in relation to the total insurance coverage provided. The total amounts insured by the Group at December 31, gross and net of reinsurance, are summarised by class of insurance.

42.2 Claims risk (continued)

Total insurance coverage		2017	2016
Property	Gross	8,348,729	7,673,403
	Net	1,410,917	1,083,282
Motor	Gross	433,491	385,978
	Net	433,491	192,989
Accident and liability	Gross	2,769,682	2,275,771
	Net	2,253,850	1,086,198
Total	Gross	11,551,902	10,335,152
	Net	4,098,258	2,362,469

The insurer assesses its exposures by modelling realistic disaster scenarios of potential catastrophic events. Claims arising from wind storms, earthquakes and floods and events triggering multi-coverage corporate liability claims are considered to be the potential sources of catastrophic losses arising from insurance risks. A realistic disaster scenario modelled for 2017 is presented below and results in estimated gross and net losses.

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

	Gross loss	Net loss
A Barbados and St. Lucia windstorm having a 200 year return period.	208,285	7,500

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

42.3 Reinsurance risk

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

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

42.3 Reinsurance risk (continued)

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

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

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

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

Retention limits represent the level of risk retained by the insurer. Coverage in excess of these limits is ceded to reinsurers up to the treaty limit. Claim amounts in excess of reinsurance treaty limits revert to the insurer. Principal features of retention program used by Sagicor General for its property insurance class is summarised in the following table.

Type of risk	Retention by insurers - currency amounts in thousands
Property	<ul style="list-style-type: none"> • maximum retention of \$4,500 for a single event; • maximum retention of \$7,500 for a catastrophic event; • quota share retention to maximum of 20% in respect of treaty limits; • quota share retention is further reduced to a maximum of \$375 per event.

The effects of reinsurance ceded are disclosed in notes 14, 24 and 27 and information on reinsurance balances is included in notes 10, 20 and 41.

42.3 Reinsurance risk (continued)

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

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

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

Risk Rating	Classification	Exposure \$000	Exposure %
1	Minimal risk	294,515	42%
2	Low risk	405,985	58%
3	Moderate risk	-	0%
4	Acceptable risk	-	0%
5	Average risk	-	0%
6	Higher risk	-	0%
7	Special mention	-	0%
8	Substandard	-	0%
TOTAL		700,500	100%

43 INSURANCE RISK – LIFE, ANNUITY & HEALTH CONTRACTS

Insurers are exposed to insurance risks such as product design and pricing, mortality and morbidity, lapse, expense, reinsurance, and actuarial liability estimation in respect of life, annuity and health contracts. Disclosure of these risks is set out in the following sections.

43.1 Contracts without investment returns

These contracts are principally term life, critical illness and health insurance. Individual term life and critical illness products are generally long-term contracts while group term life and health insurance products are generally one year renewable. The principal insurance risks associated with these contracts are product design and pricing and mortality and morbidity.

43.1 Contracts without investment returns (continued)

(a) Product design and pricing risk

Product design and pricing risk arises from poorly designed or inadequately priced contracts and can lead to both financial loss and reputational damage to the insurer.

Risks are priced to achieve an adequate return on capital on the insurer's business as a whole. In determining the pricing of an insurance contract, the insurer considers the nature and amount of the risk assumed, and recent experience and industry statistics of the benefits payable. Pricing inadequacy may arise either from the use of inadequate experience and statistical data in deriving pricing factors or from market softening conditions.

The underwriting process has established pricing guidelines, and may include specific medical tests and enquiries which determine the insurer's assessment of the risk. Insurers may also establish deductibles and coverage limits for health risks which will limit the potential claims incurred. Term life and critical illness risks have limitations of insured amounts. The pricing of a contract therefore consists of establishing appropriate premium rates, deductibles and coverage limits.

(b) Mortality and morbidity risk

Mortality risk is the risk that worsening mortality rates will result in an increase of death claims. Morbidity is the incidence of disease or illness and the associated risk is that of increased disability and medical claims. Insurance claims are triggered by the incurrence of a medical claim, the diagnosis of a critical illness or by death of the person insured.

For contracts providing death benefits, higher mortality rates would result in an increase in death claims. The Group annually reviews its mortality experience and compares it to industry mortality tables. This review may result in future adjustments to the pricing or re-pricing of these contracts.

Critical illness claims arise from the diagnosis of a specific illness incurred by the policy beneficiary. The Group annually reviews its critical illness claims experience and compares it to industry statistics. This review may result in future adjustments to the pricing or re-pricing of these contracts.

The concentration risks of term life and critical illness contracts are included in the related disclosure on other long-term contracts in note 43.2(b).

43.1 Contracts without investment returns (continued)

The cost of health related claims depends on the incidence of beneficiaries becoming ill, the duration of their illness, and the cost of providing medical services. An increase in any of these three factors will result in increased health insurance claims. In such circumstances, the insurer may adjust the pricing or re-pricing of these contracts.

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

2017 Premium revenue by location of insureds	Gross	Ceded	Net
Barbados	23,821	1,223	22,598
Jamaica	77,597	1,991	75,606
Trinidad & Tobago	26,642	647	25,995
Other Caribbean	25,902	1,027	24,875
USA	53	46	7
Total	154,015	4,934	149,081

(c) Sensitivity of incurred claims

The sensitivity of term life and critical illness claims is included in the related disclosure on other long-term contracts in note 43.4. The impact on gross claims of increasing the total liability by 5% for un-reinsured health insurance claims is illustrated in the following table.

	2017		2016	
	Liability	5% increase in liability	Liability	5% increase in liability
Actuarial liability	47,261	2,363	48,373	2,419
Claims payable	4,280	214	4,284	214
	51,541	2,577	52,657	2,633

43.2 Contracts with investment returns

Life and annuity insurance contracts with investment returns generally have durations of 5 or more years. The contract terms provide for the policyholder to pay either a single premium at contract inception, or periodic premiums over the duration of the contract. From the premium received, acquisition expenses and maintenance expenses are financed. Investment returns are credited to the policy and are available to fund surrender, withdrawal and maturity policy benefits. The principal risks associated with these policies are in respect of product design and pricing, mortality and longevity, lapse, expense and investment.

(a) Product design and pricing risk

Product design and pricing risk arises from poorly designed or inadequately priced contracts and can lead to both financial loss and reputational damage to the insurer.

Risks are priced to achieve an adequate return on capital on the insurer's business as a whole. In determining the pricing of a contract, the insurer considers the age of the policyholder and/or beneficiary, the expenses and taxes associated with the contract, the prospective investment returns to be credited to the contract, and the guaranteed values within the contract. Pricing inadequacy may arise either from the use of inadequate experience and statistical data in deriving pricing factors or from future changes in the economic environment.

(b) Mortality and longevity risk

Mortality risk is the risk that worsening mortality rates will result in an increase of death claims. Longevity risk is the risk that improving mortality rates will lengthen the payout period of annuities.

For contracts providing death benefits, higher mortality rates will result in an increase in death claims over time. For contracts providing the payout of annuities, improving mortality rates will lead to increased annuity benefits over time. Insurers annually review their mortality experience and compare it to industry mortality tables. This review may result in future adjustments to the pricing or re-pricing of these contracts.

43.2 Contracts with investment returns (continued)

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

Total insurance coverage on insurance policies provides a quantitative measure of absolute mortality risk. However, claims arising in any one year are a very small proportion in relation to the total insurance coverage provided. The total amounts insured by the Group in respect of both contracts with or without investment returns at December 31, gross and net of reinsurance, are summarised by geographic area below.

Total insurance coverage		2017		2016	
		Individual contracts	Group contracts	Individual contracts	Group contracts
Barbados	Gross	3,973,661	1,299,463	3,855,798	1,338,221
	Net	3,680,227	1,247,768	3,546,641	1,286,564
Jamaica	Gross	8,045,374	5,935,234	7,107,905	4,901,489
	Net	7,934,866	5,882,949	6,961,507	4,869,094
Trinidad & Tobago	Gross	3,491,638	2,225,487	3,322,781	2,379,773
	Net	2,900,602	2,115,756	2,741,682	2,262,405
Other Caribbean	Gross	7,936,174	1,443,434	7,702,307	1,824,971
	Net	6,939,861	1,282,782	6,616,723	1,647,151
USA	Gross	6,291,352	38,824	5,935,908	43,463
	Net	2,106,362	37,318	2,018,213	41,422
Total	Gross	29,738,199	10,942,442	27,924,699	10,487,917
	Net	23,561,918	10,566,573	21,884,766	10,106,636

43.2 Contracts with investment returns (continued)

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

Total liability under annuity contracts		2017		2016	
		Individual contracts	Group contracts	Individual contracts	Group contracts
Barbados	Gross	116,587	45,417	110,544	43,674
	Net	116,587	45,417	110,544	43,674
Jamaica	Gross	608	341,872	575	293,596
	Net	608	341,872	575	293,596
Trinidad & Tobago	Gross	120,342	-	115,254	-
	Net	120,342	-	115,254	-
Other Caribbean	Gross	30,721	28	26,827	27
	Net	30,721	28	26,827	27
USA	Gross	1,183,959	23,942	1,150,170	25,684
	Net	408,531	7,524	390,478	8,024
Total	Gross	1,452,217	411,259	1,403,370	362,981
	Net	676,789	394,841	643,678	345,321

43.2 Contracts with investment returns (continued)**(c) Lapse risk**

Lapse risk is that, on average, policyholders will terminate their policies ahead of the insurer's expectation. Early lapse may result in the following:

- Acquisition costs are not recovered from the policyholder;
- In order to settle benefits, investments are liquidated prematurely resulting in a loss to the insurer;
- Maintenance expenses are allocated to the remaining policies, resulting in an increase in expense risk.

(d) Expense risk

The Group monitors policy acquisition and policy maintenance expenses. Expenses are managed through policy design, fees charged and expense control. However, there are a significant number of inforce contracts for which insurers have limited or no ability to re-price for increases in expenses caused by inflation or other factors. Therefore growth in maintenance expenses has to be funded either by increasing the volume of inforce policies or by productivity gains. Failure to achieve these goals will require increases in actuarial liabilities held.

(e) Investment risk

A substantial proportion of the Group's financial investments support insurer obligations under life and annuity contracts with investment returns. The financial risks outlined in note 41 pertaining to credit, liquidity, interest rate, foreign exchange and equity price are considered integral investment risks associated with these insurance contracts.

Asset defaults, mismatches in asset and liability cash flows, interest rate and equity price volatility generally have the effect of increasing investment risk and consequential increases in actuarial liabilities held.

43.3 Reinsurance risk

To limit its exposure of potential loss on an insurance policy, the insurer may cede certain levels of risk to a reinsurer. The Group selects reinsurers which have well established capability to meet their contractual obligations and for new business a Sagikor credit risk rating of 1 or 2 is usually selected. Reinsurance ceded does not discharge the insurer's liability and failure by a reinsurer to honour its commitments could result in losses to the Group.

Insurers have limited their exposure per person by excess of loss or quota share treaties. Retention limits represent the level of risk retained by the insurer. Coverage in excess of these limits is ceded to reinsurers up to the treaty limit. The principal features of retention programs used by insurers are summarised in the following table.

Type of insurance contract	Retention by insurers - currency amounts in thousands
Health insurance contracts with individuals	Retention per individual to a maximum of \$175
Health insurance contracts with groups	Retention per individual to a maximum of \$175
Life insurance contracts with individuals	Retention per individual life to a maximum of \$500
Life insurance contracts with groups	Retention per individual life to a maximum of \$500

43.4 Sensitivity arising from the valuation of actuarial liabilities

The estimation of actuarial liabilities is sensitive to a number of assumptions. Changes in those assumptions could have a significant effect on the valuation results which are discussed below.

The valuation of actuarial liabilities of life insurance and annuity contracts is sensitive to:

- the economic scenario used,
- the investments allocated to back the liabilities,
- the underlying assumptions used (note 13.3 (b) to (f)), and
- the margins for adverse deviations (note 13.3 (g)).

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

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

Sensitivity	Scenario		
	Sagikor Life Inc segment	Sagikor Jamaica Segment	Sagikor USA segment
Worsening rate of lapse	Lapse rates were either doubled or halved, and the more adverse result was selected.		Lapse rates were increased or reduced by 30%, and the more adverse result was selected.
High interest rate	Assumed increases in the investment portfolio yield rates of 0.25% per year for 5 years, with the rates remaining constant thereafter.	Assumed increases in the investment portfolio yield rates of 0.5% for 10 years.	A 1% increase was applied to the investment portfolio rate.
Low interest rate	Assumed decreases in investment portfolio yield rates of 0.25% per year for 5 years, with the rates remaining constant thereafter.	Assumed decreases in investment portfolio yield rates of 0.5% per year for 10 years.	A 1% decrease was applied to the investment portfolio rate.
Worsening mortality and morbidity	Mortality and morbidity rates for insurance and critical illness products were increased by 3% of the base rate per year for 5 years. For annuity products, the mortality rates were decreased by 3% of the base rate for 5 years.		For life insurance and deferred annuity products, the base assumed rates were increased annually by 3% cumulatively over the next 5 years. For payout annuity products only, the mortality rates were decreased by 3% cumulatively over the next 5 years.
Higher expenses	Policy unit maintenance expense rates were increased by 5% per year for 5 years above those reflected in the base scenario.		

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

The following table represents the estimated sensitivity of each of the above scenarios to net actuarial liabilities for insurers by segment. Correlations that may exist between scenario assumptions were not explicitly taken into account.

	Sagikor Life segment		Sagikor Jamaica segment		Sagikor Life USA segment	
	2017	2016	2017	2016	2017	2016
Base net actuarial liability	956,305	936,049	374,483	327,183	623,269	580,784
Scenario	increase in liability		increase in liability		increase in liability	
Worsening rate of lapse	144,892	135,728	53,868	47,635	11,432	9,330
High interest rate	(89,289)	(84,334)	(111,058)	(98,734)	(37,115)	(34,545)
Low interest rate	161,474	156,127	102,183	124,400	42,637	39,771
Worsening mortality/morbidity	37,528	35,808	42,776	37,209	16,783	12,842
Higher expenses	19,053	20,715	17,530	14,939	5,255	4,418

43.5 Dynamic capital adequacy testing (DCAT)

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

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

The financial condition of an insurer at a particular date is its prospective ability at that date to meet its future obligations, especially obligations to policyholders, those to whom it owes benefits and to its shareholders. The financial condition analysis examines both an insurer's ability to execute its business plan and to absorb adverse experience beyond that provided for when its actuarial liabilities are established.

The purpose of the DCAT is

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

Full DCAT is conducted periodically by some insurers within the Group.

44 FIDUCIARY RISK

The Group provides investment management and pension administration services to investment and pension funds which involve the Group making allocation, purchase and sale decisions in relation to a wide range of investments. These services give rise to fiduciary risk that may expose the Group to claims for mal-administration or under-performance of these funds.

In the ordinary course of business, the Group manages assets of pension funds, mutual funds and unit trusts which are held in a fiduciary capacity and are not included in the Group's financial statements. The investments and cash under administration are summarised in the following table.

	2017	2016
Pension and insurance fund assets	2,072,232	1,726,467
Mutual fund, unit trust and other investment fund assets	1,132,928	890,235
	3,205,160	2,616,702

Fee income under administration is discussed in Note 26.

45 STATUTORY RESTRICTIONS ON ASSETS

Insurers are registered to conduct insurance business under legislation in place in each relevant jurisdiction. This legislation may prescribe a number of requirements with respect to deposits, investment of funds and solvency for the protection of policyholders. In general, these requirements do not restrict the ability of the insurer to trade investments. Banking subsidiaries may also be required to hold deposits with Central Banks which regulate the conduct of banking operations.

To satisfy the above requirements, invested assets and cash totalling \$1,253,052 (2016 - \$1,436,232) have been deposited with regulators or are held in trust to the order of regulators.

In some countries where the Group operates, there are exchange controls or other restrictions on the remittance of funds out of those countries.

46 CAPITAL MANAGEMENT

The Group's objectives when managing capital, which is a broader concept than equity in the statement of financial position, are:

- To comply with capital requirements established by insurance, banking and other financial intermediary regulatory authorities;
- To comply with internationally recognised capital requirements for insurance, where local regulations do not meet these international standards;
- To safeguard its ability as a going concern to continue to provide benefits and returns to policyholders, depositors, note-holders and shareholders;
- To provide adequate returns to shareholders;
- To maintain a strong capital base to support the future development of Group operations.

46.1 Capital resources

The principal capital resources of the Group are as follows:

	2017	2016
Shareholders' equity	623,374	536,149
Non-controlling interest	308,089	257,974
Notes and loans payable	413,805	395,213
Total financial statement capital resources	1,345,268	1,189,336

The Group deploys its capital resources through its operating activities. These operating activities are carried out by subsidiary companies which are either insurance entities or provide other financial services. The capital is deployed in such a manner as to ensure that subsidiaries have adequate and sufficient capital resources to carry out their activities and to meet regulatory requirements.

46.2 Capital adequacy

The capital adequacy of the principal operating subsidiaries is discussed in this section.

(a) Life insurers

Capital adequacy is managed at the operating company level. It is calculated by the Appointed Actuary and reviewed by executive management, the audit committee and the board of directors. In addition, certain subsidiaries of the Group seek to maintain internal capital adequacy at levels higher than the regulatory or internationally recognised requirements.

To assist in evaluating the current business and strategy opportunities, a risk-based capital approach is a core measure of financial performance. The risk-based assessment measure which has been adopted is the Canadian Minimum Continuing Capital and Surplus Requirement (MCCSR) standard. The minimum standard recommended by the Canadian regulators for companies is an MCCSR of 150%. A number of jurisdictions in the Caribbean region have no internationally recognised capital adequacy requirements, and in accordance with its objectives for managing capital, the Group has adopted the Canadian MCCSR standard. Jamaica and the USA have recognised capital adequacy standards.

The consolidated MCCSR for the life insurers of the Sagikor Group as of December 31 has been estimated as 258% (2016 – 249%). The 2016 MCCSR which was disclosed as 291% in 2016 has been revised and restated to 249% this year. This is the principal standard of capital adequacy used to assess the overall strength of the life insurers of the Sagikor Group. However, because of the variations in capital adequacy standards across jurisdictions, the consolidated result should be regarded as applicable to the life insurers of the Group as a whole and not necessarily applicable to each individual segment, insurance subsidiary or insurance subsidiary branch.

The Company is in compliance with all regulatory capital requirements.

46.2 Capital adequacy (continued)

(i) Sagicor Life Jamaica

Sagicor Life Jamaica is governed by the Jamaican MCCSR regime which requires an insurer to maintain a minimum ratio of 150%. For the years ended December 31, 2017 and 2016, this ratio was 186.0% and 156.5% respectively.

(ii) Sagicor Life Insurance Company (USA)

A risk-based capital (RBC) formula and model have been adopted by the National Association of Insurance Commissioners (NAIC) of the United States. RBC is designed to assess minimum capital requirements and raise the level of protection that statutory surplus provides for policyholder obligations. The RBC formula for life insurance companies measures four major areas of risk: (i) underwriting, which encompasses the risk of adverse loss developments and property and casualty insurance product mix; (ii) declines in asset values arising from credit risk; (iii) declines in asset values arising from investment risks, including concentrations; and (iv) off-balance sheet risk arising from adverse experience from non-controlled assets such as reinsurance guarantees for affiliates or other contingent liabilities and reserve and premium growth. If an insurer's statutory surplus is lower than required by the RBC calculation, it will be subject to varying degrees of regulatory action, depending on the level of capital inadequacy.

The RBC methodology provides for four levels of regulatory action. The extent of regulatory intervention and action increases as the ratio of surplus to RBC falls. The least severe regulatory action is the "Company Action Level" (as defined by the NAIC) which requires an insurer to submit a plan of corrective actions to the regulator if surplus falls below 200% of the RBC amount.

Sagicor Life Insurance Company looks to maintain at least 300% of the Company Action Level, and has maintained these ratios as of December 31, 2017 and 2016 respectively.

46.2 Capital adequacy (continued)

(b) Sagicor Investments Jamaica Limited and Sagicor Bank Jamaica Limited

Capital adequacy and the use of regulatory capital are monitored monthly by management employing techniques based on the guidelines developed by the Financial Services Commission (FSC), the Bank of Jamaica (BOJ), Basel II and the Risk Management and Compliance Unit. The required information is filed with the respective Regulatory Authorities at stipulated intervals. The BOJ and the FSC require each regulated entity to hold the minimum level of regulatory capital, and to maintain a minimum ratio of total regulatory capital to the risk-weighted assets.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off financial statements exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the capital adequacy ratios. During 2017 and 2016, all applicable externally imposed capital requirements were complied with.

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

46.3 Financial covenants

(a) 8.875% Senior Notes

Under the indenture entered into by the Group on the issue of these senior notes the Group has to comply with a number of covenants as follows:

COVENANT	DESCRIPTION
Limitation of indebtedness	Under this covenant, the Group is restricted to incremental borrowing up to a prescribed level. The Group must maintain a fixed charge coverage ratio, in excess of 2:1 in order to incur additional debt.
Limitation on restricted payments covenant	This covenant limits cash outflows, dividends, acquisition and investments by the Group. The Group must maintain a fixed charge coverage ratio of 2:1 and an MCCR capital ratio in excess of 175%.
Limitation on restricted distributions from subsidiaries	This covenant limits the subsidiaries from creating encumbrances or restrictions on their ability to make distributions to the Parent.
Limitation on sale of assets of subsidiary stock	This covenant restricts the Group from selling material subsidiary assets without using the proceeds to either reinvest in the business or offer to buy back bondholders.
Limitation on affiliate transactions	This covenant restricts affiliate transactions of the Group.
Change in control	This covenant allows investors to put their bonds back to the Group at a certain value when a specified event has changed ownership/control of the Group.
Limitation on liens	This covenant restricts the Group's ability to secure future debt with the Group's assets.
Optional Redemption	The notes are redeemable at the Group's option after August 11, 2018 at specified redemption rates.

46.3 Financial covenants (continued)

(b) 4.85% notes due 2019

Under an indenture and a trust deed entered into by the Group on the issue of the senior notes and notes respectively (see note 16), the Group has to comply with permitted lien covenants, which will not allow the Company nor any of its subsidiaries to directly or indirectly, incur or permit to exist any lien to secure any indebtedness or any guarantee of indebtedness, other than permitted liens, without effectively providing that the senior notes and notes are secured equitably and rateably with (or, if the obligation to be secured by lien, this is subordinated in right of payment to the senior notes and notes, prior to) the obligations so secured for so long as such obligations are so secured.

Permitted liens are liens existing on the dates of issue of the senior notes and notes respectively, certain liens which would arise in the course of normal business, and other liens whose outstanding principal amounts in aggregate outstanding principal amount do not exceed 10% of the consolidated net tangible assets (as is defined in the indenture and trust deed). As of December 31, 2017, and 2016, the Group satisfied these requirements.

The Group is in compliance with all covenants.

47 RELATED PARTY TRANSACTIONS

Other than as disclosed in notes 5, 9, 12, 26, 30, 31 and 44, there are no material related party transactions except as disclosed below.

Key management transactions and balances

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

Compensation	2017	2016
Salaries, directors' fees and other short-term benefits	19,884	20,548
Equity-settled compensation benefits	6,969	4,047
Pension and other retirement benefits	1,475	1,235
	28,328	25,830

	Mortgage loans	Other loans	Total loans
Balance, beginning of year	4,937	992	5,929
Advances	582	951	1,533
Repayments	(735)	(892)	(1,627)
Effects of exchange rate changes	-	23	23
Balance, end of year	4,784	1,074	5,858
Interest rates prevailing during the year	3.75% - 7.00%	0.00% - 9.75%	

48 BREACH OF INSURANCE REGULATIONS – RELATED PARTY BALANCES

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

49 EVENTS AFTER DECEMBER 31, 2017

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

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



SAGICOR FINANCIAL CORPORATION LIMITED
FINANCIAL STATEMENTS
DECEMBER 31, 2016

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Independent auditor's report

To the Shareholders of Sagicor Financial Corporation Limited

Report on the audit of the consolidated financial statements

Our opinion

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

What we have audited

Sagicor Financial Corporation Limited's consolidated financial statements comprise:

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

Basis for opinion

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.



Our audit approach

Audit scope

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

How we tailored our group audit scope

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

A full scope audit was performed for six components. These six components were: Sagicor Life Inc ('Barbados branch'), Sagicor Life Inc ('EC branches') and Sagicor Life Inc ('Trinidad Branch') Sagicor Life Insurance Company ("Sagicor USA"), Sagicor Group Jamaica Limited ("Sagicor Jamaica") and Sagicor Financial Corporation Limited. Additionally, based on our professional judgement, three components: Barbados Farms Limited, Sagicor General Insurance Inc and Sagicor Finance (2015) Limited were selected to perform an audit on specified account balances due to the materiality of certain individual balances to the Group consolidated financial statements as a whole. We performed analytical procedures with respect to the remaining components. All of the individually significant components were audited by a PwC network Firm.

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

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

Revenue	89%
Total assets	89%



Materiality

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
------------------	----------------------------------------------

Goodwill impairment

See notes 2.7(a), 3.3(a) and 8 to the financial statements for disclosures of related accounting policies, judgements and estimates.

Goodwill of \$43.9 million has arisen from a number of historic business combinations across the Group.

We focused on goodwill allocated to the Sagicor Life and Sagicor Jamaica segments as defined in note 4 to the consolidated financial statements. Sagicor Life uses an actuarial appraisal model and Sagicor Jamaica uses fair value less costs to sell to assess goodwill impairment. We focused on these segments based on magnitude, level of headroom and the sensitivity of the impairment test to possible changes in assumptions, being primarily:

Sagicor Life

- the growth rate of new business;
- discount rates;
- mortality, persistency and expense assumptions; and
- minimum regulatory capital requirements.

- We engaged our own experts to assess the methodology and underlying assumptions used in the assessment of the goodwill impairment testing.
- For the Sagicor Life segment, we evaluated the growth rate for new business by comparing the forecasted growth in new business to that achieved in the previous 4 years.

We also compared the mortality, persistency and expense assumptions in the model to those used for the computation of actuarial liabilities and noted no material exceptions.

In our testing of the actuarial appraisal model we checked the calculations for mathematical accuracy.

We engaged our own experts to independently determine a discount rate which we used to sensitize the results of the model. In addition, in our sensitized scenario we reduced management's growth rate assumption and increased the amount of capital set aside to meet operational requirements.



Sagicor Jamaica

- the growth rate, and;
- the discount rate.

With respect to the actuarial appraisal model, management uses qualified internal actuaries and an independent external actuary to assist in developing the actuarial appraisal model and in determining the related assumptions.

Based on the testing performed, no material adjustment to the carrying value of goodwill allocated to this segment was considered necessary.

- For the Sagicor Jamaica segment we evaluated management's future cash flow forecasts, and the process by which they were developed. We compared previous forecasts to actual results to assess the performance of the business and the accuracy of forecasting. We confirmed that the three year forecast used in the valuation model was consistent with Board approved business plan, and that the key assumptions were subject to oversight from the Board of Directors.

We tested the assumptions and methodologies used, in particular those relating to the growth rates and discount rate. To do this:

- Our valuation expert evaluated these assumptions with reference to valuations of similar companies.
- We compared the key assumptions to externally derived data where possible, including market expectations of investment return, projected economic growth and interest rates.
- We applied sensitivities in evaluating the directors' assessment of the planned growth rate in cash flows.

In testing the valuation model; we checked the calculations for mathematical accuracy and considered the sensitivity of the calculation by varying the key assumptions and adjustments within management's cash flow forecast.

Based on the testing performed, no material adjustment to the carrying value of goodwill allocated to this segment was considered necessary.



Actuarial methodologies and assumptions used in the valuation of insurance contract liabilities and annuity insurance contracts

See notes 2.11, 3.5 and 13 to the financial statements for disclosures of related accounting policies, judgements and estimates.

Actuarial liabilities are the most significant liability on the Group's statement of financial position. At December 31, 2016, actuarial liabilities totalled \$2,776 million.

We focused on this area as it involves significant judgement over uncertain future outcomes, mainly the ultimate total settlement value of long-term policyholder liabilities. Economic assumptions, such as investment return, associated discount rates and borrowing rates, policy expenses, and operating assumptions such as mortality and persistency are the key inputs used to estimate these long-term liabilities.

Management uses qualified internal actuaries and an independent external actuary to assist in determining these assumptions and in valuing the actuarial liabilities.

- We were assisted by our own actuarial experts considering industry and component specific facts and circumstances, to evaluate the methodologies and assumptions utilized by management's actuarial experts.
- We updated our understanding for any changes impacting the assumptions, specifically, we focused on mortality assumptions, contract lapses, investment return and associated discount rates, borrowing rates and policy expenses, all of which are based on the entity experience or published industry studies.
- For the Sagicor Life and Sagicor Jamaica segments we tested a sample of contracts to assess whether contract features corresponded to the data on the policy master file and tested the accuracy and completeness of the transfer of that data to the actuarial valuation systems.
- For the Sagicor USA segment we tested a sample of contracts to assess whether contract features corresponded to the data in the actuarial valuation system. In addition, we tested a sample of contracts from the policy master file to the actuarial valuation system to assess the completeness and accuracy of data in the actuarial valuation system.
- We assessed whether the actuarial methodologies were applied on a consistent basis in valuing actuarial liabilities. Where we identified changes to either calculations or methodologies we discussed these with our actuarial experts and considered whether they were refinements to the valuation of actuarial liabilities as opposed to corrections of errors or changes in accounting policy. Our testing did not identify any material changes in the application of actuarial methodologies or to the supporting calculations of actuarial liabilities that were not refinements.

We found the significant estimates and assumptions used by management to be reasonable, and that the

methodologies used were established and accepted actuarial methodologies and were appropriate in the circumstances.

Valuation of financial investments held at fair value and impairment of financial investments available-for-sale

See notes 2.8(a), (b), (c), (d), 3.1, 3.4 and 9 to the financial statements for disclosures of related accounting policies, judgements and estimates.

The Group's financial investments classified as fair value through income and available-for-sale account for \$2,725 million or 42% of total assets for the Group.

The Group classifies its financial investments as financial assets at fair value through income; loans and receivables; held-to-maturity financial assets, and available-for-sale financial assets. The valuation of financial investments held at fair value is based on a range of inputs. While many of the inputs required can be obtained from readily available liquid market prices and rates, certain securities are based on modelled prices as observable market data is limited. In these instances, management is required to make significant judgements due to the complexity in the valuation model estimates resulting in high estimation uncertainty risk which therefore led us to focus our attention on this area.

In addition, management is required to perform an impairment assessment for available-for-sale investments where certain impairment indicators exist. The main considerations for the impairment assessment for financial assets classified as available-for-sale include whether there are:

- Significant financial difficulty of the borrower;
- Default or delinquency in interest or principal payment;
- Concessions granted to a borrower that would not otherwise be considered due to the borrower's financial difficulty;

- We assessed the Group's valuation of individual investment holdings. Where readily observable data was available, we sourced this independently and performed a comparison to management's results. No material exceptions were noted.
- For more judgemental valuations, which may depend on unobservable inputs we selected a sample of securities, which were either independently valued by our component teams or by our experts. In some cases, these procedures indicated a different valuation to that calculated by management. In our view, the differences were within a reasonable range of outcomes, in the context of the inherent valuation uncertainties.
- We obtained management's impairment assessment and compared assumptions and inputs to independent market observable data where possible. We also checked the calculations for mathematical accuracy noting no exceptions.

We tested a sample of available-for-sale investments to independently assess whether they were impaired. The results of our testing identified an additional impairment provision was required, which was recorded by management and adjusted in the consolidated financial statements.



- The probability that the borrower will enter bankruptcy or other financial reorganization;
- Observable market data indicating that there is a measureable decrease in the estimated future cashflows from the asset since the initial recognition of those assets;
- The disappearance of an active market for the financial asset as a result of financial difficulties;
- In respect of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value below cost is an indicator of impairment.

As a result of the above estimation uncertainty and subjective judgements made by management, we focused our attention on this area.

Other information

Management is responsible for the other information. The other information comprises Sagicor Financial Corporation Limited's Annual Report (Annual Report) (but does not include the consolidated financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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



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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.



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

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

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

Other Matter

This report, including the opinion, has been prepared for and only for the Company in accordance with the terms of our engagement letter and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

The engagement partner on the audit resulting in this independent auditor's report is Michael Bynoe.

A handwritten signature in blue ink that reads "PricewaterhouseCoopers SRL".

PricewaterhouseCoopers SRL
Bridgetown, Barbados
March 31, 2017

SAGICOR FINANCIAL CORPORATION LIMITED**APPOINTED ACTUARY'S****2016 REPORT TO THE SHAREHOLDERS AND
POLICYHOLDERS**

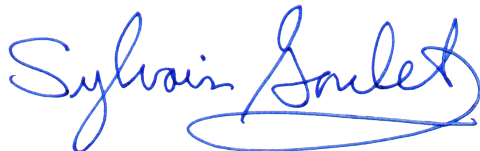
I have performed or reviewed the valuation of the consolidated policy liabilities of Sagicor Financial Corporation Limited ("Sagicor") which includes the policy liabilities of its life insurance subsidiaries:

- A — Sagicor Life Inc. (Barbados) ("SLI"),
- B — Capital Life Insurance Company Bahamas Limited (Bahamas),
- C — Sagicor Life Aruba NV (Aruba),
- D — Sagicor Panamá SA (Panama),
- E — Nationwide Insurance Company Limited (Trinidad & Tobago),
- F — Sagicor Life Jamaica Limited (Jamaica) *,
- G — Sagicor Life of the Cayman Islands Limited (Cayman Islands) *, and
- H — Sagicor Life Insurance Company (USA) *,

for the balance sheet, at 31st December 2016, and their change in the consolidated statement of operations, for the year then ended, for each organization and on a consolidated basis in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

The valuation of Sagicor and its Life Insurance Subsidiaries was conducted by myself or other actuaries (indicated by a "*" above), using either the Policy Premium Method ("PPM") or the Canadian Asset Liability Method ("CALM") where appropriate, assuming best-estimate assumptions together with margins for adverse deviations in accordance with the Standards of Practice (Life) of the Canadian Institute of Actuaries. For those where other actuaries completed the valuation, I have reviewed and accepted their valuation and have relied on their work in order to issue this certificate.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the financial statements fairly represent the results of the valuation.



Sylvain Goulet, FCIA, FSA, MAAA

Affiliate Member of the Institute and Faculty of Actuaries

Member of the Caribbean Actuarial Association

Appointed Actuary for Sagicor Financial Corporation Limited, and the above Life Subsidiaries A to E

23rd March 2017

December 31, 2016

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2016

Sagicor Financial Corporation Limited

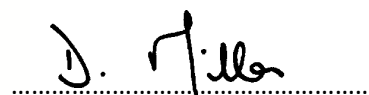
Amounts expressed in US\$000

	Note	2016	2015
ASSETS			
Investment property	5	80,662	79,172
Property, plant and equipment	7	167,723	170,249
Associates and joint ventures	6	87,293	84,530
Intangible assets	8	83,487	88,183
Financial investments	9	4,813,748	4,826,621
Reinsurance assets	10	777,344	665,819
Income tax assets	11	59,575	66,342
Miscellaneous assets and receivables	12	183,018	168,480
Cash resources		279,070	250,489
Total assets		6,531,920	6,399,885

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



.....
Director



.....
Director

	Note	2016	2015
LIABILITIES			
Actuarial liabilities	13	2,776,362	2,632,387
Other insurance liabilities	14	207,122	205,891
Investment contract liabilities	15	377,576	368,596
Total policy liabilities		3,361,060	3,206,874
Notes and loans payable	16	395,213	475,517
Deposit and security liabilities	17	1,623,325	1,607,611
Provisions	18	101,292	88,206
Income tax liabilities	19	50,641	34,765
Accounts payable and accrued liabilities	20	204,975	201,722
Liabilities of discontinued operation	38	-	46,026
Total liabilities		5,736,506	5,660,721

EQUITY

Share capital	21	3,029	299,320
Share premium	21	297,050	-
Reserves	22	(64,795)	(59,688)
Retained earnings		300,865	266,414
Total shareholders' equity		536,149	506,046
Participating accounts	23	1,291	1,383
Non-controlling interest in subsidiaries		257,974	231,735
Total equity		795,414	739,164
Total liabilities and equity		6,531,920	6,399,885

CONSOLIDATED STATEMENT OF INCOME

Year ended December 31, 2016

Sagicor Financial Corporation Limited

Amounts expressed in US\$000

	Note	2016	2015		Note	2016	2015
REVENUE				Net income from continuing operations			
Premium revenue	24	833,918	969,522			107,897	98,443
Reinsurance premium expense	24	(169,962)	(295,597)	Net income/(loss) from discontinued operation	38	1,412	(21,648)
Net premium revenue		663,956	673,925	NET INCOME FOR THE YEAR		109,309	76,795
Net investment income	25	353,352	322,229	Net income/(loss) is attributable to:			
Fees and other revenue	26	116,839	109,090	Common shareholders:			
Gain/(loss) arising on acquisition	37	-	(1,025)	From continuing operations		60,259	56,327
Total revenue		1,134,147	1,104,219	From discontinued operation		1,412	(21,648)
BENEFITS						61,671	34,679
Policy benefits and change in actuarial liabilities	27	693,173	692,937	Participating policyholders		110	1,285
Policy benefits and change in actuarial liabilities reinsured	27	(194,262)	(198,801)	Non-controlling interests		47,528	40,831
Net policy benefits and change in actuarial liabilities		498,911	494,136			109,309	76,795
Interest expense	28	61,448	58,807	Basic earnings /(loss) per common share:			
Total benefits		560,359	552,943		34		
EXPENSES				From continuing operations		19.5 cents	18.2 cents
Administrative expenses		255,326	251,892	From discontinued operation		0.5 cents	(7.2) cents
Commissions and related compensation		98,570	105,093			20.0 cents	11.0 cents
Premium and asset taxes		10,679	14,808	Fully diluted earnings /(loss) per common share:			
Finance costs		38,333	37,234		34		
Depreciation and amortisation		21,283	18,687	From continuing operations		18.7 cents	17.3 cents
Total expenses		424,191	427,714	From discontinued operation		0.4 cents	(6.6) cents
INCOME BEFORE TAXES						19.1 cents	10.7 cents
Income taxes	32	(41,700)	(25,119)				
NET INCOME FROM CONTINUING OPERATIONS		107,897	98,443				

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31, 2016

Sagicor Financial Corporation Limited

Amounts expressed in US\$000

OTHER COMPREHENSIVE INCOME	Note	2016	2015	TOTAL COMPREHENSIVE INCOME	2016	2015
Items net of tax that may be reclassified subsequently to income:	35			Net income	109,309	76,795
Available for sale assets:				Other comprehensive loss	(12,571)	(77,392)
Gains / (losses) on revaluation		39,183	(103,101)	TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR	96,738	(597)
Losses / (gains) transferred to income		2,675	(1,175)			
Net change in actuarial liabilities		(17,090)	48,346	Total comprehensive income / (loss) is attributable to:		
Retranslation of foreign currency operations		(28,481)	(15,686)	Common shareholders:		
		(3,713)	(71,616)	From continuing operations	45,811	14,461
Items net of tax that will not be reclassified subsequently to income:	35			From discontinued operation	1,412	(21,648)
Gains / (losses) on revaluation of owner-occupied property		5,145	(345)		47,223	(7,187)
Losses on defined benefit plans		(13,875)	(5,431)	Participating policyholders	132	1,249
Other items		(128)	-	Non-controlling interests	49,383	5,341
		(8,858)	(5,776)		96,738	(597)
OTHER COMPREHENSIVE LOSS FROM CONTINUING OPERATIONS		(12,571)	(77,392)			

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Sagicor Financial Corporation Limited

Year ended December 31, 2016

Amounts expressed in US\$000

	Share Capital (note 21)	Share Premium (note 21)	Reserves (note 22)	Retained Earnings	Total Shareholders' Equity	Participating Accounts (note 23)	Non-controlling Interests	Total Equity
2016								
Balance, beginning of year	299,320	-	(59,688)	266,414	506,046	1,383	231,735	739,164
Total comprehensive income from continuing operations	-	-	(4,319)	50,130	45,811	132	49,383	95,326
Total comprehensive income from discontinued operation	-	-	-	1,412	1,412	-	-	1,412
Redomiciliation adjustment net of treasury shares	(296,296)	296,296	-	-	-	-	-	-
Transactions with holders of equity instruments:								
Movements in treasury shares	5	754	-	-	759	-	-	759
Changes in reserve for equity compensation benefits	-	-	2,132	-	2,132	-	(50)	2,082
Dividends declared (note 21.3)	-	-	-	(18,880)	(18,880)	-	(17,684)	(36,564)
Transfers and other movements	-	-	(2,920)	1,789	(1,131)	(224)	(5,410)	(6,765)
Balance, end of year	3,029	297,050	(64,795)	300,865	536,149	1,291	257,974	795,414
2015								
Balance, beginning of year	295,989	-	(8,765)	244,474	531,698	364	241,480	773,542
Total comprehensive income from continuing operations	-	-	(38,419)	52,880	14,461	1,249	5,341	21,051
Total comprehensive income from discontinued operation	-	-	-	(21,648)	(21,648)	-	-	(21,648)
Transactions with holders of equity instruments:								
Allotment of common shares	556	-	-	-	556	-	-	556
Movements in treasury shares	2,775	-	-	-	2,775	-	-	2,775
Changes in reserve for equity compensation benefits	-	-	(1,650)	-	(1,650)	-	(313)	(1,963)
Dividends declared (note 21.3)	-	-	-	(19,842)	(19,842)	-	(14,835)	(34,677)
Transfers and other movements	-	-	(10,854)	10,550	(304)	(230)	62	(472)
Balance, end of year	299,320	-	(59,688)	266,414	506,046	1,383	231,735	739,164

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 2016

Sagicor Financial Corporation Limited

Amounts expressed in US\$000

	Note	2016	2015		Note	2016	2015
OPERATING ACTIVITIES				FINANCING ACTIVITIES			
Income before taxes		149,597	123,562	Movement in treasury shares		(98)	(896)
Adjustments for non-cash items, interest and dividends	36.1	(188,098)	(200,783)	Redemption of SFCL preference shares		(119,991)	-
Interest and dividends received		299,968	299,482	Shares issued to non-controlling interest		(6,634)	-
Interest paid		(93,620)	(76,276)	Other notes and loans payable, net	36.3	34,008	156,458
Income taxes paid		(24,948)	(27,444)	Dividends received from associates		1,788	480
Net increase in investments and operating assets	36.1	(100,362)	(269,081)	Dividends paid to common shareholders		(13,381)	(11,842)
Net increase in operating liabilities	36.1	83,793	58,514	Dividends paid to preference shareholders		(5,256)	(7,800)
Net cash flows - operating activities		<u>126,330</u>	<u>(92,026)</u>	Dividends paid to non-controlling interests		(17,824)	(14,600)
INVESTING ACTIVITIES				Net cash flows - financing activities		<u>(127,388)</u>	<u>121,800</u>
Property, plant and equipment, net	36.2	(17,996)	(16,586)	Effects of exchange rate changes		<u>(4,645)</u>	<u>(3,900)</u>
Associates and joint ventures		(188)	(28,986)	NET CHANGE IN CASH AND CASH EQUIVALENTS - CONTINUING OPERATIONS		(28,159)	(34,896)
Intangible assets		(4,272)	(15,198)	Net change in cash and cash equivalents - discontinued operation		(44,614)	(21,419)
Net cash flows - investing activities		<u>(22,456)</u>	<u>(60,770)</u>	Cash and cash equivalents, beginning of year		384,879	441,194
				CASH AND CASH EQUIVALENTS, END OF YEAR	36.4	<u>312,106</u>	<u>384,879</u>

1 INCORPORATION AND PRINCIPAL ACTIVITIES

On July 20, 2016, Sagikor Financial Corporation continued as an exempted company under the laws of Bermuda under the name Sagikor Financial Corporation Limited and registered as an external company under the Companies Act of Barbados on July 20, 2016. Bermuda law does not contemplate companies with no par value shares, as a consequence on continuance the excess of the par value of \$0.01 has been credited to share premium (note 21).

The Company was originally incorporated on December 6, 2002 under the Companies Act of Barbados as a public limited liability holding company. On December 6, 2002, Sagikor Life Inc was formed following its conversion from The Barbados Mutual Life Assurance Society (The Society). On December 30, 2002, the Company allotted common shares to the eligible policyholders of The Society and became the holding company of Sagikor Life Inc.

Sagikor and its subsidiaries 'the Group' operate across the Caribbean and in the United States of America (USA). There is a discontinued operation in the United Kingdom. Details of the Sagikor's holdings and operations are set out in notes 4 and 38.

The principal activities of the Sagikor Group are as follows:

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

For ease of reference, when the term "insurer" is used in the following notes, it refers to either one or more Group subsidiaries that engages in insurance activities.

These consolidated financial statements for the year ended December 31, 2016 have been approved by the Board of Directors on March 31, 2017. Neither the entity's owners nor others have the power to amend the financial statements after issue.

2 ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas when assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

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

2.1 Basis of preparation (continued)

Amendments to IFRS

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2016, and have not been applied in preparing these consolidated financial statements (see note 2.25). There are no new standards, amendments to standards and interpretations effective for this financial year that have a significant effect on the consolidated financial statements.

2.2 Basis of consolidation(a) Subsidiaries

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

2.2 Basis of consolidation (continued)

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

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

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

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

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

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

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

2.2 Basis of consolidation (continued)

(b) Discontinued operation

In December 2012, the Group agreed to sell Sagikor Europe Limited, its subsidiary Sagikor at Lloyd's Limited and its interest in Lloyd's of London syndicate 1206. The decision to sell resulted in the closure of the Sagikor Europe operating segment and therefore met the criteria of a discontinued operation. The sale was concluded in December 2013.

As of December 31, 2016, the future price adjustments relating to the discontinued operation are disclosed in the statement of financial position at their estimated undiscounted value.

(c) Sale of subsidiaries

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

(d) Associates and joint venture

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

2 Basis of consolidation (continued)

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

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

(e) Pension and investment funds

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

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

(f) Employees share ownership plan (ESOP)

The Company has established an ESOP Trust which either acquires Company shares on the open market, or is allotted new shares by the Company. The Trust holds the shares on behalf of employees until the employees' retirement or termination from the Group. Until distribution to employees, shares held by the Trust are accounted for as treasury shares. All dividends received by the Trust are applied towards the future purchase of Company shares.

2.3 Foreign currency translation

(a) Functional and presentational currency

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

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

(b) Reporting units

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

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

Currencies which are pegged to the United States dollar are converted at the pegged rates. Currencies which float are converted to the United States dollar by reference to the average of buying and selling rates quoted by the respective central banks or in the case of pounds sterling, according to prevailing market rates. Exchange rates of the other principal operating currencies to the United States dollar were as follows:

	2016 closing	2016 average	2015 closing	2015 average
Barbados dollar	2.0000	2.0000	2.0000	2.0000
Eastern Caribbean dollar	2.7000	2.7000	2.7000	2.7000
Jamaica dollar	127.9824	124.7554	119.9758	116.7122
Trinidad & Tobago dollar	6.7458	6.6190	6.4196	6.3412
Pound sterling	0.81280	0.73444	0.67480	0.65276

2.3 Foreign currency translation (continued)

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

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

(c) Transactions and balances

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

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

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

2.4 Segments

Reportable operating segments have been defined on the basis of performance and resource allocation decisions of the Group's Chief Executive Officer.

2.5 Investment property

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

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

Transfers to or from investment property are recorded when there is a change in use of the property. Transfers to owner-occupied property or to real estate developed for resale are recorded at the fair value at the date of change in use. Transfers from owner-occupied property are recorded at their fair value and any difference with carrying value at the date of change in use is dealt with in accordance with note 2.6.

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

Rental income is recognised on an accrual basis.

2.6 Property, plant and equipment

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

2.6 Property, plant and equipment (continued)

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

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

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

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

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

Lands are not depreciated.

2.6 Property, plant and equipment (continued)

An impairment loss is recognised for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

Gains or losses recognised in income on the disposal of property, plant and equipment are determined by comparing the net sale proceeds to the carrying value.

2.7 Intangible assets**(a) Goodwill**

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

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

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

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

2.7 Intangible assets (continued)**(b) Other intangible assets**

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

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

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

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

2.8 Financial assets

(a) Classification

The Group classifies its financial assets into four categories:

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

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

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

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

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

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

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

2.8 Financial assets (continued)

(b) Recognition and measurement

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

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

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

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

(c) Fair value

Fair value amounts represent the price (or estimates thereof) that would be agreed upon in an orderly transaction between market participants at valuation date.

2.8 Financial assets (continued)

(d) Impaired financial assets

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

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

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

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

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

2.8 Financial assets (continued)

(e) Securities purchased for resale

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

(f) Finance leases

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

(g) Embedded derivatives

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

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

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

2.9 Real estate developed or held for resale

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

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

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

2.10 Policy contracts

(a) Classification

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

The Group defines insurance risk as an insured event that could cause an insurer to pay significant additional benefits in a scenario that has a discernible effect on the economics of the transaction.

Insurance contracts transfer insurance risk and may also transfer financial risk. Once a contract has been classified as an insurance contract, it remains an insurance contract for its duration, even if the insurance risk reduces significantly over time. Investment contracts transfer financial risk and no significant insurance risk. Financial risk includes credit risk, liquidity risk and market risk.

A reinsurance contract is an insurance contract in which an insurance entity cedes assumed risks to another insurance entity.

2.10 Policy contracts (continued)

A number of insurance contracts contain a discretionary participation feature. A discretionary participation feature entitles the holder to receive, supplementary to the main benefit, additional benefits or bonuses:

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of management; and
- that are contractually based on
 - the performance of a specified pool of contracts;
 - investment returns on a specified pool of assets held by the insurer; or
 - the profit or loss of a fund or insurer issuing the contract.

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

Residual gains in the participating accounts constitute discretionary participation features which the Group classifies as equity (see also note 2.20).

(b) Recognition and measurement

(i) Property and casualty insurance contracts

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

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

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

2.10 Policy contracts (continued)

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

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

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

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

2.10 Policy contracts (continued)

(ii) Health insurance contracts

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

Premium revenue is accrued when due for contracts where the premium is billed monthly. For contracts where the premium is billed annually or semi-annually, premium revenue is recognised as earned on a pro-rata basis over the term of the respective policy coverage. The provision for unearned premiums represents the portion of premiums written relating to the unexpired terms of coverage.

Claims are recorded on settlement. Reserves are recorded as described in note 2.11.

An insurer may obtain reinsurance coverage for its health insurance risks. The reinsurance ceded premium is expensed on a pro-rata basis over the term of the respective policy coverage or of the reinsurance contract as appropriate.

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

(iii) Long-term traditional insurance contracts

Long-term traditional insurance contracts are generally issued for fixed terms of five years or more, or for the remaining life of the insured. Benefits are typically a death, disability or critical illness benefit, a cash value on termination and/or a monthly annuity. Annuities are generally payable until the death of the beneficiaries with a proviso for a minimum number of payments. Some of these contracts have a discretionary participation feature in the form of regular bonuses or dividends. Other benefits such as disability and waiver of premium on disability may also be included in these contracts. Some contracts may allow for the advance of policy loans to the policyholder and may also allow for dividend withdrawals by the policyholder during the life of the contract.

Premium revenue is recognised when due. Typically, premiums are fixed and are required to be paid within the due period for payment. If premiums are unpaid, either the contract may terminate, an automatic premium loan may settle the premium, or the contract may continue at a reduced value.

2.10 Policy contracts (continued)

Policy benefits are recognised on the notification of death, disability or critical illness, on the termination or maturity date of the contract, on the declaration of a cash bonus or dividend or on the annuity payment date. Policy loans advanced are recorded as loans and receivables in the financial statements and are secured by the cash values of the respective policies. Policy bonuses may be “non-cash” and utilised to purchase additional amounts of insurance coverage. Accumulated cash bonuses and dividends are recorded as interest bearing policy balances.

Reserves for future policy liabilities are recorded as described in note 2.11.

An insurer may obtain reinsurance coverage for death benefit insurance risks. Typically, coverage is obtained for individual coverage exceeding prescribed limits. The reinsurance premium is expensed when due, which generally coincides with when the policy premium is due. Reinsurance claim recoveries are established at the time of claim notification.

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

(iv) Long-term universal life and unit linked insurance contracts

Universal life and unit linked insurance contracts are generally issued for fixed terms or for the remaining life of the insured. Benefits are typically a death, disability or critical illness benefit, a cash value on termination and/or a monthly annuity. Annuities are generally payable until the death of the beneficiaries with a proviso for a minimum number of payments. Benefits may include amounts for disability or waiver of premium on disability.

Universal life and unit linked contracts have either an interest bearing investment account or unit linked investment accounts. Either gross premiums or gross premiums net of allowances are deposited to the investment accounts. Investment returns are credited to the investment accounts and expenses, not included in the aforementioned allowances, are debited to the investment accounts. Interest bearing investment accounts may include provisions for minimum guaranteed returns or returns based on specified investment indices. Allowances and expense charges are in respect of applicable commissions, cost of insurance, administrative expenses and premium taxes. Fund withdrawals may be permitted.

2.10 Policy contracts (continued)

Premium revenue is recognised when received and consists of all monies received from the policyholders. Typically, premiums are fixed at the inception of the contract or periodically thereafter but additional non-recurring premiums may be paid.

Policy benefits are recognised on the notification of death, disability or critical illness, on the receipt of a withdrawal request, on the termination or maturity date of the contract, or on the annuity payment date. Reserves for future policy liabilities are recorded as described in note 2.11.

An insurer may obtain reinsurance coverage for death benefit insurance risks. Typically, coverage is obtained for individual coverage exceeding prescribed limits. The reinsurance premium is expensed when due, which generally coincides with when the policy premium is due. Reinsurance claims recoveries are established at the time of claim notification.

Commissions and premium taxes payable are generally recognised only on settlement of premiums.

(v) Reinsurance contracts assumed

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

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

(vi) Reinsurance contracts held

As noted in sections (i) to (iv) above, an insurer may obtain reinsurance coverage for insurance risks underwritten. The Group cedes insurance premiums and risk in the normal course of business in order to limit the potential for losses arising from its exposures. Reinsurance does not relieve the originating insurer of its liability.

2.10 Policy contracts (continued)

Reinsurance contracts held by an insurer are recognised and measured in a similar manner to the originating insurance contracts and in accordance with the contract terms. Reinsurance premium ceded and reinsurance recoveries on claims are offset against premium revenue and policy benefits in the income statement.

The benefits to which an insurer is entitled under its reinsurance contracts held are recognised as reinsurance assets or receivables. Reinsurance assets and receivables are assessed for impairment. If there is evidence that the asset or receivable is impaired, the impairment is recorded in the statement of income. The obligations of an insurer under reinsurance contracts held are included in accounts payable and accrued liabilities and in actuarial liabilities.

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

(vii) Deposit administration and other investment contracts

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

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

- amortised cost where the insurer is obligated to provide investment returns to the pension scheme in the form of interest;
- fair value through income where the insurer is obligated to provide investment returns to the pension scheme in direct proportion to the investment returns on specified blocks of assets.

Deposit administration contributions are recorded directly as liabilities. Withdrawals are deducted directly from the liability. The interest or investment return provided is recorded as an interest expense.

In addition, the Group may provide pension administration services to the pension schemes. The Group earns fee income for both pension administration and investment services, it is accrued monthly.

2.10 Policy contracts (continued)

Other investment contracts are recognised initially at fair value and are subsequently stated at amortised cost and are accounted for in the same manner as deposit administration contracts which are similarly classified.

(c) Embedded derivatives

Certain insurance contracts contain embedded derivatives which are options whose value may vary in response to changes in interest rates or other market variables.

The Group does not separately measure embedded derivatives that are closely related to the host insurance contract or that meet the definition of an insurance contract. Options to surrender an insurance contract for a fixed amount are also not measured separately. In these cases, the entire contract liability is measured as set out in note 2.11.

(d) Liability adequacy tests

At the date of the financial statements, liability adequacy tests are performed by each insurer to ensure the adequacy of insurance contract liabilities, using current estimates of the related expected future cash flows. If a test indicates that the carrying value of insurance contract liabilities is inadequate, then the liabilities are adjusted to correct the deficiency. The deficiency is included in the income statement under benefits.

2.11 Actuarial liabilities

(a) Life insurance and annuity contracts

The determination of actuarial liabilities of long-term insurance contracts has been done using approaches consistent with Canadian accepted actuarial standards. These liabilities consist of the amounts that, together with future premiums and investment income, are required to provide for future policy benefits, expenses and taxes on insurance and annuity contracts. Canadian standards may change from time to time, but infrequently.

2.11 Actuarial liabilities (continued)

The process of calculating life insurance and annuity actuarial liabilities for future policy benefits necessarily involves the use of estimates concerning such factors as mortality and morbidity rates, future investment yields, future expense levels and persistency, including reasonable margins for adverse deviations. As experience unfolds, these resulting provisions for adverse deviations will be included in future income to the extent they are released when they are no longer required to cover adverse experience. Assumptions used to project benefits, expenses and taxes are based on insurer and industry experience and are updated annually.

Net insurance contract liabilities represent the amount which, together with estimated future premiums and net investment income, will be sufficient to pay projected future benefits, policyholder dividends and refunds, taxes (other than income taxes) and expenses on policies in-force net of reinsurance premiums and recoveries. The determination of net insurance liabilities is based on an explicit projection of cash flows using current assumptions plus a margin for adverse deviation for each material cash flow item. Investment returns are projected using the current asset portfolios and projected reinvestment yields. The period used for the projection of cash flows is the policy lifetime for most individual insurance contracts.

The Company segments assets to support liabilities by major product segment and geographic market and establishes investment strategies for each liability segment. Projected net cash flows from these assets and the policy liabilities being supported by these assets are combined with projected cash flows from future asset purchases to determine expected rates of return on these assets for future years. Investment strategies are based on the target investment policies for each segment and the reinvestment returns are derived from current and projected market rates for fixed income investments. Investment return assumptions for each asset class make provision for expected future asset credit losses, expected investment management expenses and a margin for adverse deviation.

Under this methodology, assets of each insurer are selected to back its actuarial liabilities. Changes in the carrying value of these assets may generate corresponding changes in the carrying amount of the associated actuarial liabilities. These assets include available for sale securities, whose unrealised gains or losses in fair value are recorded in other comprehensive income. The fair value reserve for actuarial liabilities has been established in the statement of equity for the accumulation of changes in actuarial liabilities which are recorded in other comprehensive income and which arise from recognised unrealised gains or losses in fair value of available for sale securities.

2.11 Actuarial liabilities (continued)

Certain life insurance policies issued by the insurer contain equity linked policy side funds. The investment returns on these unitised funds accrue directly to the policies with the insurer assuming no credit risk. Investments held in these side funds are accounted for as financial assets at fair value through income and unit values of each fund are determined by dividing the value of the assets in the fund at the date of the financial statements by the number of units in the fund. The resulting liability is included in actuarial liabilities.

(b) Health insurance contracts

The actuarial liabilities of health insurance policies are estimated in respect of claims that have been incurred but not yet reported or settled.

2.12 Financial liabilities

During the ordinary course of business, the Group issues investment contracts or otherwise assumes financial liabilities that expose the Group to financial risk. The recognition and measurement of the Group's principal types of financial liabilities are disclosed in note 2.10(b) (vii) and in the following paragraphs.

(a) Securities sold for re-purchase

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

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

2.12 Financial liabilities (continued)

(b) Deposit liabilities

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

(c) Loans and other debt obligations

Loans and other debt obligations are recognised initially at fair value, being their issue proceeds, net of transaction costs incurred. Subsequently, obligations are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the loan obligations using the effective yield method.

Obligations undertaken for the purposes of financing operations and capital support are classified as notes or loans payable and the associated cost is classified as finance costs. Loan obligations undertaken for the purposes of providing funds for on-lending, leasing or portfolio investments are classified as deposit and security liabilities and the associated cost is included in interest expense.

(d) Fair value

Fair value amounts represent the price (or estimates thereof) that would be agreed upon in an orderly transaction between market participants at valuation date.

2.13 Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, if it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

2.14 Derivative financial instruments and hedging activities

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

2.14 Derivative financial instruments and hedging activities (continued)

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

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

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

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

2.15 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.16 Presentation of current and non-current assets and liabilities

In note 41.2, the maturity profiles of financial and insurance assets and liabilities are identified. For other assets and liabilities, balances presented in notes 5 to 8, 10 to 12, 14, 18, 19 and 33 are non-current unless otherwise stated in those notes.

2.17 Employee benefits

(a) Pension benefits

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

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

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the other comprehensive income and retained earnings or non-controlling interest in the period in which they arise. Past service costs are charged to income in the period in which they arise.

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

(b) Other retirement benefits

Certain Group subsidiaries provide supplementary health and life insurance benefits to qualifying employees upon retirement. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the other comprehensive income and retained earnings or non-controlling interest in the period in which they arise.

2.17 Employee benefits (continued)

(c) Profit sharing and bonus plans

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

(d) Equity compensation benefits

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

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

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

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

Where the equity instruments do not vest until the individual has completed a further period of service, the services received are expensed in the income statement during the vesting period, with a corresponding increase in the reserve for equity compensation benefits or in non-controlling interest.

Non-market vesting conditions are included in assumptions about the number of instruments that are expected to vest. At each reporting financial statement date, the Group revises its estimates of the number of instruments that are expected to vest based on the non-marketing vesting conditions and adjusts the expense accordingly.

Amounts held in the reserve for equity compensation benefits are transferred to share capital or non-controlling interest either on the distribution of share grants or on the exercise of share options.

2.17 Employee benefits (continued)

The grant by the Company of its equity instruments to employees of Group subsidiaries is treated as a capital contribution in the financial statements of the subsidiary. The full expense relating to the grant is recorded in the subsidiary's income statement.

(ii) Cash-settled share-based transactions with staff

The services received in a cash-settled transaction with staff and the liability to pay for those services, are recognised at fair value as the individual renders services. Until the liability is settled, the fair value of the liability is re-measured at the date of the financial statements and at the date of settlement, with any changes in fair value recognised in income during that period.

(iii) Measurement of the fair value of equity instruments granted

The equity instruments granted consist either of grants of, or options to purchase, common shares of listed entities within the Group. For common shares granted, the listed price prevailing on the grant date determines the fair value. For options granted, the fair value is determined by reference to the Black-Scholes valuation model, which incorporates factors and assumptions that knowledgeable, willing market participants would consider in setting the price of the equity instruments.

(e) Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without the possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve months after the date of the financial statements are discounted to present value.

2.18 Taxes**(a) Premium taxes**

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

Premium tax rates	Life insurance and non-registered annuities	Health insurance	Property and casualty insurance
Barbados	3% - 6%	4%	3% - 5%
Jamaica	Nil	Nil	Nil
Trinidad and Tobago	Nil	Nil	Nil
United States of America	0.75% - 3.5%	Nil	Nil

Premium tax is recognised gross in the statement of income.

(b) Asset tax

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

(c) Income taxes

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

2.18 Taxes (continued)

Income tax rates	Life insurance and non-registered annuities	Registered annuities	Other lines of business
Barbados	5% of gross investment income	Nil	25% of net income
Jamaica	25% of profit before tax	Nil	25% - 33.33 % of profit before tax
Trinidad and Tobago	15% (deductions granted only in respect of expenses pertaining to long-term business investment income)	Nil	25% of net income
United States of America	35% of net income	Nil	35% of net income

(i) Current income taxes

Current tax is the expected tax payable on the taxable income for the year, using the tax rates in effect for the year. Adjustments to tax payable from prior years are also included in current tax.

(ii) Deferred income taxes

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income taxes are computed at tax rates that are enacted or substantially enacted by the end of the reporting period. Deferred tax assets are only recognised when it is probable that taxable profits will be available against which the asset may be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to do so and once they relate to the same entity. Deferred tax, related to fair value re-measurement of available for sale investments and cash flow hedges which are recorded in other comprehensive income, is recorded in other comprehensive income and is subsequently recognised in income together with the deferred gain or loss.

2.19 Common and preference shares

(a) Common shares

In exchange for consideration received, the Company has issued common shares that are classified as equity. Incremental costs directly attributable to the issue of common shares are recorded in share capital as a deduction from the share issue proceeds.

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

(b) Preference shares

On July 18, 2011, the Company issued convertible redeemable preference shares that are accounted for as a compound financial instrument. The shares were redeemed on July 18, 2016.

The redemption value is recognised as a contractual liability, and is measured initially at its discounted fair value. The discount rate reflects as of July 18, 2011: (i) the rate of interest applicable to a similar liability with a contractual dividend rate, and (ii) the interest premium required by the shareholder for an instrument with a non-contractual dividend. The liability component is disclosed in note 16.

The preference shareholders' rights to receive dividends is recognised within shareholders' equity, and is measured initially as the residual fair value of the preference shares in their totality after deducting the liability for the redemptive value. The equity component is initially recorded as a preference share reserve in note 22.

Incremental costs directly attributable to the issue of the preference shares are allocated between the liability for the redemption value and the equity reserve in proportion to their initial carrying amounts. After initial recognition, the liability component is accreted to its ultimate redemption value using the effective interest yield method, with the accretion being recorded as a finance cost in the statement of income. After initial recognition, the preference share reserve is transferred to retained earnings pro-rata to the dividends declared over the period to redemption.

2.19 Common and preference shares (continued)

On the initial recognition of the preference shares, the conversion feature of the instrument was deemed to have no value. Subsequently, when a number of preference shares are converted to common shares, the associated liability for redemption will be extinguished and consequently will be transferred to the share capital account for common shares. Additionally at conversion, the proportion of the preference share reserve attributable to the converted number of preference shares will also be transferred to the share capital account for common shares. In summary, the total transfer to the share capital account for common shares will approximate the original consideration for the converted number of preference shares less attributable issue costs.

(c) Dividends

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

2.20 Participating accounts

(a) "Closed" participating account

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

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

2.20 Participating accounts (continued)

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

(b) "Open" participating account

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

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

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

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

2.20 Participating accounts (continued)**(c) Financial statement presentation**

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

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

2.21 Statutory reserves

Statutory reserves are established when regulatory accounting requirements result in lower distributable profits or when an appropriation of retained earnings is required or permitted by law to protect policyholders, insurance beneficiaries or depositors.

2.22 Interest income and expenses

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

2.23 Fees and other revenue

Fees and non-insurance commission income are recognised on an accrual basis when the service has been provided. Fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised rateably over the period in which the service is provided. Performance linked fees or fee components are recognised when the performance criteria are fulfilled. Other revenue is recognised on an accrual basis when the related service has been provided.

2.24 Cash flows

The following classifications apply to the cash flow statement.

Cash flows from operating activities consist of cash flows arising from revenues, benefits, expenses, taxes, operating assets and operating liabilities. Cash flows from investing activities consist of cash flows arising from long-term tangible and intangible assets to be utilised in the business and in respect of changes in subsidiary holdings, insurance businesses, and associated company and joint venture investments. Cash flows from financing activities consist of cash flows arising from the issue, redemption and exchange of equity instruments and notes and loans payable and from equity dividends payable to holders of such instruments.

Cash and cash equivalents comprise:

- cash balances,
- call deposits,
- other liquid balances with maturities of three months or less from the acquisition date,
- less bank overdrafts which are repayable on demand,
- less other borrowings from financial institutions made for the purpose of meeting cash commitments and which have maturities of three months or less from origination.

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

2.25 Future accounting developments and reporting changes

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

IFRS (Effective Date)	Subject / Comments
IFRS 9 – Financial Instruments (January 1, 2018)	<p>IFRS 9, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39.</p> <p>For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.</p> <p>IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.</p>

IFRS (Effective Date)	Subject / Comments
IFRS 9 – Financial Instruments (January 1, 2018) (continued)	<p>In September 2016, the IASB issued Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4) to address concerns by preparers on implementing IFRS 9 before the new insurance standard, IFRS 17, is released. The amended IFRS 4 will provide all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before IFRS 17 is issued (known as the overlay approach), and also give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021 (known as the deferral approach). Entities deferring application of IFRS 9 will continue to apply the IAS 39.</p> <p>The Group is yet to assess IFRS 9's full impact.</p>

2.25 Future accounting developments and reporting changes

IFRS (Effective Date)	Subject / Comments
IFRS 15 – Revenue from contracts with customers (January 1, 2017)	IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The Group is assessing the impact of IFRS 15.
IFRS 16 – Leases (Annual periods beginning on or after 1 January 2019 with earlier application permitted if IFRS 15, 'Revenue from Contracts with Customers', is also applied.)	<p>This standard replaces the current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees.</p> <p>Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group is yet to assess the impact of IFRS 16.</p>

IFRS (Effective Date)	Subject / Comments
Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (January 1, 2017)	<p>Amendments made to IAS 12 in January 2016 clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base.</p> <p>Specifically, the amendments confirm that:</p> <ul style="list-style-type: none"> • A temporary difference exists whenever the carrying amount of an asset is less than its tax base at the end of the reporting period. • An entity can assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit. • Where the tax law restricts the source of taxable profits against which particular types of deferred tax assets can be recovered, the recoverability of the deferred tax assets can only be assessed in combination with other deferred tax assets of the same type. • Tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets. <p>The Group is assessing the impact of the amendment to IAS 12.</p>

2.25 Future accounting developments and reporting changes

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The development of estimates and the exercise of judgment in applying accounting policies may have a material impact on the Group's reported assets, liabilities, income and other comprehensive income. The items which may have the most effect on the Group's financial statements are set out below.

3.1 Impairment of financial assets

An available for sale debt security or a loan or a receivable is considered impaired when management determines that it is probable that all amounts due according to the original contract terms will not be collected. This determination is made after considering the payment history of the borrower, the discounted value of collateral and guarantees, and the financial condition and financial viability of the borrower. The determination of impairment may either be considered by individual asset or by a grouping of assets with similar relevant characteristics.

3.2 Recognition and measurement of intangible assets

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

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

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

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

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

The Group updates its business unit financial projections annually and applies discounted cash flow or earnings multiple models to these projections to determine if there is any impairment of goodwill. The assessment of whether goodwill is impaired can be highly sensitive to the inputs of cash flows, income after tax, discount rate, growth rate or capital multiple, which are used in the computation. Further details of the inputs used are set out in note 8.2.

(b) Other intangible assets

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

3.4 Fair value of securities not quoted in an active market

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

The models used to determine fair values are periodically reviewed by experienced personnel. The models used for debt securities are based on net present value of estimated future cash flows, adjusted as appropriate for liquidity, and credit and market risk factors.

3.5 Valuation of actuarial liabilities

(a) Canadian Actuarial Standards

The objective of the valuation of policy liabilities is to determine the amount of the insurer's assets that, in the opinion of the Appointed Actuary (AA) and taking into account the other pertinent items in the financial statements, will be sufficient without being excessive to provide for the policy liabilities over their respective terms. The amounts set aside for future benefits are dependent on the timing of future asset and liability cash flows.

The actuarial liabilities are determined as the present value of liability cash flows discounted at effective interest rates resulting in a value equivalent to the market value of assets supporting these policy liabilities under an adverse economic scenario.

The AA identifies a conservative economic scenario forecast, and together with the existing investment portfolio as at the date of the actuarial valuation and assumed reinvestment of net asset and policy liability cash flows, calculates the actuarial liabilities required at the date of valuation to ensure that sufficient monies are available to meet the liabilities as they become due in future years.

The methodology produces the total reserve requirement for each policy group fund. In general, the methodology is used to determine the net overall actuarial liabilities required by the insurer. Actuarial liabilities are computed by major group of policies and are used to determine the amount of reinsurance balances in the reserve, the distribution of the total reserve by country (for statutory reporting), and the distribution of the reserve by policy, and other individual components in the actuarial liabilities.

Further details of the inputs used are set out in note 43.

(b) Best estimate reserve assumptions & provisions for adverse deviations

Actuarial liabilities include two major components: a best estimate reserve and a provision for adverse deviations. The latter provision is established in recognition of the uncertainty in computing best estimate reserves, to allow for possible deterioration in experience and to provide greater comfort that reserves are adequate to pay future benefits.

For the respective reserve assumptions for mortality and morbidity, lapse, future investment yields, operating expenses and taxes, best estimate reserve assumptions are determined where appropriate. The assumption for operating expenses and taxes is in some instances split by universal life and unit linked business.

Provisions for adverse deviations are established in accordance with the risk profiles of the business, and are, as far as is practicable, standardised across geographical areas. Provisions are determined within a specific range established by the Canadian Standards of Practice.

The principal assumptions and margins used in the determination of actuarial liabilities are summarised in note 13.3. However, the liability resulting from the application of these assumptions can never be definitive as to the ultimate timing or the amount of benefits payable and is therefore subject to future re-assessment.

3.6 Carrying value of the assets and liabilities of the discontinued operation

As of December 31, 2016, the liability of the discontinued operation is the estimated residual liability due to the purchaser arising from the estimated results of the syndicate for the underwriting years of account up to and including 2013, until the end of the run-off period, December 31, 2018. The reported liability is also impacted by movements in various foreign exchange rates as the insured risks are denominated in a number of different currencies. The buyer may also charge a reasonable risk premium at the end of the run-off period.

4 SEGMENTS

The management structure of Sagicor consists of the parent company Board of Directors, the Group Chief Executive Officer (CEO), subsidiary company Boards of Directors and subsidiary company CEOs. For the parent company and principal subsidiaries, there are executive management committees made up of senior management who advise the respective CEOs. The principal subsidiaries have a full management governance structure, a consequence of their being regulated insurance and financial services entities and of the range and diversity of their products and services.

The Group CEO serves as Board Chairman or as a Board Member of the principal subsidiaries and is the Group's Chief Operating decision maker. Through subsidiary company reporting, the Group CEO obtains details of company performance and of resource allocation needs. Summarisation of planning and results and prioritisation of resource allocation is done at the parent company level where strategic decisions are taken.

In accordance with the relevant financial reporting standard, the Group has determined that there are three principal subsidiary Groups within continuing operations which represent the reportable operating segments of Sagicor. These segments and other Group companies are set out in the following sections. Details of the discontinued operating segment are set out in note 38.

(a) Sagicor Life

The group of subsidiaries comprises entities conducting life, health, annuity insurance business, pension administration services and asset management. During 2015, the segments were (i) Barbados, Eastern Caribbean, Dutch Caribbean, Bahamas and Central America and (ii) Trinidad and Tobago. During the year, the Group combined the two segments and brought them under common executive management control to allow for greater focus and accountability in the execution of our strategies.

4 SEGMENTS (continued)

Sagicor Life Segment Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagicor Life Inc	Life and health insurance, annuities and pension administration services	Barbados	100%
Sagicor Life Aruba NV	Life and health insurance, annuities and pension administration services	Aruba	100%
Capital Life Insurance Company Bahamas Limited	Life insurance	The Bahamas	100%
Sagicor Panamá, SA	Life and health insurance	Panamá	100%
Nationwide Insurance Company Limited	Life insurance	Trinidad & Tobago	100%
Associates			
RGM Limited	Property ownership and management	Trinidad & Tobago	33%
FamGuard Corporation Limited	Investment holding company	The Bahamas	20%
Principal operating company: Family Guardian Insurance Company Limited	Life and health insurance and annuities	The Bahamas	20%
Primo Holding Limited	Property investment	Barbados	38%

4 SEGMENTS (continued)

(b) Sagikor Jamaica

This segment comprises Group subsidiaries conducting life, health, annuity, property and casualty insurance business, and pension administration services and financial services in Jamaica, Cayman Islands and Costa Rica.

All Jamaican subsidiaries are now wholly owned by Sagikor Group Jamaica Limited. The companies comprising this segment are as follows.

Sagikor Jamaica Segment Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagikor Group Jamaica Limited	Group holding company	Jamaica	49.11%
Sagikor Life Jamaica Limited	Life and health insurance and annuities	Jamaica	49.11%
Sagikor Life of the Cayman Islands Limited	Life insurance	The Cayman Islands	49.11%
Sagikor Pooled Investment Funds Limited	Pension fund management	Jamaica	49.11%
Employee Benefits Administrator Limited	Pension administration services	Jamaica	49.11%
Sagikor Re Insurance Limited	Property and casualty insurance	The Cayman Islands	49.11%
Sagikor Insurance Brokers Limited	Insurance brokerage	Jamaica	49.11%
Sagikor International Administrators Limited	Group insurance administration	Jamaica	49.11%
Sagikor Insurance Managers Limited	Captive insurance management services	The Cayman Islands	49.11%

4 SEGMENTS (continued)

Sagikor Jamaica Segment Companies (continued)	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagikor Property Services Limited	Property management	Jamaica	49.11%
Sagikor Investments Jamaica Limited	Investment banking	Jamaica	49.11%
Sagikor Bank Jamaica Limited	Commercial banking	Jamaica	49.11%
Sagikor Costa Rica SCR, S.A.	Life insurance	Costa Rica	24.56%
LOJ Holdings Limited	Insurance holding company	Jamaica	100%
Sagikor St Lucia Limited	Financial services holding company	St. Lucia	49.11%
Sagikor Securities Jamaica Limited	Securities trading	Jamaica	49.11%
Associates			
Sagikor Real Estate X-Fund Ltd.	Investment in real estate activities	St. Lucia	29.31% ⁽¹⁾

(1) In September 2015, Sagikor Group acquired the Sagikor Real Estate X Fund. This acquisition took the Sagikor Group's holding to 29.3%.

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

- The power of the group to appoint a majority of the directors of the company and thereby direct relevant activities.
- The Group is exposed to the variable returns from its effective shareholder's interest.
- The Group has the ability to use the power to affect the amount of investor's returns.

4 SEGMENTS (continued)

(c) Sagikor Life USA

This segment comprises Sagikor's life insurance operations in the USA and comprises the following:

Sagikor Life USA Segment Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagikor Life Insurance Company	Life insurance and annuities	USA - Texas	100%
Sagikor USA Inc	Insurance holding company	USA - Delaware	100%

(d) Head office function and other operating companies

These comprise the following:

Other Group Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagikor Financial Corporation Limited ⁽¹⁾	Group parent company	Bermuda	100%
Sagikor General Insurance Inc	Property and casualty insurance	Barbados	53%
Sagikor Finance Inc	Loan and lease financing, and deposit taking	St. Lucia	70%
Sagikor Asset Management (T&T) Limited	Investment management	Trinidad & Tobago	100%
Sagikor Asset Management Inc	Investment management	Barbados	100%

4 SEGMENTS (continued)

(d) Head office function and other operating companies (continued)

These comprise the following:

Other Group Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagikor Asset Management (Eastern Caribbean) Limited	Investment management	Barbados	100%
Barbados Farms Limited	Farming and real estate development	Barbados	77%
Sagikor Funds Incorporated	Mutual fund holding company	Barbados	100%
Globe Finance Inc	Loan and lease financing, and deposit taking	Barbados	51%
The Mutual Financial Services Inc	Financial services holding company	Barbados	73%
Sagikor Finance Limited	Group financing vehicle	The Cayman Islands	100%
Sagikor Finance (2015) Limited ⁽²⁾	Group financing vehicle	The Cayman Islands	100%

(1) On July 20, 2016, Sagikor Financial Corporation continued as an exempted company under the laws of Bermuda under the name Sagikor Financial Corporation Limited.

(2) In 2015, Sagikor Finance (2015) Limited was incorporated in the Cayman Islands with its primary function being the issuance of debt.

4.1 Statement of income by segment

2016	Sagikor Life	Sagikor Jamaica	Sagikor Life USA	Head office and other	Adjustments	Total
Net premium revenue	299,565	268,482	74,383	21,526	-	663,956
Interest income	77,394	157,758	47,958	9,758	-	292,868
Other investment income	3,114	42,753	10,450	2,883	1,284	60,484
Fees and other revenues	19,107	54,968	16,095	26,654	15	116,839
Inter-segment revenues	11,946	-	-	60,129	(72,075)	-
	411,126	523,961	148,886	120,950	(70,776)	1,134,147
Net policy benefits	196,116	168,757	79,625	9,161	-	453,659
Net change in actuarial liabilities	3,152	38,350	3,750	-	-	45,252
Interest expense	13,393	41,455	2,853	3,747	-	61,448
Administrative expenses	68,990	112,156	32,752	40,040	1,388	255,326
Commissions and premium and asset taxes	44,152	39,979	15,584	9,534	-	109,249
Finance costs	-	-	63	(136)	38,406	38,333
Depreciation and amortisation	6,505	8,017	1,551	5,210	-	21,283
Inter-segment expenses	5,720 ⁽¹⁾	1,419	(3,575) ⁽¹⁾	11,581	(15,145)	-
	338,028	410,133	132,603	79,137	24,649	984,550
Segment income / (loss) before taxes	73,098	113,828	16,283	41,813	(95,425)	149,597
Income taxes	(8,177)	(23,678)	(5,797)	(3,544)	(504)	(41,700)
Net income / (loss) from continuing operations	64,921	90,150	10,486	38,269	(95,929)	107,897
Net income/(loss) attributable to shareholders from continuing operations	64,811	44,275	10,486	(1,790)	(57,523)	60,259
Total comprehensive income/(loss) attributable to shareholders from continuing operations	50,414	45,840	12,802	(3,378)	(59,867)	45,811

⁽¹⁾ During 2015, Sagikor Life USA entered into a reinsurance agreement with Sagikor Life; included in the inter-segment expenses is \$4,819 relating to this transaction.

4.2 Statement of income by segment

2015	Sagicor Life	Sagicor Jamaica	Sagicor Life USA	Head office and other	Adjustments	Total
Net premium revenue	291,237	278,312	80,963	23,413	-	673,925
Interest income	73,121	159,828	51,236	9,247	-	293,432
Other investment income	1,862	21,101	8,831	(66)	(2,931)	28,797
Fees and other revenues	12,606	53,243	20,124	23,113	4	109,090
Loss arising on acquisition	-	(1,025)	-	-	-	(1,025)
Inter-segment revenues	92,596 ⁽¹⁾	-	(82,890) ⁽¹⁾	39,905	(49,611)	-
	471,422	511,459	78,264	95,612	(52,538)	1,104,219
Net policy benefits	189,934	163,574	101,898	12,171	-	467,577
Net change in actuarial liabilities	(1,482)	44,634	(16,593)	-	-	26,559
Interest expense	11,247	40,824	2,693	4,043	-	58,807
Administrative expenses	64,958	114,977	35,673	35,449	835	251,892
Commissions and premium and asset taxes	40,694	44,298	24,761	10,148	-	119,901
Finance costs	-	-	49	(343)	37,528	37,234
Depreciation and amortisation	5,831	6,573	1,276	5,007	-	18,687
Inter-segment expenses	82,585 ⁽¹⁾	886	(81,207) ⁽¹⁾	9,943	(12,207)	-
	393,767	415,766	68,550	76,418	26,156	980,657
Segment income / (loss) before taxes	77,655	95,693	9,714	19,194	(78,694)	123,562
Income taxes	(6,888)	(15,581)	(3,106)	(343)	799	(25,119)
Net income / (loss) from continuing operations	70,767	80,112	6,608	18,851	(77,895)	98,443
Net income/(loss) attributable to shareholders from continuing operations	69,482	39,344	6,608	(18,740)	(40,367)	56,327
Total comprehensive income/(loss) attributable to shareholders from continuing operations	70,925	4,881	(3,404)	(19,460)	(38,481)	14,461

⁽¹⁾ During the year, Sagicor Life USA entered into a reinsurance agreement with Sagicor Life; included in the inter-segment revenues is \$90,515 and inter-segment expenses of \$82,225 relating to this transaction.

4.1 Statement of income by segment (continued)

The principal non-controlling interests in the Group are in respect of Sagicor Group Jamaica Limited (Sagicor Jamaica).

Out of the total net income attributable to non-controlling interests of \$47,528 (2015 - \$40,831), Sagicor Jamaica contributed \$45,876 (2015 - \$40,767).

4.2 Variations in segment income

Variations in segment income may arise from non-recurring or other significant factors. The most common factors contributing to variations in segment income are as follows.

(i) Investment gains

Fair value investment gains are recognised on:

- the revaluation of investment property;
- the revaluation of debt and equity securities classified as at fair value through income;
- the disposal of debt and equity securities classified as available for sale or loans and receivables.

Therefore, significant gains and losses may be triggered by changes in market prices and / or by decisions to dispose of investments.

(ii) Allowances for impairment of financial investments

Significant impairment losses may be triggered by changes in market prices and economic conditions.

(iii) Gains on acquisitions/divestitures

On acquisition of a business or portfolio, if the fair value of the net assets acquired exceeds the total consideration transferred, the difference is recognized directly in the statement of income.

4.2 Variations in segment income (continued)

(iv) Foreign exchange gains and losses

Movements in foreign exchange rates may generate significant exchange gains or losses when the foreign currency denominated monetary assets and liabilities are re-translated at the date of the financial statements.

(v) Movements in actuarial liabilities arising from changes in assumptions

The change in actuarial liabilities for the year includes the effects arising from changes in assumptions. The principal assumptions in computing the actuarial liabilities on life and annuity contracts relate to mortality and morbidity, lapse, investment yields, asset default and operating expenses and taxes. Because the process of changes in assumptions is applied to all affected insurance contracts, changes in assumptions may have a significant effect in the period in which they are recorded.

4.2 Variations in segment income (continued)

The table below summarises by segment the individual line items within income from continuing operations which are impacted by the foregoing factors.

Variations in income by segment	2016					2015				
	Sagicor Life	Sagicor Jamaica	Sagicor Life USA	Head Office and Other	Total	Sagicor Life	Sagicor Jamaica	Sagicor Life USA	Head Office and Other	Total
Investment gains / (losses)	999	42,669	15,586	2,882	62,136	(1,226)	28,342	5,309	(7)	32,418
Impairment of financial investments	(328)	(4,652)	(4,488)	(153)	(9,621)	(1,782)	(8,368)	(17)	(171)	(10,338)
Foreign exchange gains	8,725	3,566	-	273	12,564	1,624	1,182	-	8	2,814
Losses on acquisitions/ divestitures	-	-	-	-	-	-	(1,025)	-	-	(1,025)
Decrease / (increase) in actuarial liabilities from changes in assumptions	21,682	3,805	(18,176)	-	7,311	36,114	(403)	55,700	-	91,411
	31,078	45,388	(7,078)	3,002	72,390	34,730	19,728	60,992	(170)	115,280

4.3 Other comprehensive income

Variations in other comprehensive income may arise also from non-recurring or other significant factors. The most common are as follows:

(i) Unrealised investment gains

Fair value investment gains are recognised on the revaluation of debt and equity securities classified as available for sale. Therefore, significant gains and losses may be triggered by changes in market prices.

(ii) Changes in actuarial liabilities

Changes in unrealised investment gains identified in *(i)* above may also generate significant changes in actuarial liabilities as a result of the use of asset liability matching in the liability estimation process.

(iii) Foreign exchange gains and losses

Movements in foreign exchange rates may generate significant exchange gains or losses on the re-translation of the financial statements of foreign currency reporting units.

(iv) Defined benefit plans gains and losses

Experience adjustments and changes in actuarial assumptions gives rise to gains or losses on defined benefit plans.

The table below summarises by segment the individual line items within other comprehensive income from continuing operations which are impacted by the foregoing factors.

	Variations in other comprehensive income by segment					Total
	Sagikor Life	Sagikor Jamaica	Sagikor Life USA	Head Office and other	Adjustments	
2016						
Unrealised investment (losses)	(2,474)	32,226	11,034	(137)	(1,466)	39,183
Changes in actuarial liabilities	961	(5,647)	(12,404)	-	-	(17,090)
Retranslation of foreign currency operations	(7,490)	(21,058)	-	10	57	(28,481)
Losses on defined benefit plans	(4,924)	(7,369)	-	(1,582)	-	(13,875)
2015						
Unrealised investment gains	(5,252)	(61,165)	(36,500)	(184)	-	(103,101)
Changes in actuarial liabilities	9,729	3,702	34,915	-	-	48,346
Retranslation of foreign currency operations	(982)	(14,708)	-	23	(19)	(15,686)
Gains on defined benefit plans	(1,053)	(3,787)	-	(591)	-	(5,431)

4.4 Statement of financial position by segment

	Sagicor Life	Sagicor Jamaica	Sagicor Life USA	Head office and other	Adjustments	Total
2016						
Financial investments	1,403,870	2,212,153	1,068,244	129,481	-	4,813,748
Other external assets	324,570	450,104	829,889	189,807	(76,198)	1,718,172
Inter-segment assets	199,858	11,555	2,759	54,006	(268,178)	-
Total assets	1,928,298	2,673,812	1,900,892	373,294	(344,376)	6,531,920
Policy liabilities	1,272,500	675,019	1,434,678	55,061	(76,198)	3,361,060
Other external liabilities	86,871	1,544,651	203,929	539,995	-	2,375,446
Inter-segment liabilities	39,434	3,715	43,838	181,191	(268,178)	-
Total liabilities	1,398,805	2,223,385	1,682,445	776,247	(344,376)	5,736,506
Net assets	529,493	450,427	218,447	(402,953)	-	795,414
2015						
Financial investments	1,402,811	2,087,139	1,061,649	275,022	-	4,826,621
Other external assets	331,311	415,738	712,944	195,496	(82,225)	1,573,264
Inter-segment assets	169,945	10,350	8,323	53,505	(242,123)	-
Total assets	1,904,067	2,513,227	1,782,916	524,023	(324,348)	6,399,885
Policy liabilities	1,271,737	646,942	1,309,946	60,474	(82,225)	3,206,874
Other external liabilities	87,439	1,467,043	224,063	629,276	-	2,407,821
Liabilities of discontinued operation	-	-	-	46,026	-	46,026
Inter-segment liabilities	28,475	1,696	43,839	168,113	(242,123)	-
Total liabilities	1,387,651	2,115,681	1,577,848	903,889	(324,348)	5,660,721
Net assets	516,416	397,546	205,068	(379,866)	-	739,164

4.4 Statement of financial position by segment (continued)

The principal non-controlling interests in the Group are in respect of Sagicor Group Jamaica Limited (Sagicor Jamaica). Out of the total non-controlling interests in the statement of financial position of \$257,974 (2015 - \$231,735), Sagicor Jamaica contributed \$219,361 (2015 - \$194,690).

4.5 Additions to non-current assets by segment

Segment operations include certain non-current assets comprising investment property, property, plant and equipment, investment in associated companies and intangible assets. Additions to these categories for the year are as follows:

	2016	2015
Sagicor Life	4,534	9,139
Sagicor Jamaica	8,922	45,968
Sagicor Life USA	5,782	2,806
Head office and other	5,565	4,557
	<u>24,803</u>	<u>62,470</u>

4.6 Products and services

Total external revenues relating to the Group's products and services are summarised as follows:

	2016	2015
Life, health and annuity insurance contracts issued to individuals	635,288	636,061
Life, health and annuity insurance and pension administration contracts issued to groups	276,893	273,382
Property and casualty insurance	36,621	32,653
Banking, investment management and other financial services	157,573	150,152
Farming and unallocated revenues	27,772	11,971
	<u>1,134,147</u>	<u>1,104,219</u>

4.7 Geographical areas

The Group operates in certain geographical areas which are determined by the location of the subsidiary or branch initiating the business.

Group operations in geographical areas include certain non-current assets comprising investment property, property, plant and equipment, investment in associated companies and intangible assets.

Total external revenues and non-current assets by geographical area are summarised in the following table.

	External revenue		Non-current assets	
	2016	2015	2016	2015
Barbados	170,271	162,545	193,522	195,457
Jamaica	495,476	478,798	120,178	117,964
Trinidad & Tobago	166,066	153,790	66,115	69,132
Other Caribbean	152,161	150,860	30,025	34,485
USA	150,173	158,226	9,325	5,096
	<u>1,134,147</u>	<u>1,104,219</u>	<u>419,165</u>	<u>422,134</u>

5 INVESTMENT PROPERTY

The movement in investment property for the year is as follows:

	2016	2015
Balance, beginning of year	79,172	88,766
Additions at cost	7	111
Transfer from real estate developed for resale (note 12)	555	-
Transfer (to) / from property, plant and equipment (note 7)	846	(3,410)
Disposals	(825)	(5,255)
Change in fair values	1,847	(816)
Effects of exchange rate changes	(940)	(224)
Balance, end of year	80,662	79,172

Investment property includes \$10,603 (2015 - \$11,446) which represents the Group's proportionate interest in joint operations summarised in the following table.

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

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

6 ASSOCIATES AND JOINT VENTURES

6.1 Interest in Associates and Joint Ventures

Name of Entity	Country of Incorporation	% of ownership interest		Nature of relationship	Measurement Method	Carrying Amount	
		2016	2015			2016	2015
RGM Limited	Trinidad & Tobago	33%	33%	Associate	Equity Method	22,346	23,199
FamGuard Corporation Limited ⁽¹⁾	Bahamas	20%	20%	Associate	Equity Method	13,700	14,059
Primo Holding Limited	Barbados	38%	38%	Associate	Equity Method	355	362
Sagicor Costa Rica SCR, S.A.	Costa Rica	50%	50%	Joint Venture	Equity Method	3,107	6,326
Sagicor Real Estate X-Fund Ltd. ⁽²⁾	St. Lucia	29%	29%	Associate	Equity Method	47,785	40,584
						<u>87,293</u>	<u>84,530</u>

⁽¹⁾ FamGuard Corporation Limited is listed on the Bahamas International Securities Exchange. The proportionate share of market value calculated on the basis of the year-end closing rate of \$5.82 per share was \$11,000 (2015 – \$11,200).

⁽²⁾ The Sagicor Real Estate X Fund Limited traded on the Jamaica Stock Exchange. The proportionate share of market value calculated on the basis of the year-end closing rate of \$0.10 (J\$12.25) per share was \$66,508 (2015 - \$58,346).

6.2 Summarised Financial Information

	RGM Limited		FamGuard Corporation Limited		Primo Holding Limited		Sagicor Costa Rica SCR, S.A.		Sagicor Real Estate X-Fund Ltd.	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
ASSETS										
Financial investments	-	-	269,154	251,312	-	-	9,765	7,840	122,129	93,939
Cash resources	6,688	11,829	15,685	10,092	-	-	3,561	3,607	9,478	19,972
Other investments and assets	126,117	132,735	61,288	63,622	1,050	1,050	4,950	1,867	214,553	168,306
Total assets	132,805	144,564	346,127	325,026	1,050	1,050	18,276	13,314	346,160	282,217
LIABILITIES										
Policy liabilities	-	-	220,829	206,002	-	-	3,761	1,829	-	-
Other liabilities	65,771	74,972	13,073	10,966	204	186	8,299	144	190,669	151,799
Total liabilities	65,771	74,972	233,902	216,968	204	186	12,060	1,973	190,669	151,799
Net Assets	67,034	69,592	112,225	108,058	846	864	6,216	11,341	155,491	130,418

6.2 Summarised Financial Information (continued)

	RGM Limited		FamGuard Corporation Limited		Primo Holding Limited		Sagikor Costa Rica SCR, S.A.		Sagikor Real Estate X-Fund Ltd.	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Reconciliation to carrying amounts:										
Investment, beginning of year	23,199	21,080	14,059	12,856	362	368	6,326	6,460	40,584	-
Additions	-	423	-	-	-	-	188	152	-	28,453
Amounts assumed on acquisition	-	-	-	-	-	-	-	-	-	12,288
Transfers	-	-	-	-	-	-	(2,886)	-	-	-
Dividends received	(470)	-	(580)	(480)	-	-	-	-	(738)	-
Share of income/(loss) before taxes	1,158	1,677	240	959	(7)	(6)	66	(284)	3,968	807
Share of amortisation or impairment of intangible assets which were identified on acquisition	-	-	(72)	(72)	-	-	-	-	-	-
Share of income taxes	(402)	248	-	-	-	-	-	-	-	-
Share of other comprehensive income/(loss)	-	-	53	796	-	-	(264)	-	6,762	171
Effects of exchange rate changes	(1,139)	(229)	-	-	-	-	(323)	(2)	(2,791)	(1,135)
Investment, end of year	22,346	23,199	13,700	14,059	355	362	3,107	6,326	47,785	40,584

6.2 Summarised Financial Information (continued)

	RGM Limited		FamGuard Corporation Limited		Primo Holding Limited		Sagicor Costa Rica SCR, S.A.		Sagicor Real Estate X-Fund Ltd.	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Summarised statement of comprehensive income										
REVENUE										
Net premium revenue	-	-	90,753	90,253	-	-	5,785	5,893	-	-
Net investment and other income	23,522	25,619	28,593	26,444	-	-	668	384	82,865	56,654
Total revenue	23,522	25,619	119,346	116,697	-	-	6,453	6,277	82,865	56,654
BENEFITS AND EXPENSES										
Benefits	-	-	78,106	75,671	-	-	3,393	5,346	-	-
Expenses	19,916	20,526	36,762	34,205	18	16	2,626	1,463	67,411	44,100
Total benefits and expenses	19,916	20,526	114,868	109,876	18	16	6,019	6,809	67,411	44,100
INCOME BEFORE TAXES										
Income taxes	3,606	5,093	4,478	6,821	(18)	(16)	434	(532)	15,454	12,554
	(1,195)	747	-	-	-	-	(301)	(35)	(1,916)	(1,438)
NET INCOME FOR THE PERIOD	2,411	5,840	4,478	6,821	(18)	(16)	133	(567)	13,538	11,116
Other comprehensive income	-	-	634	882	-	-	(670)	-	23,070	709
Total comprehensive income	2,411	5,840	5,112	7,703	(18)	(16)	(537)	(567)	36,608	11,825
Dividends received from associates and joint ventures	470	-	580	480	-	-	-	-	738	-

7 PROPERTY, PLANT AND EQUIPMENT

	2016					2015				
	Owner-occupied property		Office furnishings, equipment & vehicles	Operating lease vehicles & equipment	Total	Owner-occupied properties		Office furnishings, equipment & vehicles	Operating lease vehicles & equipment	Total
	Lands	Land & buildings				Land	Land & buildings			
Net book value, beginning of year	38,031	80,694	39,310	12,214	170,249	38,220	77,901	39,910	13,438	169,469
Additions at cost	-	2,680	13,787	3,869	20,336	-	967	14,275	2,933	18,175
Transfer (to) / from investment property (note 5)	(846)	-	-	-	(846)	-	3,410	-	-	3,410
Transfer to intangible assets (note 8)	-	-	(2,885)	-	(2,885)	-	-	(6,348)	-	(6,348)
Other transfers	-	-	613	-	613	-	6	139	-	145
Transfers to real estate developed or held for sale (Note 12)	-	-	-	-	-	(22)	-	-	-	(22)
Disposals	-	(753)	(508)	(1,612)	(2,873)	(167)	(109)	(827)	(1,019)	(2,122)
Change in fair values	-	(1,583)	-	-	(1,583)	-	815	-	-	815
Depreciation charge	-	(1,105)	(8,370)	(2,967)	(12,442)	-	(1,079)	(7,296)	(3,138)	(11,513)
Effects of exchange rate changes	-	(2,078)	(768)	-	(2,846)	-	(1,217)	(543)	-	(1,760)
Net book value, end of year	37,185	77,855	41,179	11,504	167,723	38,031	80,694	39,310	12,214	170,249
Represented by:										
Cost or valuation	37,185	81,004	120,299	18,755	257,243	38,031	84,316	112,382	19,705	254,434
Accumulated depreciation	-	(3,149)	(79,120)	(7,251)	(89,520)	-	(3,622)	(73,072)	(7,491)	(84,185)
	37,185	77,855	41,179	11,504	167,723	38,031	80,694	39,310	12,214	170,249

Owner-occupied lands are largely utilised for farming operations.

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

8 INTANGIBLE ASSETS

8.1 Analysis of intangible assets and changes for the year

	2016				2015			
	Goodwill	Customer & broker relationships	Software	Total	Goodwill	Customer & broker relationships	Software	Total
Net book value, beginning of year	45,272	16,441	26,470	88,183	46,643	19,129	10,284	76,056
Additions at cost	-	-	4,272	4,272	-	-	15,198	15,198
Transfer from property, plant and equipment (note 7)	-	-	2,885	2,885	-	-	6,348	6,348
Amortisation/impairment charges	-	(1,719)	(7,050)	(8,769)	(585)	(1,837)	(4,680)	(7,102)
Divestitures and disposals	-	-	-	-	-	-	(289)	(289)
Effects of exchange rate changes	(1,361)	(985)	(738)	(3,084)	(786)	(851)	(391)	(2,028)
Net book value, end of year	43,911	13,737	25,839	83,487	45,272	16,441	26,470	88,183
Represented by:								
Cost or valuation	43,911	35,579	63,466	142,956	47,085	38,316	57,513	142,914
Accumulated depreciation and impairments	-	(21,842)	(37,627)	(59,469)	(1,813)	(21,875)	(31,043)	(54,731)
	43,911	13,737	25,839	83,487	45,272	16,441	26,470	88,183

8.2 Impairment of intangible assets

Goodwill arises from past acquisitions and is allocated to cash generating units (CGUs). Goodwill is tested annually for impairment. The recoverable amount of a CGU is determined as the higher of its value in use or its fair value less costs to sell.

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

As disclosed in note 2.7 (a) goodwill is allocated to the Group's reportable operating segments. During the year, as disclosed in note 4, the Group combined the Barbados, Eastern Caribbean, Dutch Caribbean, the Bahamas and Central America segment with its Trinidad and Tobago operating segment. Goodwill is allocated to this combined segment and has been tested for impairment at this level.

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

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

(a) Sagicor Life operating segment

	2016	2015
Carrying value of goodwill	26,576	27,061

8.2 Impairment of intangible assets (continued)

(i) Years ended December 31, 2016 & 2015

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

- Discount rates of 7 - 11% (2015, 7 - 11%) for individual life and annuity inforce business,
- New individual life and annuity business was included for the five year period 2017 to 2021,
- Annual growth rate for new individual life and annuity business was 0% - 21.8% for 2017 and 5% - 19.7 % from 2018 to 2021 (2015 - 14% - 49% and 0% to 24.2% from 2017 to 2020),
- Discount rates of 11 - 15% (2015, 11 - 15%) for new individual life and annuity business,
- Required Minimum Continuing Capital and Surplus Ratio (MCCSR) of 175% (2015 - 200%).

Sensitivity

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

Sagicor Life Inc Segment			MCCSR target ratio		
			Low	Mid	High
Discount rate	Inforce	New business	150%	175%	200%
Low	7%	11%	286,253	281,890	277,068
Mid	9%	13%	135,970	126,454	116,026
High	11%	15%	26,330	13,704	4,179

8.2 Impairment of intangible assets (continued)

(b) *Sagicor Jamaica operating segment*

	2016	2015
Carrying value of goodwill	13,051	13,927

The fair value less cost to sell methodology was adopted to test goodwill impairment in both years. The after tax multiple used for the segment was 8.2 (2015– 7.4) which was derived from a pre-tax factor of 6.6 (2015 – 5.9) using an iterative method.

Sensitivity

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

	2016 test		
	Scenario 1	Scenario 2	Scenario 3
After tax earnings multiples	8.2	5.4	4.9
Reduction in forecast earnings	n/a	10%	10%
Excess of recoverable amount (of 49.11% interest)	126,681	10	n/a
Impairment (of 49.11% interest)	Nil	Nil	(18,555)

8.2 Impairment of intangible assets (continued)

(c) *Sagicor General Insurance Inc*

	2016	2015
Carrying value of goodwill	4,284	4,284

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

Sensitivity

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

	2016 test		
	Scenario 1	Scenario 2	Scenario 3
After tax discount factor	12.5	12.5	15.0
Residual growth rate	4.4	3.7	3.7
Reduction in residual growth rate	n/a	16%	16%
Increase in after tax discount factor	n/a	n/a	20%
Excess of recoverable amount (of 53.0% interest)	39,170	29,336	22,025
Impairment (of 53.0% interest)	Nil	Nil	Nil

9 FINANCIAL INVESTMENTS

9.1 Analysis of financial investments

	2016		2015	
	Carrying value	Fair value	Carrying value	Fair value
Held to maturity securities:				
Debt securities	20,665	21,688	20,530	21,940
Available for sale securities:				
Debt securities	2,271,020	2,271,020	2,311,591	2,311,591
Equity securities	96,684	96,684	88,380	88,380
	2,367,704	2,367,704	2,399,971	2,399,971
Financial assets at fair value through income:				
Debt securities	164,005	164,005	136,727	136,727
Equity securities	123,524	123,524	126,577	126,577
Derivative financial instruments (note 41.6)	28,980	28,980	15,479	15,479
Mortgage loans	40,347	40,347	47,052	47,052
Deposits	-	-	56	56
	356,856	356,856	325,891	325,891
Loans and receivables:				
Debt securities	985,664	1,042,108	948,871	983,063
Mortgage loans	291,419	291,154	293,871	294,041
Policy loans	137,940	148,141	132,486	141,950
Finance loans and finance leases	508,975	491,131	436,161	419,214
Securities purchased for re-sale	5,227	5,227	8,064	8,064
Deposits	139,298	139,298	260,776	260,776
	2,068,523	2,117,059	2,080,229	2,107,108
Total financial investments	4,813,748	4,863,307	4,826,621	4,854,910

9.1 Analysis of financial investments (continued)

	2016	2015
Non-derivative financial assets at fair value through income comprise:		
Assets designated at fair value upon initial recognition	316,700	310,412
Assets held for trading	11,176	-
	327,876	310,412
Debt securities comprise:		
Government and government-guaranteed debt securities	1,765,558	1,767,389
Collateralised mortgage obligations	214,320	213,747
Corporate debt securities	1,352,387	1,314,223
Other securities	109,089	122,360
	3,441,354	3,417,719

Debt securities include \$1,836 (2015 - \$8,085) that contain options to convert to common shares of the issuer.

Corporate debt securities include \$28,788 (2015 - \$10,270) in bonds issued by an associated company.

Equity securities include \$1,136 (2015 - \$963) in mutual funds managed by the Group.

9.2 Pledged assets

Debt and equity securities include \$380,145 (2015 - \$234,211) as collateral for loans payable and other funding instruments.

Collateral for the obligation to the Federal Home Loan Bank of Dallas (FHLB) which is included in other funding instruments (note 17), consists of an equity holding in the FHLB with a market value of \$5,982 (2015 - \$7,589), and mortgages and mortgage backed securities having a total market value of \$139,630 (2015 - \$174,478).

Debt securities are pledged as collateral under repurchase agreements with customers and other financial institutions and for security relating to overdraft and other facilities with other financial institutions. As of December 31, 2016, these pledged assets totalled \$595,314 (2015 - \$526,824). Of these assets pledged as security, \$79,681 (2015 - \$51,549) represents collateral for securities sold under agreements to repurchase in instances when the transferee has the right by contract or by custom to sell or re-pledge the collateral.

9.3 Returns accruing to the benefit of contract-holders

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

	2016	2015
Debt securities	133,862	102,641
Equity securities	123,524	122,367
Mortgage loans	40,271	47,052
	<u>297,657</u>	<u>272,060</u>

9.4 Reclassification of financial investments

In 2008, the Group reclassified certain securities from the available for sale classification to the loans and receivables classification. The assets reclassified were primarily:

- Government of Jamaica debt securities with a maturity date of 2018 and after, which are held to back long-term insurance liabilities; and
- Non-agency collateralised mortgage obligations in the USA.

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

The following disclosures are in respect of these reclassified assets.

	2016		2015	
	Carrying value	Fair value	Carrying value	Fair value
Government debt securities maturing after September 2018	27,591	35,879	44,338	51,818
Other debt securities	1,624	2,217	2,076	2,730
	<u>29,215</u>	<u>38,096</u>	<u>46,414</u>	<u>54,548</u>
			<u>2016</u>	<u>2015</u>
Cumulative net fair value gain, beginning of year			4,263	1,994
Net fair value gains			1,887	1,355
Disposals			(971)	947
Effect of exchange rate changes			(89)	(33)
Cumulative net fair value gain, end of year			<u>5,090</u>	<u>4,263</u>

9.4 Reclassification of financial investments (continued)

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

10 REINSURANCE ASSETS

	2016	2015
Reinsurers' share of:		
Actuarial liabilities (note 13.1)	713,252	601,597
Policy benefits payable (note 14.2)	35,994	37,816
Provision for unearned premiums (note 14.3)	21,775	21,356
Other items	6,323	5,050
	<u>777,344</u>	<u>665,819</u>

The provision for unearned premiums and other items are expected to mature within one year of the financial statements date.

11 INCOME TAX ASSETS

	2016	2015
Deferred income tax assets (note 33)	36,279	41,023
Income and withholding taxes recoverable	23,296	25,319
	<u>59,575</u>	<u>66,342</u>

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

12 MISCELLANEOUS ASSETS AND RECEIVABLES

	2016	2015
Net defined benefit assets (note 31)	1,333	1,066
Real estate developed or held for resale (ii)	10,162	11,084
Prepaid and deferred expenses (ii)	21,047	19,967
Premiums receivable	46,530	42,398
Legal claim (iii)	52,720	42,902
Other assets and accounts receivable (i)	51,226	51,063
	<u>183,018</u>	<u>168,480</u>

(i) Other assets and accounts receivables include \$9,880 (2015 - \$5,478) due from managed funds.

(ii) Real estate developed for resale includes \$7,878 (2015 - \$8,234) which is expected to be realised within one year of the financial statements date. Prepaid and deferred expenses are also expected to be realised within one year of the financial statements date.

(iii) \$52,720 (2015 - \$42,902) Legal claim

In March 2014, the Supreme Court of Jamaica granted judgement in favour of a claimant in a case brought against Sagikor Bank Jamaica Limited (formerly RBC Royal Bank of Jamaica Limited). This claim pre-dated the acquisition of control of the Bank by Sagikor Group Jamaica Limited, and also pre-dated the acquisition of control of the Bank by RBTT International Limited from Finsac Limited ('Finsac') in 2001. By virtue of the Share Sale Agreement entered into between Finsac, RBTT Financial Holdings Limited and RBTT International Limited, Finsac agreed to fully indemnify RBTT International Limited (now SGJ Holdings (St. Lucia) Limited). Though the judgement is being appealed, the amount computed as settlement has been recorded as payable to the claimant and correspondingly receivable from Finsac (Note 20).

During 2016, interest was accrued on this liability and resulted in an increase in the amount outstanding to \$52.7 million.

13 ACTUARIAL LIABILITIES

13.1 Analysis of actuarial liabilities

	Gross liability		Reinsurers' share	
	2016	2015	2016	2015
Contracts issued to individuals:				
Life insurance - participating policies	238,604	239,861	51	57
Life insurance and annuity - non-participating policies	1,889,653	1,767,313	694,882	582,224
Health insurance	13,926	5,361	438	420
Unit linked funds	177,454	166,234	-	-
Reinsurance contracts held	28,894	27,982	-	-
	2,348,531	2,206,751	695,371	582,701
Contracts issued to groups:				
Life insurance	30,404	31,548	118	267
Annuities	362,980	358,604	17,660	18,460
Health insurance	34,447	35,484	103	169
	427,831	425,636	17,881	18,896
Total actuarial liabilities	2,776,362	2,632,387	713,252	601,597

The following notes are in respect of the foregoing table:

- Life insurance includes coverage for disability and critical illness.
- Actuarial liabilities include \$83,238 (2015 - \$81,615) in assumed reinsurance.
- The liability for reinsurance contracts held occurs because the reinsurance premium costs exceed the mortality costs assumed in determining the gross liability of a policy contract.

13.2 Movement in actuarial liabilities

	Gross liability		Reinsurers' share	
	2016	2015	2016	2015
Balance, beginning of year	2,632,387	2,562,221	601,597	470,271
Changes in actuarial liabilities:				
Recorded in income (note 27)	156,983	157,887	111,731	131,328
Recorded in other comprehensive income	23,769	(67,146)	-	-
Other movements	1	(679)	(62)	-
Effect of exchange rate changes	(36,778)	(19,896)	(14)	(2)
Balance, end of year	2,776,362	2,632,387	713,252	601,597
Analysis of changes in actuarial liabilities				
Arising from increments and decrements of inforce policies and from the issuance of new policies	206,505	210,929	105,642	131,327
Arising from changes in assumptions for mortality, lapse, expenses, investment yields and asset default	(7,311)	(91,411)	-	-
Other changes:				
Actuarial modelling, refinements, improvements and corrections	(12,915)	(3,431)	-	-
Other items	(5,527)	(25,346)	6,089	1
Total	180,752	90,741	111,731	131,328

13.3 Assumptions – life insurance and annuity contracts

(a) Process used to set actuarial assumptions and margins for adverse deviations

At each date for valuation of actuarial liabilities, the Appointed Actuary (AA) of each insurer reviews the assumptions made at the last valuation date. The AA tests the validity of each assumption by reference to current data, and where appropriate, changes the assumptions for the current valuation. A similar process of review and assessment is conducted in the determination of margins for adverse deviations.

Any recent changes in actuarial standards and practice are also incorporated in the current valuation.

(b) Assumptions for mortality and morbidity

Mortality rates are related to the incidence of death in the insured population. Morbidity rates are related to the incidence of sickness and disability in the insured population.

Annually, insurers update studies of recent mortality experience. The resulting experience is compared to external mortality studies including the Canadian Institute of Actuaries (CIA) 1997 - 2004 tables. Appropriate modification factors are selected and applied to underwritten and non-underwritten business respectively. Annuitant mortality is determined by reference to CIA tables or to other established scales.

Assumptions for morbidity are determined after taking into account insurer and industry experience and established guidelines from Actuarial Institutes.

(c) Assumptions for lapse

Policyholders may allow their policies to lapse prior to the maturity date either by choosing not to pay premiums or by surrendering their policy for its cash value. Lapse studies are updated annually by insurers to determine the persistency of the most recent period. Assumptions for lapse experience are generally based on five-year averages.

13.3 Assumptions – life insurance and annuity contracts (continued)

(d) Assumptions for investment yields

Returns on existing variable rate securities, shares, investment property and policy loans are linked to the current economic scenario. Yields on reinvested assets are also tied to the current economic scenario. Returns are however assumed to decrease and it is assumed that at the end of twenty years from the valuation date, all investments, except policy loans, are reinvested in long-term, default free government bonds.

The ultimate rate of return is the assumed rate that will ultimately be earned on long-term government bonds. It is established for each geographic area and is summarised in the following table.

Ultimate rate of return	2016	2015
Barbados	6.75%	6.5%
Jamaica	5.0%	5.0% – 5.5%
Trinidad & Tobago	5.0%	4.75%
Other Caribbean	4.5% - 6.75%	4.5% - 6.5%
USA	0.85% - 3.65%	0.85% - 4.75%

(e) Assumptions for operating expenses and taxes

Policy acquisition and policy maintenance expense costs for the long-term business of each insurer are measured and monitored using internal expense studies. Policy maintenance expense costs are reflected in the actuarial valuation after adjusting for expected inflation. Costs are updated annually and are applied on a per policy basis.

Taxes reflect assumptions for future premium taxes and income taxes levied directly on investment income. For income taxes levied on net income, actuarial liabilities are adjusted for policy related recognised deferred tax assets and liabilities.

13.3 Assumptions – life insurance and annuity contracts (continued)

(f) Asset defaults

The AA of each insurer includes a provision for asset default in the modelling of the cash flows. The provision is based on industry and Group experience and includes specific margins, where appropriate, for assets backing the actuarial liabilities, e.g. for investment property, equity securities, debt securities, mortgage loans and deposits.

(g) Margins for adverse deviations

Margins for adverse deviations are determined for the assumptions in the actuarial valuations. The application of these margins resulted in provisions for adverse deviations being included in the actuarial liabilities as set out in the following table.

Provisions for adverse deviations	2016	2015
Mortality and morbidity	89,986	82,363
Lapse	63,855	59,595
Investment yields and asset default	69,109	68,830
Operating expenses and taxes	11,136	11,101
Other	10,486	9,997
	244,572	231,886

13.4 Assumptions – health insurance contracts

The outstanding liabilities for health insurance claims incurred but not yet reported and for claims reported but not yet paid are determined by statistical methods using expected loss ratios which have been derived from recent historical data. No material claim settlements are anticipated after one year from the date of the financial statements.

14 OTHER INSURANCE LIABILITIES**14.1 Analysis of other insurance liabilities**

	2016	2015
Dividends on deposit and other policy balances	65,719	66,271
Policy benefits payable	107,219	105,910
Provision for unearned premiums	34,184	33,710
	<u>207,122</u>	<u>205,891</u>

14.2 Policy benefits payable

	Gross liability		Reinsurers' share	
	2016	2015	2016	2015
Analysis of policy benefits payable:				
Life insurance and annuity benefits	79,445	72,120	22,084	19,091
Health claims	4,284	3,379	1,686	1,363
Property and casualty claims	23,490	30,411	12,224	17,362
	<u>107,219</u>	<u>105,910</u>	<u>35,994</u>	<u>37,816</u>

14.2 Policy benefits payable (continued)

	Gross liability		Reinsurers' share	
	2016	2015	2016	2015
Movement for the year:				
Balance, beginning of year	105,910	95,276	37,816	31,998
Policy benefits incurred	541,502	532,532	93,314	67,528
Policy benefits paid	(538,459)	(520,933)	(94,898)	(61,571)
Effect of exchange rate changes	(1,734)	(965)	(238)	(139)
Balance, end of year	<u>107,219</u>	<u>105,910</u>	<u>35,994</u>	<u>37,816</u>

14.3 Provision for unearned premiums

	Gross liability		Reinsurers' share	
	2016	2015	2016	2015
Analysis of the provision:				
Property and casualty insurance	33,777	32,399	21,775	21,356
Health insurance	407	1,311	-	-
	<u>34,184</u>	<u>33,710</u>	<u>21,775</u>	<u>21,356</u>

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

14.3 Provision for unearned premiums (continued)

	Gross liability		Reinsurers' share	
	2016	2015	2016	2015
Movement for the year:				
Balance, beginning of year	33,710	33,602	21,356	20,152
Premiums written	75,004	72,779	48,939	48,757
Premium revenue	(74,434)	(72,683)	(48,463)	(47,552)
Effect of exchange rate changes	(96)	12	(57)	(1)
Balance, end of year	34,184	33,710	21,775	21,356

15 INVESTMENT CONTRACT LIABILITIES

	2016		2015	
	Carrying value	Fair value	Carrying value	Fair value
At amortised cost:				
Deposit administration liabilities	128,345	128,345	127,882	127,780
Other investment contracts	118,563	121,051	115,537	118,860
	246,908	249,396	243,419	246,640
At fair value through income:				
Unit linked deposit administration liabilities	130,668	130,668	125,177	125,177
	377,576	380,064	368,596	371,817

16 NOTES AND LOANS PAYABLE

	2016		2015	
	Carrying value	Fair value	Carrying value	Fair value
8.875% senior notes due 2022	315,383	364,095	313,780	350,336
6.5% convertible redeemable preference shares due 2016	-	-	115,488	130,932
4.85% / 5.0% notes due 2019	74,825	75,491	44,551	44,551
Finance lease payable	5,005	5,005	1,698	1,698
	395,213	444,591	475,517	527,517

- (a) On August 11, 2015, the Group issued seven year senior notes in the amount of \$320.0 million which are repayable in 2022. The notes carry a fixed annual rate of interest of 8.875% payable semi-annually. Financial covenants in respect of these notes are summarised in Note 46.3 (a).
- (b) On March 22, 2016, the Company repaid, before maturity, the \$43,386 eighteen month 4.6% notes. On March 21, 2016, the Company issued fourteen month notes with a par value of \$75 million which were repayable in 2017 and carried a 5.0% annual rate of interest. Effective December 20, 2016, the notes were extended at an annual rate of interest of 4.85% with a maturity date of August 14, 2019. Financial covenants in respect of these notes are summarised in Note 46.3 (b).
- (c) On July 18, 2016 the Company redeemed the 6.5% convertible redeemable preference shares due 2016.

17 DEPOSIT AND SECURITY LIABILITIES

	2016		2015	
	Carrying value	Fair value	Carrying value	Fair value
At amortised cost:				
Other funding instruments	349,514	346,216	379,612	381,499
Customer deposits	915,155	915,419	669,518	772,011
Securities sold for re-purchase	320,574	320,574	519,608	519,508
Bank overdrafts	1,939	1,939	2,158	2,158
	<u>1,587,182</u>	<u>1,584,148</u>	<u>1,570,896</u>	<u>1,675,176</u>
At fair value through income:				
Structured products	34,779	34,779	35,112	35,112
Derivative financial instruments (note 41.6)	1,364	1,364	1,603	1,603
	<u>36,143</u>	<u>36,143</u>	<u>36,715</u>	<u>36,715</u>
	<u>1,623,325</u>	<u>1,620,291</u>	<u>1,607,611</u>	<u>1,711,891</u>

Other funding instruments consist of loans from banks and other financial institutions and include balances of \$134,321 (2015 - \$167,913) due to the Federal Home Loan Bank of Dallas (FHLB). The Group participates in the FHLB program in which funds received from the Bank are invested in mortgages and mortgage backed securities.

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

Collateral for other funding instruments and securities sold under agreements to resell is set out in note 9.2.

18 PROVISIONS

	2016	2015
Net defined benefit liabilities (note 31)	101,235	87,950
Other provisions	57	256
	<u>101,292</u>	<u>88,206</u>

19 INCOME TAX LIABILITIES

	2016	2015
Deferred income tax liabilities (note 33)	36,238	29,785
Income taxes payable	14,403	4,980
	<u>50,641</u>	<u>34,765</u>

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

20 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2016	2015
Amounts due to policyholders	20,525	15,702
Amounts due to reinsurers	17,179	23,792
Legal claim (i)	52,720	42,902
Other accounts payable and accrued liabilities	114,551	119,326
	<u>204,975</u>	<u>201,722</u>

(i) In March 2014, the Supreme Court of Jamaica granted judgement in favour of a claimant in a case brought against Sagicor Bank Jamaica Limited (formerly RBC Royal Bank of Jamaica Limited). This claim pre-dated the acquisition of control of the Bank by Sagicor Group Jamaica Limited, and also pre-dated the acquisition of control of the Bank by RBTT International Limited from Finsac Limited ('Finsac') in 2001. By virtue of the Share Sale Agreement entered into between Finsac, RBTT Financial Holdings Limited and RBTT International Limited, Finsac agreed to fully indemnify RBTT International Limited (now SGJ Holdings (St. Lucia) Limited). Though the judgement is being appealed, the amount computed as settlement has been recorded as payable to the claimant and correspondingly receivable from Finsac (Note 12).

During 2016, interest was accrued on this liability and resulted in an increase in the amount outstanding to \$52.7 million.

21 COMMON AND PREFERENCE SHARES

The Company is authorised to issue:

- 304,494,131 common shares,
- 120,000,000 convertible redeemable preference shares.

In each case the shares have a par value of US\$0.01.

21.1 Common shares

	2016			2015		
	Number in 000's	Share capital	Share premium	Total	Number in 000's	Share capital
Issued and fully paid:						
Balance, beginning of year	304,494	302,156	-	302,156	303,917	301,600
Redomiciliation adjustment ⁽¹⁾	-	(299,111)	299,111	-	-	-
Allotments arising from LTI	-	-	-	-	577	556
Balance, end of year	304,494	3,045	299,111	302,156	304,494	302,156
Treasury shares:						
Shares held for LTI and ESOP, end of year (note 30.1)	(1,646)	(16)	(2,061)	(2,077)	(2,126)	(2,836)
Total	302,848	3,029	297,050	300,079	302,368	299,320

The common shares are listed on the Barbados, Trinidad & Tobago and London stock exchanges.

⁽¹⁾The redomiciliation adjustment includes \$2,815 in share premium relating to treasury shares.

21.2 Convertible redeemable preference shares

On July 18, 2016, the Company redeemed the 120,000,000 convertible redeemable preference shares which were originally issued on July 18, 2011 with the following features:

- Issue price of US \$1.00 or Barbados \$2.00 per share;
- Annual dividend rate of 6.5%, dividends to be declared by the Company's directors and payable half yearly on May 15 and November 15;
- Convertible into common shares at a ratio of 1.98 preference shares to 1.00 common shares, conversion to be at the option of the shareholder and exercisable on May 16 or November 16 in any year prior to the redemption date;

The preference shares were accounted for as a compound financial instrument and were initially recognised in the statement of financial position as a financial liability (note 16) and also as equity (note 22). The preference shares were listed on the Barbados and Trinidad & Tobago stock exchanges. Put option rights in respect of the preference shares are disclosed in note 46.3(c).

21.3 Dividends

The dividends declared and paid during the year in respect of the Company's convertible redeemable preference shares and common shares are set out in the following table.

	2016		2015	
	Per share	Total	Per share	Total
Dividends declared and paid:				
Preference shares	4.38 ¢	5,256	6.50 ¢	7,800
Common shares	4.5 ¢	13,624	4.0 ¢	12,042
		<u>18,880</u>		<u>19,842</u>

21.3 Dividends (continued)

The dividends declared after the date of the financial statements in respect of the Company's convertible redeemable preference shares and common shares are set out in the following table.

	2016		2015	
	Per share	Total	Per share	Total
Dividends proposed:				
Preference shares - May 15	-	-	3.25 ¢	3,900
Common shares - final for current year	2.5 ¢	7,612	2.0 ¢	6,090
		<u>7,612</u>		<u>9,990</u>

21.4 Restrictions on common share dividends

The Company's Constitutive documents include the following limitations on the payment of common share dividends.

- (i) For any 6 month period that the convertible redeemable preference shares are not paid, dividends on common shares shall be suspended for that period plus the next 6 month period, and the Company shall not repurchase any of its common shares, except when pursuant to the LTI plan and ESOP.
- (ii) The Company shall not pay any dividends on its common shares, in respect of the 2011 financial year or thereafter, or repurchase any of its common shares, other than a repurchase pursuant to the LTI plan and ESOP, if the cumulative amount of such dividends and repurchases after July 31, 2011 would exceed 50% of the cumulative amount of Group net income from January 1, 2011.

22 RESERVES

	<<<<<< Fair value reserves >>>>>>			Currency translation reserves	Preference share reserves	Other reserves	Total reserves
	Owner occupied property	Available for sale assets	Actuarial liabilities				
2016							
Balance, beginning of year	25,047	(33,305)	8,773	(96,339)	4,219	31,917	(59,688)
Other comprehensive income from continuing operations allocated to reserves	2,137	27,194	(15,509)	(18,141)	-	-	(4,319)
Transactions with holders of equity instruments:							
Allocated to reserve for equity compensation benefits	-	-	-	-	-	5,280	5,280
Eliminated from reserve for equity compensation benefits	-	-	-	-	-	(3,148)	(3,148)
Transfers to retained earnings and other movements	-	-	1	-	(4,219)	1,298	(2,920)
Balance, end of year	27,184	(6,111)	(6,735)	(114,480)	-	35,347	(64,795)
2015							
Balance, beginning of year	25,249	43,850	(38,556)	(87,946)	10,481	38,157	(8,765)
Other comprehensive income from continuing operations allocated to reserves	(202)	(77,153)	47,329	(8,393)	-	-	(38,419)
Transactions with holders of equity instruments:							
Allocated to reserve for equity compensation benefits	-	-	-	-	-	3,171	3,171
Eliminated from reserve for equity compensation benefits	-	-	-	-	-	(4,821)	(4,821)
Transfers to retained earnings and other movements	-	(2)	-	-	(6,262)	(4,590)	(10,854)
Balance, end of year	25,047	(33,305)	8,773	(96,339)	4,219	31,917	(59,688)

Other reserves comprise reserves for equity compensation benefits of \$16,552 (2015 - \$14,420) and statutory reserves of \$18,795 (2015 - \$17,497).

23 PARTICIPATING ACCOUNTS

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

	Closed participating account		Open participating account	
	2016	2015	2016	2015
Movement for the year:				
Balance, beginning of year	(607)	(950)	1,990	1,314
Total comprehensive income / (loss)	(677)	343	809	906
Return of transfer to support profit distribution, to shareholders	3	-	(227)	(230)
Balance, end of year	(1,281)	(607)	2,572	1,990
Financial statement amounts:				
Assets	82,306	84,909	196,999	200,009
Liabilities	83,587	85,516	194,427	198,019
Revenues	7,557	7,825	22,261	25,453
Benefits	7,669	6,811	18,917	22,034
Expenses	428	584	1,630	2,037
Income taxes	187	122	877	405

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

24 PREMIUM REVENUE

	Gross premium		Ceded to reinsurers	
	2016	2015	2016	2015
Life insurance	388,287	383,655	30,876	30,808
Annuity	225,204	364,726	86,490	212,130
Health insurance	153,666	155,414	4,077	5,107
Property and casualty insurance	66,761	65,727	48,519	47,552
	833,918	969,522	169,962	295,597

25 NET INVESTMENT INCOME

	2016	2015
Investment income:		
Interest income	292,868	293,432
Dividend income	3,088	3,244
Rental income from investment property	3,816	4,165
Net investment gains	62,136	32,418
Share of operating income of associates and joint venture	5,425	3,153
Other investment income	(57)	125
	367,276	336,537
Investment expenses:		
Allowances for impairment losses	9,621	10,338
Direct operating expenses of investment property	2,107	1,947
Other direct investment expenses	2,196	2,023
	13,924	14,308
Net investment income	353,352	322,229

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

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

25 NET INVESTMENT INCOME (continued)

Further details of interest income and investment gains are set out in the following table.

	2016	2015
Interest income:		
Debt securities	205,068	211,596
Mortgage loans	19,908	19,963
Policy loans	9,053	9,407
Finance loans and finance leases	56,166	50,402
Securities purchased for re-sale	584	464
Deposits	1,902	1,681
Other balances	187	(81)
	292,868	293,432
Net investment gains / (losses):		
Debt securities	37,341	14,937
Equity securities	15,982	22,366
Investment property	1,847	(842)
Other financial instruments	6,966	(4,043)
	62,136	32,418

26 FEES AND OTHER REVENUE

	2016	2015
Fee income – assets under administration	25,470	23,328
Fee income – deposit administration and policy funds	1,739	1,813
Commission income on insurance and reinsurance contracts	29,375	32,845
Other fees and commission income	28,288	25,937
Foreign exchange gains	12,564	2,814
Other operating and miscellaneous income	19,403	22,353
	<u>116,839</u>	<u>109,090</u>

28 INTEREST EXPENSE

	2016	2015
Insurance contracts	2,866	2,828
Investment contracts	16,833	14,279
Other funding instruments	6,981	8,098
Customer deposits	16,204	11,755
Securities sold for re-purchase	18,519	21,695
Other items	45	152
	<u>61,448</u>	<u>58,807</u>

27 POLICY BENEFITS AND CHANGE IN ACTUARIAL LIABILITIES

	Gross benefit		Ceded to reinsurers	
	2016	2015	2016	2015
Life insurance benefits	199,946	206,977	16,966	12,591
Annuity benefits	199,037	191,897	51,566	39,849
Health insurance claims	119,499	114,315	3,995	2,826
Property and casualty claims	17,708	21,861	10,004	12,207
Total policy benefits	<u>536,190</u>	<u>535,050</u>	<u>82,531</u>	<u>67,473</u>
Change in actuarial liabilities (note 13.2)	156,983	157,887	111,731	131,328
Total policy benefits and change in actuarial liabilities	<u>693,173</u>	<u>692,937</u>	<u>194,262</u>	<u>198,801</u>

The Group manages its interest-bearing obligations by the type of obligation (i.e. investment contracts, securities etc). Therefore, the interest expense is presented consistently with management practice, rather than by accounting classification.

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

29 EMPLOYEE COSTS

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

	2016	2015
Administrative staff salaries, directors' fees and short-term benefits	107,329	109,339
Social security and defined contribution retirement costs	9,125	8,859
Equity-settled compensation benefits (note 30.1 to 30.3)	5,365	4,646
Defined benefit expense (note 31 (b))	11,528	10,772
	<u>133,347</u>	<u>133,616</u>

30 EQUITY COMPENSATION BENEFITS**30.1 The Company**

Effective December 31, 2005, the Company introduced a Long Term Incentive (LTI) plan for designated executives of the Sagikor Group and an Employee Share Ownership Plan (ESOP) for permanent administrative employees and sales agents of the Group. A total of 26,555,274 common shares of the Company (or 10% of shares then in issue) have been set aside for the purposes of the LTI plan and the ESOP.

(a) LTI plan – restricted share grants

Restricted share grants have been granted to designated key management of the Group. Share grants may vest over a four year period beginning at the grant date. The vesting of share grants is conditional upon the relative profitability of the Group as compared to a number of peer companies. Relative profitability is measured with reference to the financial year preceding the vesting date.

30.1 The Company (continued)

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

	2016		2015	
	Number of grants '000	Weighted average price	Number of grants '000	Weighted Average price
Balance, beginning of year	3,527	US\$0.93	3,749	US\$1.02
Grants issued	3,552	US\$0.94	2,703	US\$0.84
Grants vested	(1,854)	US\$0.94	(2,695)	US\$0.96
Grants lapsed/forfeited	(588)	US\$1.05	(230)	US\$1.04
Balance, end of year	<u>4,637</u>	<u>US\$0.92</u>	<u>3,527</u>	<u>US\$0.93</u>

Grants issued may be satisfied out of new shares issued by the Company or by shares acquired in the market. The shares acquired in the market and distributed during the year were as follows:

	2016		2015	
	Number in 000's	\$000	Number in 000's	\$000
Balance, beginning of year	1	3	2	2
Shares acquired	-	-	1,376	2,469
Shares distributed	-	-	(1,377)	(2,468)
Balance, end of year	<u>1</u>	<u>3</u>	<u>1</u>	<u>3</u>

During 2016 a cash settlement was made in lieu of share issue.

30.1 The Company (continued)

(b) LTI plan – share options

Share options have been granted to designated key management of the Group during the year. Up to 2008, options were granted at the fair market price of the Company shares at the time that the option was granted. From 2009, options are granted at the fair market price of the Company shares prevailing one year before the option is granted. Options vest over four years, 25% each on the first four anniversaries of the grant date. Options are exercisable up to 10 years from the grant date.

The movement in share options for the year and details of the share options and assumptions used in determining their pricing are as follows:

	2016		2015	
	Number of options '000	Weighted average exercise price	Number of options '000	Weighted average exercise price
Balance, beginning of year	16,397	US\$1.48	16,206	US\$1.63
Options granted	4,927	US\$0.86	3,029	US\$1.05
Options lapsed/forfeited	(1,524)	US\$1.82	(2,838)	US\$1.85
Balance, end of year	19,800	US\$1.30	16,397	US\$1.48
Exercisable at the end of the year	10,197	US\$1.61	9,903	US\$1.73
Share price at grant date	US \$0.86 – 2.50		US \$1.05 – 2.50	
Fair value of options at grant date	US\$0.16 – 0.69		US\$0.23 – 0.69	
Expected volatility	19.3% – 35.8%		19.3% – 35.8%	
Expected life	7.0 years		7.0 years	
Expected dividend yield	2.6% - 4.7%		2.6% - 3.8%	
Risk-free interest rate	4.8% - 6.8%		4.8% - 6.8%	

30.1 The Company (continued)

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

(c) ESOP

From 2006, the Company approved awards under the ESOP in respect of permanent administrative employees and sales agents of the Company and certain subsidiaries. The ESOP is administered by Trustees under a discretionary trust. The amount awarded is used by the Trustees to acquire company shares. Administrative employees and sales agents are required to serve a qualifying period of five years from the award date in order to qualify as a beneficiary. Shares are distributed to beneficiaries upon their retirement or termination of employment. During 2012, the rules were amended so that vesting will take place in four equal annual instalments commencing one year after the award. The change came into effect during 2013. The shares acquired by the Trustees during the year were as follows:

	2016		2015	
	Number in 000's	\$000	Number in 000's	\$000
Balance, beginning of year	2,125	2,833	3,143	5,609
Shares acquired	100	98	414	378
Shares distributed	(580)	(857)	(1,432)	(3,154)
Balance, end of year	1,645	2,074	2,125	2,833

30.2 Sagikor Group Jamaica Limited

(a) Long-term incentive plan

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

30.2 Sagicor Group Jamaica Limited (continued)

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

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

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

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

30.2 Sagicor Group Jamaica Limited (continued)

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

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

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

(b) Employee share purchase plan

Sagicor Life Jamaica has in place a share purchase plan which enables its administrative and sales staff to purchase shares at a discount. The proceeds from shares issued under this plan totalled \$1,298 (2015 – \$312).

31 EMPLOYEE RETIREMENT BENEFITS

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

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

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

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

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

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

All disclosures in sections 31 (a) to (d) of this note relate only to defined retirement benefit plans.

31 EMPLOYEE RETIREMENT BENEFITS (continued)**(a) Amounts recognised in the statement of financial position**

	2016	2015
Present value of funded pension obligations	239,330	215,680
Fair value of retirement plan assets	(214,502)	(192,612)
	24,828	23,068
Present value of unfunded pension obligations	45,975	37,763
Present value of unfunded medical and life benefits	29,099	26,053
Net liability	99,902	86,884
Represented by:		
Amounts held on deposit by the Group as deposit administration contracts	44,382	37,611
Other recognised liabilities	56,853	50,339
Total recognised liabilities (note 18)	101,235	87,950
Recognised assets (note 12)	(1,333)	(1,066)
Net liability	99,902	86,884

Pension plans have purchased annuities from insurers in the Group to pay benefits to plan retirees. These obligations are included in actuarial liabilities in the statement of financial position and are excluded from the table above.

31 EMPLOYEE RETIREMENT BENEFITS (continued)

(b) Movements in balances

	2016				2015			
	Medical and life benefits	Retirement obligations	Retirement plan assets	Total	Medical and life benefits	Retirement obligations	Retirement plan assets	Total
Net liability / (asset), beginning of year	26,053	253,443	(192,612)	86,884	23,254	221,786	(168,169)	76,871
Current service cost	1,429	6,278	-	7,707	1,218	6,032	-	7,250
Interest expense / (income)	2,107	17,333	(15,366)	4,074	2,140	16,178	(14,888)	3,430
Past service cost and gains / losses on settlements	-	(253)	-	(253)	-	-	92	92
Net expense recognised in income	3,536	23,358	(15,366)	11,528	3,358	22,210	(14,796)	10,772
(Gains) / losses from changes in assumptions	(2,593)	(6,896)	314	(9,175)	6,172	14,341	(1,466)	19,047
(Gains) / losses from changes in experience	4,401	26,332	(7,537)	23,196	(5,010)	(1,546)	(7,799)	(14,355)
Return on plan assets excluding interest income	-	-	2,442	2,442	-	-	2,997	2,997
Net losses recognised in other comprehensive income	1,808	19,436	(4,781)	16,463	1,162	12,795	(6,268)	7,689
Contributions made by the Group	-	-	(12,219)	(12,219)	-	-	(8,164)	(8,164)
Contributions made by employees and retirees	-	7,248	(5,373)	1,875	-	6,987	(5,191)	1,796
Benefits paid	(547)	(12,805)	11,054	(2,298)	(517)	(12,353)	11,459	(1,411)
Other items	-	3,968	(3,658)	310	-	8,339	(7,274)	1,065
Effect of exchange rate movements	(1,751)	(9,343)	8,453	(2,641)	(1,204)	(6,321)	5,791	(1,734)
Other movements	(2,298)	(10,932)	(1,743)	(14,973)	(1,721)	(3,348)	(3,379)	(8,448)
Net liability / (asset), end of year	29,099	285,305	(214,502)	99,902	26,053	253,443	(192,612)	86,884

31 EMPLOYEE RETIREMENT BENEFITS (continued)

(c) Retirement plan assets

	2016	2015
Equity unit linked pension funds under Group management:		
Sagikor Equity Fund (Barbados)	(32,103)	(29,020)
Sagikor Bonds Fund (Barbados)	(23,189)	(18,605)
Sagikor Pooled Investment Funds (Jamaica):		
Equity Funds	(35,820)	(23,044)
Mortgage & Real Estate Fund	(26,486)	(19,887)
Fixed Income Fund	(15,526)	(15,272)
Foreign Currency Funds	(18,185)	(16,657)
Money Market Fund	(2,258)	(16,423)
Other Funds	(17,307)	(14,373)
	(170,874)	(153,281)
Other assets	(43,628)	(39,331)
Total plan assets	(214,502)	(192,612)

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

31 EMPLOYEE RETIREMENT BENEFITS (continued)

(d) Significant actuarial assumptions

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

Pension plans	Barbados & Eastern Caribbean	Jamaica	Trinidad
Discount rate - local currency benefits	7.75%	9.00%	5.00%
Discount rate - US\$ indexed benefits	n/a	5.00%	n/a
Expected return on plan assets	7.75%	9.00%	5.00%
Future promotional salary increases	3.00%	6.50%	2.00%
Future inflationary salary increases	1.50% – 2.00%	6.00%	2.00%
Future pension increases	2.00%	3.00%	0.00%
Future increases in National Insurance Scheme Ceilings	3.50%	n/a	4.00%
Mortality table	UP94 with projection scale AA	GAM1994 with 5 year improvement	UP94 with projection scale AA
Termination of active members	3% up to age 30, reducing to 1% at age 50, 0% at age 51	5% - 10% up to age 30, reducing to 5% at age 50, 0% at age 51	3% up to age 30, reducing to 1% at age 50, 0% at age 51
Early retirement	100% at the earliest possible age to receive unreduced benefits	n/a	100% at the earliest possible age to receive unreduced benefits

31 EMPLOYEE RETIREMENT BENEFITS (continued)

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

(e) Sensitivity of actuarial assumptions

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

	Barbados & Eastern Caribbean	Jamaica	Trinidad
Base pension obligation	81,789	156,672	13,637
Change in absolute assumption	Increase / (decrease) in pension obligations		
Decrease discount rate by 1.0%	10,307	10,467	1,667
Increase discount rate by 1.0%	(7,293)	(8,208)	(1,198)
Decrease salary growth rate by 0.5%	(1,519)	(3,279)	(351)
Increase salary growth rate by 0.5%	1,842	3,791	409
Increase average life expectancy by 1 year	1,779	1,342	358
Decrease average life expectancy by 1 year	(1,744)	(1,364)	(333)

31 EMPLOYEE RETIREMENT BENEFITS (continued)

(e) Sensitivity of actuarial assumptions

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

	Jamaica
Base medical and life obligation	29,099
Change in absolute assumption	Increase / (decrease) in medical and life obligations
Decrease discount rate by 1.0%	7,201
Increase discount rate by 1.0%	(5,359)
Decrease salary growth rate by 0.5%	(166)
Increase salary growth rate by 0.5%	194
Increase average life expectancy by 1 year	953
Decrease average life expectancy by 1 year	(950)

(f) Amount, timing and uncertainty of future cash flows

In addition to the annual actuarial valuations prepared for the purpose of annual financial statement reporting, full actuarial valuations of pension plans are conducted every 1-3 years. These full valuations contain recommendations for Group and employee contribution levels which are implemented by the Group as the recommendations are made.

For the 2017 financial year, the total Group contributions to its defined benefits pension plans are estimated at \$12,727.

32 INCOME TAXES

Group companies are taxed according to the taxation rules of the country where the operations are carried out. The principal rates of taxation are summarised in note 2.18(c). The income tax expense and the income subject to taxation in the statement of income are set out in the following table.

	2016	2015
Income tax expense:		
Current tax		
Current tax on profits for the year	34,872	24,506
Adjustments to current tax of prior periods	232	(257)
Total current tax expense	35,104	24,249
Deferred tax		
Decrease/(increase) in deferred tax assets	498	(1,740)
(Decrease)/increase in deferred tax liabilities	5,696	2,858
Total deferred tax expense	6,194	1,118
Share of tax of associated companies	402	(248)
	41,700	25,119

32 INCOME TAXES (continued)

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

	2016	2015
Income before income tax expense	149,597	123,562
Taxation at the applicable rates on income subject to tax	46,090	29,228
Adjustments to current tax for items not subject to / allowed for tax	(23,996)	(15,207)
Other current tax adjustments	(221)	175
Adjustments for current tax of prior periods	232	(257)
Movement in unrecognised deferred tax asset	13,926	8,682
Deferred tax relating to the origination of temporary differences	(18)	223
Deferred tax relating to changes in tax rates or new taxes	(35)	387
Deferred tax that arises from the write down / (reversal of a write down) of a tax asset	296	(383)
Tax on distribution of profits from policyholder funds	670	1,046
Other taxes	4,756	1,225
	41,700	25,119

In addition to the above, the income tax on items in other comprehensive income is set out in note 35.

33 DEFERRED INCOME TAXES

	2016	2015
Analysis of deferred income tax assets:		
Defined benefit liabilities	13,581	11,031
Unrealised losses on financial investments	6,918	12,406
Unused tax losses	14,993	21,870
Other items	787	(4,284)
Total deferred income tax assets (note 11)	36,279	41,023
Deferred income tax assets to be recovered within one year	3,230	2,067
Unrecognised tax balances:		
Tax losses	265,699	237,548
Potential deferred income tax assets	66,428	59,404
Expiry period for unrecognised tax losses:		
2016	-	18,765
2017	19,635	20,054
2018	24,888	25,324
2019	28,153	27,785
2020	25,540	24,956
2021	19,399	20,207
2022	37,007	37,007
2023	29,577	29,577
2024	33,586	33,873
After 2024	47,914	-
	265,699	237,548

33 DEFERRED INCOME TAXES (continued)

Deferred income tax assets movements:	Defined benefit liabilities	Unrealised losses on financial investments	Unused tax losses	Other items	Total
2016					
Balance, beginning of year as previously reported	11,031	12,406	21,870	(4,284)	41,023
(Charged)/credited to:					
Profit or Loss	689	297	(5,756)	4,272	(498)
Other comprehensive income	2,608	(5,141)	-	687	(1,846)
Effects of exchange rate changes	(747)	(644)	(1,121)	112	(2,400)
Balance, end of year	13,581	6,918	14,993	787	36,279
2015					
Balance, beginning of year as previously reported	7,367	1,093	26,376	(6,526)	28,310
(Charged)/credited to:					
Profit or Loss	1,753	238	(3,467)	3,216	1,740
Other comprehensive income	2,280	11,443	-	(1,186)	12,537
Effects of exchange rate changes	(369)	(368)	(1,039)	212	(1,564)
Balance, end of year	11,031	12,406	21,870	(4,284)	41,023

33 DEFERRED INCOME TAXES (continued)

Analysis of deferred income tax liability:

	2016	2015
Accelerated tax depreciation	1,640	1,806
Policy liabilities taxable in the future	62,738	58,377
Defined benefit assets	343	133
Accrued interest	1,000	944
Unrealised gains on financial investments	6,398	(1,023)
Off-settable tax assets in respect of unused tax losses and other items	(36,280)	(30,851)
	399	399
Total (note 19)	36,238	29,785
Deferred income tax liabilities to be settled within one year	7,285	5,728

33 DEFERRED INCOME TAXES (continued)

Deferred income tax liabilities movements:	Accelerated tax depreciation	Policy liabilities taxable in the future	Defined benefit assets	Accrued interest	Unrealised gains on financial investments	Off-settable tax assets in respect of unused tax losses and other items	Other Items	Total
2016								
Balance, beginning of year as previously reported	1,806	58,377	133	944	(1,023)	(30,851)	399	29,785
Charged/(credited) to:								
Profit or Loss	(167)	11,034	189	75	(6)	(5,429)	-	5,696
Other comprehensive income	-	(6,679)	21	(8)	7,428	-	-	762
Effects of exchange rate changes	1	6	-	(11)	(1)	-	-	(5)
Balance, end of year	1,640	62,738	343	1,000	6,398	(36,280)	399	36,238
2015								
Balance, beginning of year as previously reported	1,775	40,064	84	963	22,486	(34,214)	399	31,557
Charged/(credited) to:								
Profit or Loss	31	(487)	56	(20)	(85)	3,363	-	2,858
Other comprehensive income	-	18,800	(7)	-	(23,425)	-	-	(4,632)
Equity	-	-	-	1	1	-	-	2
Balance, end of year	1,806	58,377	133	944	(1,023)	(30,851)	399	29,785

34 EARNINGS PER COMMON SHARE

The basic earnings per common share is computed by dividing earnings attributable to common shareholders by the weighted average number of shares in issue during the year, after deducting treasury shares. Earnings attributable to common shareholders recognise the impact on net income of the Company's convertible redeemable preference shares (note 21.2).

The table below derives the earnings attributable to common shareholders and the basic earnings per common share.

	2016	2015
Net income attributable to common shareholders	61,671	34,679
Finance costs attributable to preference share subscription	4,368	6,483
Amortisation of issue expenses allocated to preference share reserve	(149)	(221)
Preference share dividends declared	(5,256)	(7,800)
Earnings attributable to common shareholders	60,634	33,141
Weighted average number of shares in issue in thousands	303,572	301,924
Basic earnings per common share	20.0¢	11.0¢
Attributable to:		
Continuing operations	19.5¢	18.2¢
Discontinued operation	0.5¢	(7.2)¢

The computation of diluted earnings per common share recognises the dilutive impact of LTI share grants and share options (note 30.1), ESOP shares grants (note 30.1), and the convertible redeemable preference shares. In computing diluted earnings per share, the income attributable to common shareholders is adjusted by the dilutive impact of the convertible preference shares and the weighted average number of common shares is adjusted by the dilutive impacts of the aforementioned share grants, options and preference shares.

34 EARNINGS PER COMMON SHARE (continued)

The table below derives the adjusted earnings attributable to common shareholders, the adjusted weighted average number of common shares, and the fully diluted earnings per common share.

	2016	2015
Earnings attributable to common shareholders	60,634	33,141
Preference share dividends declared	5,256	-
Amortisation of issue expenses allocated to preference share reserve	149	-
Finance costs attributable to preference share subscription	(4,368)	-
Preference share liability finance cost	4,104	-
	65,775	33,141
Weighted average number of shares in issue in thousands	303,572	301,924
LTI restricted share grants	4,706	3,877
ESOP shares	2,103	2,996
Convertible redeemable preference shares	33,209	-
Adjusted weighted average number of shares in issue	343,590	308,797
Fully diluted earnings / (loss) per common share	19.1¢	10.7¢
Attributable to:		
Continuing operations	18.7¢	17.3¢
Discontinued operation	0.4¢	(6.6)¢

35 OTHER COMPREHENSIVE INCOME (OCI)

Schedule to OCI from continuing operations

	2016					2015				
	OCI tax release	After tax OCI is attributable to				OCI tax expense	After tax OCI is attributable to			
		Shareholders	Participating policyholders	Non-controlling interests	Total		Shareholders	Participating policyholders	Non-controlling interests	Total
Items that may be reclassified subsequently to income:										
Available for sale assets:										
Gains / (losses) arising on revaluation	(11,058)	24,082	(1,292)	16,393	39,183	31,306	(72,866)	867	(31,102)	(103,101)
(Gains) / losses transferred to income	(1,491)	3,112	-	(437)	2,675	3,533	(4,287)	-	3,112	(1,175)
Net change in actuarial liabilities	6,679	(15,509)	1,293	(2,874)	(17,090)	(18,800)	47,329	(867)	1,884	48,346
Retranslation of foreign currency operations	-	(18,141)	21	(10,361)	(28,481)	-	(8,393)	(36)	(7,257)	(15,686)
	(5,870)	(6,456)	22	2,721	(3,713)	16,039	(38,217)	(36)	(33,363)	(71,616)
Items that will not be reclassified subsequently to income:										
Gains / (losses) arising on revaluation of owner-occupied property	(939)	2,137	-	3,008	5,145	(1,159)	(202)	-	(143)	(345)
Defined benefit gains / (losses)	2,588	(10,001)	-	(3,874)	(13,875)	2,258	(3,447)	-	(1,984)	(5,431)
Other items	-	(128)	-	-	(128)	-	-	-	-	-
	1,649	(7,992)	-	(866)	(8,858)	1,099	(3,649)	-	(2,127)	(5,776)
Total OCI movements	(4,221)	(14,448)	22	1,855	(12,571)	17,158	(41,866)	(36)	(35,490)	(77,392)
Allocated to equity reserves		(4,319)					(38,419)			
Allocated to retained earnings		(10,129)					(3,447)			
		(14,448)					(41,866)			

36 CASH FLOWS

36.1 Operating activities

	2016	2015
Adjustments for non-cash items, interest and dividends:		
Interest and dividend income	(295,956)	(296,676)
Net investment gains	(62,136)	(32,418)
(Gain) / loss arising on acquisition	-	1,025
Net increase in actuarial liabilities	45,252	26,559
Interest expense and finance costs	99,781	96,041
Depreciation and amortisation	21,283	18,687
Increase in provision for unearned premiums	59	(1,093)
Other items	3,619	(12,908)
	<u>(188,098)</u>	<u>(200,783)</u>
Net increase in investments and operating assets:		
Investment property	818	5,118
Debt securities	30,495	(151,201)
Equity securities	1,037	(15,875)
Mortgage loans	(1,989)	(51,613)
Policy loans	(6,115)	934
Finance loans and finance leases	(99,130)	(43,147)
Securities purchased for re-sale	1,913	5,647
Deposits	10,236	8,189
Other assets and receivables	(37,627)	(27,133)
	<u>(100,362)</u>	<u>(269,081)</u>

36.1 Operating activities (continued)

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

	2016	2015
Investment property:		
Disbursements	(7)	(111)
Disposal proceeds	825	5,229
	<u>818</u>	<u>5,118</u>
Debt securities:		
Disbursements	(1,931,861)	(1,351,966)
Disposal proceeds	1,962,356	1,200,765
	<u>30,495</u>	<u>(151,201)</u>
Equity securities:		
Disbursements	(118,139)	(55,395)
Disposal proceeds	119,176	39,520
	<u>1,037</u>	<u>(15,875)</u>
Net increase in operating liabilities:		
Insurance liabilities	6,486	7,020
Investment contract liabilities	20,012	12,190
Other funding instruments	(29,788)	8,881
Deposits	286,658	137,800
Securities sold for re-purchase	(200,610)	(137,084)
Other liabilities and payables	1,035	29,707
	<u>83,793</u>	<u>58,514</u>

36.2 Investing activities

	2016	2015
Property, plant and equipment:		
Purchases	(20,336)	(18,175)
Disposal proceeds	2,340	1,589
	<u>(17,996)</u>	<u>(16,586)</u>

36.3 Financing activities

	2016	2015
Other notes and loans payable:		
Proceeds	78,050	310,545
Repayments	(44,042)	(154,087)
	<u>34,008</u>	<u>156,458</u>

36.4 Cash and cash equivalents

	2016	2015
Cash resources	279,070	250,489
Call deposits and other liquid balances	110,652	183,068
Bank overdrafts	(1,939)	(2,158)
Other short-term borrowings	(75,677)	(46,520)
	<u>312,106</u>	<u>384,879</u>

37 SUBSIDIARY ACQUISITION AND OWNERSHIP CHANGES

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

The net assets acquired amounted to \$113,429 for a purchase consideration of \$84,378. This gave rise to negative goodwill of \$29,051. The acquisition was recorded based on provisionally determined values in 2014. These balances were finalized during 2015. The adjustments made during 2015 amounted to \$1.0 million, and was recognised in 2015 as they were not material to the Group.

38 DISCONTINUED OPERATION

On July 29, 2013, the Company entered into an agreement to sell Sagicor Europe and its subsidiaries to AmTrust Financial Services, Inc. (AmTrust), subject to regulatory approvals. Final regulatory approvals were obtained on December 23, 2013, on which date the sale was completed.

The operations of the Sagicor Europe operating segment are presented as discontinued operations in these financial statements.

The terms of the sale required the Company to take certain actions and provide certain commitments which included future price adjustments to the consideration up to December 31, 2018, representing adjusted profits or losses from January 1, 2013 in the run-off of the 2011, 2012 and 2013 underwriting years of account of syndicates 1206 and 44, the total price adjustments subject to a limit.

38 Discontinued operation (continued)

As of December 31, 2016, the price adjustments have been estimated as outlined below:

	2016	2015
March 31, 2016	-	46,525
March 31, 2019	-	(499)
	-	46,026

After accounting for its status as a discontinued operation and for the details of the sale the net loss recognised in the statement of income is set out below. The statement of comprehensive income is as follows:

Movement in Price Adjustments

	2016	2015
Balance payable, beginning of year	46,026	45,796
Payment made	(44,614)	(21,231)
Experience gain	415	23,013
Net currency movements	(1,827)	(1,552)
(Receivable) / payable, end of year	-	46,026

The price adjustments are subject to a limit based on the terms of the agreement. These results are subject to further underwriting, investment and foreign currency adjustments constrained by the limit as the experience develops.

38 Discontinued operation (continued)

The net gain / (loss) recognised in the statement of income and the statement of comprehensive income is as follows.

Statement of income	2016	2015
Currency translation gain	1,827	1,552
Other expenses	(884)	(187)
Movement in price adjustment	469	(23,013)
Net gain / (loss) and total comprehensive gain / (loss)	1,412	(21,648)

39 CONTINGENT LIABILITIES

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

	2016	2015
Customer guarantees and letters of credit ⁽¹⁾	22,513	27,154

⁽¹⁾ There are equal and offsetting claims against customers in the event of a call on the above commitments for customer guarantees and letters of credit.

(a) Legal proceedings

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

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

Significant matters as follows:

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

39 Contingent Liabilities (continued)

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

(b) Tax assessments

The Group is also subject to tax assessments during the normal course of business. Adequate provision has been made for all assessments received to date and for tax liabilities accruing in accordance with management's understanding of tax regulations. Potential tax assessments may be received by the Group which are in addition to accrued tax liabilities. No provisions have been made in these financial statements for such potential tax assessments.

40 FAIR VALUE OF PROPERTY

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

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

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

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

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

	Level 1	Level 2	Level 3	Total
Investment property	-	-	80,662	80,662
Owner-occupied lands	-	-	37,185	37,185
Owner-occupied land and buildings	-	-	77,855	77,855
	-	-	195,702	195,702

40 Fair value of property (continued)

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

	Investment property	Owner-occupied property		Total
		Lands	Land and buildings	
Balance, beginning of year	79,172	38,031	80,694	197,897
Additions	7	-	2,680	2,687
Transfers in / (out)	1,401	(846)	-	555
Fair value changes recorded in net investment income	1,847	-	-	1,847
Fair value changes recorded in other comprehensive income	-	-	(1,583)	(1,583)
Depreciation	-	-	(1,105)	(1,105)
Disposals and divestitures	(825)	-	(753)	(1,578)
Effect of exchange rate changes	(940)	-	(2,078)	(3,018)
Balance, end of year	80,662	37,185	77,855	195,702

41 FINANCIAL RISK

The Group's activities of issuing insurance contracts, of accepting funds from depositors, of investing insurance premium and deposit receipts in a variety of financial and other assets, banking and dealing in securities, exposes the Group to various insurance and financial risks. Financial risks include credit default, liquidity and market risks. Market risks arise from changes in interest rates, equity prices, currency exchange rates or other market factors. The principal insurance risks are identified in notes 42 and 43.

The overriding objective of the Group's risk management framework is to enhance its capital base through competitive earnings growth and to protect capital against inherent business risks. This means that the Group accepts certain levels of risk in order to generate returns, and the Group manages the levels of risk assumed through enterprise wide risk management policies and procedures. Identified risks are assessed as to their potential financial impact and as to their likelihood of occurrence.

The amounts disclosed in this note and in notes 42 and 43, exclude amounts in the statement of financial position classified as liabilities of discontinued operation.

41.1 Credit risk

Credit risk is the exposure that the counterparty to a financial instrument is unable to meet an obligation, thereby causing a financial loss to the Group. Credit risks are primarily associated with financial investments and reinsurance contracts held.

Credit risk from financial investments is minimised through holding a diversified portfolio of investments, purchasing securities and advancing loans only after careful assessment of the borrower, obtaining collateral before advancing loans, and placing deposits with financial institutions with a strong capital base. Limits may be placed on the amount of risk accepted in relation to one borrower.

The Group has developed an internal credit rating standard. The internal rating is a 10 point scale which allows for distinctions in risk characteristics and is referenced to the rating scales of international credit rating agencies. The scale is set out in the following table.

Category	Sagicor Risk Rating	Classification	S&P	Moody's	Fitch	AM Best
Investment grade	1	Minimal risk	AAA, AA	Aaa, Aa	AAA, AA	aaa, aa
	2	Low risk	A	A	A	a
	3	Moderate risk	BBB	Baa	BBB	bbb
Non-investment grade	4	Acceptable risk	BB	Ba	BB	bb
	5	Average risk	B	B	B	b
Watch	6	Higher risk	CCC, CC	Caa, Ca	CCC, CC	ccc, cc
	7	Special mention	C	C	C	c
Default	8	Substandard			DDD	
	9	Doubtful	D	C	DD	d
	10	Loss			D	

41.1 Credit risk (continued)

The Group applies this rating scale to three categories of exposures:

- Investment portfolios, comprising debt securities, deposits, securities purchased for re-sale, and cash balances;
- Lending portfolios, comprising mortgage, policy and finance loans and finance leases;
- Reinsurance exposures, comprising reinsurance assets for life, annuity and health insurance (see note 43.3) or realistic disaster scenarios for property and casualty insurance (see note 42.3).

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

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

	2016		2015	
	\$000	%	\$000	%
Investment portfolios	3,864,949	65.5	3,937,104	68.4
Lending portfolios	978,681	16.6	909,570	15.8
Reinsurance assets	755,569	12.8	644,463	11.2
Other financial assets	179,456	3.0	151,842	2.6
Total financial statement exposures	5,778,655	97.9	5,642,979	98.0
Loan commitments	82,088	1.4	69,936	1.2
Customer guarantees and letters of credit	22,513	0.4	27,154	0.5
Other	15,262	0.3	19,380	0.3
Total off financial statement exposures	119,863	2.1	116,470	2.0
Total	5,898,518	100.0%	5,759,449	100.0%

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

41.1 Credit risk (continued)

The Group's largest exposures to individual counterparty credit risks as of December 31, 2016 and 2015 are set out below. The individual ratings reflect the rating of the counterparty listed below, while the amounts include exposures with subsidiaries of the counterparty.

	Sagicor Risk Rating	2016	Sagicor Risk Rating	2015
Investment portfolios:				
Government of Jamaica	5	804,051	5	901,896
Government of Trinidad and Tobago	2	226,094	2	200,307
Government of Barbados	5	303,973	5	307,185
The Bank of Nova Scotia	2	29,457	2	185,743
Government of St Lucia	3	80,965	5	81,412
The Federal National Mortgage Association	1	106,341	1	101,356
The Federal Home Loan Mortgage Corporation	1	63,664	1	67,523
Lending portfolios:				
Value Assets International S.A. and Egret Limited	4	28,704	3	29,780
Reinsurance assets:				
Guggenheim Partners ⁽¹⁾	3	585,561	3	543,329

⁽¹⁾The reinsurance asset held in the name of Guggenheim Partners are secured by assets held in trust totalling \$596,785 (2015 - \$573,774).

41.1 Credit risk (continued)

(a) Investment portfolios

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

Investment portfolios					
Risk Rating	Classification	2016		2015	
		Exposure \$000	Exposure %	Exposure \$000	Exposure %
1	Minimal risk	337,503	9%	317,670	8%
2	Low risk	657,285	17%	794,812	20%
3	Moderate risk	1,018,985	26%	1,026,099	26%
4	Acceptable risk	250,267	6%	193,025	5%
5	Average risk	1,497,421	39%	1,518,308	39%
6	Higher risk	58,447	2%	23,472	1%
7	Special mention	15	0%	18	0%
8	Substandard	707	0%	2,683	0%
TOTAL RATED EXPOSURES		3,820,630	99%	3,876,087	99%
UN-RATED EXPOSURES		44,319	1%	61,017	1%
TOTAL		3,864,949	100%	3,937,104	100%

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

41.1 Credit risk (continued)

(b) Lending portfolios

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

Lending portfolios					
Risk Rating	Classification	2016		2015	
		Exposure \$000	Exposure %	Exposure \$000	Exposure %
1	Minimal risk	434,061	43%	455,471	50%
2	Low risk	142,469	15%	77,350	9%
3	Moderate risk	220,827	22%	184,911	20%
4	Acceptable risk	76,993	8%	30,282	3%
5	Average risk	35,200	4%	26,653	3%
6	Higher risk	25,338	3%	8,852	1%
7	Special mention	15,330	2%	23,345	3%
8	Substandard	8,703	1%	8,953	1%
9	Doubtful	7,532	1%	4,693	1%
10	Loss	12,154	1%	9,699	1%
TOTAL RATED EXPOSURES		978,607	100%	830,209	92%
UN-RATED EXPOSURES		74	0%	79,361	8%
TOTAL		978,681	100%	909,570	100%

41.1 Credit risk (continued)

Exposure to credit risk is also managed in part by obtaining collateral and guarantees for lending portfolios. For mortgage loans, the collateral is real estate property, and the approved loan limit is 75% to 95% of collateral value. For finance loans and finance leases, the collateral often comprises a vehicle or other form of security and the approved loan / lease limit is 50% to 100% of the collateral value. Unsecured finance loans and finance leases are only granted when the initial amount is less than \$5,103.

Policy loans are advanced on the security of the underlying insurance policy cash values. Cash loans are advanced to a maximum of 80% to 100% of the cash surrender value. Automatic premium loans may be advanced to the extent of available cash surrender value.

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

	2016	2015
Barbados	195,597	203,250
Jamaica	463,675	389,521
Trinidad & Tobago	145,409	150,387
Other Caribbean	113,301	108,598
USA	60,699	57,814
	978,681	909,570

(c) Past due and impaired financial assets

A financial asset is past due when a counterparty has failed to make payment when contractually due. The Group is most exposed to the risk of past due assets with respect to its debt securities, mortgage loans, finance loans and finance leases.

Debt securities are assessed for impairment when amounts are past due, when the borrower is experiencing cash flow difficulties, or when the borrower's credit rating has been downgraded.

41.1 Credit risk (continued)

Mortgage loans less than 90 to 180 days past due and finance loans and finance leases less than 90 days past due are not assessed for impairment unless other information is available to indicate the contrary.

The assessment for impairment includes a review of the collateral. If the past due period is less than the trigger for impairment review, the collateral is not normally reviewed and re-assessed. Accumulated allowances for impairment reflect the Group's assessment of total individually impaired assets at the date of the financial statements. The following tables set out the carrying values of debt securities, mortgage loans, finance loans and finance leases, analysed by past due or impairment status.

	Debt securities	Mortgage loans	Finance loans & leases
2016			
Neither past due nor impaired	3,429,408	270,089	429,066
Past due up to 3 months, but not impaired	9,568	25,312	72,947
Past due up to 12 months, but not impaired	-	3,580	679
Past due up to 5 years, but not impaired	-	10,206	-
Past due over 5 years, but not impaired	-	3,051	-
Total past due but not impaired	9,568	42,149	73,626
Impaired assets (net of impairment)	2,378	19,528	6,283
Total carrying value	3,441,354	331,766	508,975
Accumulated allowances on impaired assets	4,944	7,624	10,795
Accrued interest on impaired assets	19	468	-

41.1 Credit risk (continued)

	Debt securities	Mortgage loans	Finance loans & leases
2015			
Neither past due nor impaired	3,410,331	275,500	369,137
Past due up to 3 months, but not impaired	3,706	30,483	59,836
Past due up to 12 months, but not impaired	-	3,891	982
Past due up to 5 years, but not impaired	-	11,137	-
Past due over 5 years, but not impaired	-	2,490	-
Total past due but not impaired	3,706	48,001	60,818
Impaired assets (net of impairment)	3,682	17,422	6,206
Total carrying value	3,417,719	340,923	436,161
Accumulated allowances on impaired assets	723	2,754	15,779
Accrued interest on impaired assets	10	462	49

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

(d) Repossessed assets

The Group may foreclose on overdue mortgage loans and finance loans and finance leases by repossessing the pledged asset. The pledged asset may consist of real estate, equipment or vehicles which the Group will seek to dispose of by sale. In some instances, the Group may provide re-financing to a new purchaser on customary terms.

41.1 Credit risk (continued)

(e) Renegotiated assets

The Group may renegotiate the terms of any financial investment to facilitate borrowers in financial difficulty. Arrangements to waive, adjust or postpone scheduled amounts due may be entered into. The Group classifies these amounts as past due, unless the original agreement is formally revised, modified or substituted.

41.2 Liquidity risk

Liquidity risk is the exposure that the Group may encounter difficulty in meeting obligations associated with financial or insurance liabilities that are settled by cash or by another financial asset. Liquidity risk also arises when excess funds accumulate resulting in the loss of opportunity to increase investment returns.

Asset liability matching is a tool used by the Group to mitigate liquidity risks particularly in operations with significant maturing short-term liabilities. For long-term insurance contracts, the Group has adopted a policy of investing in assets with cash flow characteristics that closely match the cash flow characteristics of its policy liabilities. The primary purpose of this matching is to ensure that cash flows from these assets are synchronised with the timing and the amounts of payments that must be paid to policyholders.

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

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

41.2 Liquidity risk (continued)

(a) Insurance liabilities

The Group's monetary insurance liabilities mature in periods which are summarised in the following table. Amounts are stated at their carrying values recognised in the financial statements and are analysed by their expected due periods, which have been estimated by actuarial or other statistical methods.

	Expected discounted cash flows			Total
	Maturing within 1 year	Maturing 1 to 5 years	Maturing after 5 years	
2016				
Actuarial liabilities	224,827	678,161	1,873,374	2,776,362
Other insurance liabilities	104,860	15,297	52,781	172,938
Total	329,687	693,458	1,926,155	2,949,300
2015				
Actuarial liabilities	206,721	631,453	1,794,213	2,632,387
Other insurance liabilities	103,394	15,500	53,287	172,181
Total	310,115	646,953	1,847,500	2,804,568

41.2 Liquidity risk (continued)

(b) Financial liabilities and commitments

Contractual cash flow obligations of the Group in respect of its financial liabilities and commitments are summarised in the following table. Amounts are analysed by their earliest contractual maturity dates and consist of the contractual un-discounted cash flows. Where the interest rate of an instrument for a future period has not been determined as of the date of the financial statements, it is assumed that the interest rate then prevailing continues until final maturity.

	2016 - Contractual un-discounted cash flows				2015 - Contractual un-discounted cash flows			
	On demand or within 1 year	1 to 5 years	After 5 years	Total	On demand or within 1 year	1 to 5 years	After 5 years	Total
Financial liabilities:								
Investment contract liabilities	354,549	18,819	10,702	384,070	310,094	54,054	9,834	373,982
Notes and loans payable	34,158	197,760	348,400	580,318	194,461	143,079	348,400	685,940
Deposit and security liabilities:								
Other funding instruments	335,928	15,752	12,033	363,713	361,328	15,626	12,305	389,259
Customer deposits	905,685	43,952	138	949,775	591,403	78,632	701	670,736
Structured products	19,391	15,388	-	34,779	23,799	12,268	-	36,067
Securities sold for re-purchase	325,495	717	-	326,212	524,578	28	-	524,606
Derivative financial instruments	355	1,010	-	1,365	1,052	551	-	1,603
Bank overdrafts	1,939	-	-	1,939	2,158	-	-	2,158
Accounts payable and accrued liabilities	151,436	53,436	2,447	207,319	158,072	51,631	747	210,450
Total financial liabilities	2,128,936	346,834	373,720	2,849,490	2,166,945	355,869	371,987	2,894,801
Off financial statement commitments:								
Loan commitments	82,088	-	-	82,088	69,936	-	-	69,936
Non-cancellable operating lease and rental payments	4,839	9,528	977	15,344	2,679	9,483	2,226	14,388
Capital commitments	7,500	-	-	7,500	13,174	-	-	13,174
Customer guarantees and letters of credit	15,476	2,454	4,583	22,513	23,733	3,003	418	27,154
Total off financial statements commitments	109,903	11,982	5,560	127,445	109,522	12,486	2,644	124,652
Total	2,238,839	358,816	379,280	2,976,935	2,276,467	368,355	374,631	3,019,453

41.2 Liquidity risk (continued)

(c) Financial and insurance assets

The contractual maturity periods of monetary financial assets and the expected maturity periods of monetary insurance assets are summarised in the following table. Amounts are stated at their carrying values recognised in the financial statements. For this disclosure, monetary insurance assets comprise policy loans and reinsurance assets.

	2016 – Contractual or expected discounted cash flows				2015 – Contractual or expected discounted cash flows			
	Maturing within 1 year	Maturing 1 to 5 years	Maturing after 5 years	Total	Maturing within 1 year	Maturing 1 to 5 years	Maturing after 5 years	Total
Debt securities	471,274	622,930	2,347,690	3,441,894	389,557	872,098	2,156,064	3,417,719
Mortgage loans	15,883	39,082	276,801	331,766	20,890	36,484	283,549	340,923
Policy loans	5,010	21,085	111,845	137,940	5,319	13,746	113,421	132,486
Finance loans and finance leases	133,440	152,738	222,797	508,975	73,664	64,948	297,549	436,161
Securities purchased for re-sale	5,227	-	-	5,227	8,064	-	-	8,064
Deposits	137,860	159	1,279	139,298	256,636	1,927	2,269	260,832
Derivative financial instruments	27,970	1,010	-	28,980	14,928	551	-	15,479
Reinsurance assets: share of actuarial liabilities	96,222	285,264	331,766	713,252	79,535	248,411	273,651	601,597
Reinsurance assets: other	36,963	5,149	205	42,317	37,366	5,295	205	42,866
Premiums receivable	46,530	-	-	46,530	42,398	-	-	42,398
Other assets and accounts receivable	41,484	55,447	7,015	103,946	47,431	43,800	2,734	93,965
Cash resources	263,191	-	15,879	279,070	229,755	-	20,734	250,489
Total	1,281,054	1,182,864	3,315,277	5,779,195	1,205,543	1,287,260	3,150,176	5,642,979

41.3 Interest rate risk

The Group is exposed to interest rate risks. Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates. The occurrence of an adverse change in interest rates on invested assets may result in financial loss to the Group in fulfilling the contractual returns on insurance and financial liabilities.

The return on investments may be variable, fixed for a term or fixed to maturity. On reinvestment of a matured investment, the returns available on the new investment may be significantly different from the returns formerly achieved. This is known as reinvestment risk.

Guaranteed minimum returns exist within cash values of long term traditional insurance contracts, long term universal life insurance contracts, annuity options, deposit administration liabilities and policy funds on deposit. Where the returns credited exceed the guaranteed minima, the insurer usually has the option to adjust the return from period to period. For other financial liabilities, returns are usually contractual and may only be adjusted on contract renewal or contract re-pricing.

The Group is therefore exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase or decrease as a result of such changes. Interest rate changes may also result in losses if asset and liability cash flows are not closely matched with respect to timing and amount.

The Group is exposed to risk under embedded derivatives contained in a host insurance contract. These risks include exposures to investment returns which may produce losses to the insurer arising from the following contract features:

- minimum annuity rates which are guaranteed to be applied at some future date;
- minimum guaranteed death benefits which are applicable when the performance of an interest bearing or unit linked fund falls below expectations;
- minimum guaranteed returns in respect of cash values and universal life investment accounts.

41.3 Interest rate risk (continued)

The Group manages its interest rate risk by a number of measures, including where feasible the selection of assets which best match the maturity of liabilities, the offering of investment contracts which match the maturity profile of assets, the re-pricing of interest rates on loans receivable, policy contracts and financial liabilities in response to market changes. In certain Caribbean markets, where availability of suitable investments is often a challenge, the Group holds many of its fixed rate debt securities to maturity and therefore mitigates the transient interest rate changes in these markets.

41.3 Interest rate risk (continued)

The table following summarises the exposures to interest rates on the Group's monetary insurance and financial liabilities (excluding actuarial liabilities which are disclosed in note 43). It includes liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. Insurance liabilities are categorised by their expected maturities.

	2016					2015				
	Exposure within 1 year	Exposure 1 to 5 years	Exposure after 5 years	Not exposed to interest	Total	Exposure within 1 year	Exposure 1 to 5 years	Exposure after 5 years	Not exposed to interest	Total
Other insurance liabilities	31,706	4,705	52,781	83,746	172,938	33,518	4,860	53,287	80,516	172,181
Investment contract liabilities	352,503	15,984	9,089	-	377,576	308,644	51,442	8,510	-	368,596
Notes and loans payable	1,964	77,756	316,895	(1,402)	395,213	159,911	1,042	316,740	(2,176)	475,517
Deposit and security liabilities:										
Other funding instruments	342,292	1,565	5,184	473	349,514	364,132	8,688	6,242	550	379,612
Customer deposits	703,049	86,798	138	125,170	915,155	477,934	78,511	701	112,372	669,518
Structured products	19,318	15,289	-	172	34,779	22,927	11,966	-	219	35,112
Securities sold for re-purchase	318,685	697	-	1,192	320,574	516,944	171	-	2,493	519,608
Derivative financial instruments	-	-	-	1,364	1,364	-	-	-	1,603	1,603
Bank overdrafts	1,939	-	-	-	1,939	2,158	-	-	-	2,158
Accounts payable and accrued liabilities	5,217	52,721	-	147,037	204,975	981	42,904	-	157,837	201,722
Total	1,776,673	255,515	384,087	357,752	2,774,027	1,887,149	199,584	385,480	353,414	2,825,627

41.3 Interest rate risk (continued)

The table following summarises the exposures to interest rate and reinvestment risks of the Group's monetary insurance and financial assets. Assets are stated at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. Reinsurance assets and policy loans are categorised by their expected maturities.

	2016					2015				
	Exposure within 1 year	Exposure 1 to 5 years	Exposure after 5 years	Not exposed to interest	Total	Exposure within 1 year	Exposure 1 to 5 years	Exposure after 5 years	Not exposed to interest	Total
Debt securities	647,158	557,849	2,186,167	50,180	3,441,354	585,718	785,142	1,996,826	50,033	3,417,719
Equity securities	-	-	-	220,208	220,208	-	-	-	214,957	214,957
Mortgage loans	19,295	50,617	258,480	3,374	331,766	40,595	53,664	243,497	3,167	340,923
Policy loans	4,110	20,752	108,507	4,571	137,940	4,302	13,510	110,311	4,363	132,486
Finance loans and leases	463,487	24,520	20,391	577	508,975	374,909	25,663	34,390	1,199	436,161
Securities purchased for re-sale	5,178	-	-	49	5,227	8,041	-	-	23	8,064
Deposits	137,123	159	1,279	737	139,298	256,385	1,908	1,902	637	260,832
Derivative financial instruments	-	-	-	28,980	28,980	-	-	-	15,479	15,479
Reinsurance assets: other	1,043	-	205	41,069	42,317	112	-	205	42,549	42,866
Premiums receivable	2,302	-	-	44,228	46,530	1,495	-	-	40,903	42,398
Other assets and accounts receivable	3,632	53,044	-	47,270	103,946	797	43,337	-	49,831	93,965
Cash resources	221,380	-	-	57,690	279,070	153,277	-	-	97,212	250,489
Total	1,504,708	706,941	2,575,029	498,933	5,285,611	1,425,631	923,224	2,387,131	520,353	5,256,339

41.3 Interest rate risk (continued)

The table below summarises the average interest yields on financial assets and liabilities held during the year in respect of continuing operations.

	2016	2015
Financial assets:		
Debt securities	6.2%	6.4%
Mortgage loans	6.1%	6.5%
Policy loans	6.9%	7.3%
Finance loans and finance leases	12.6%	12.7%
Securities purchased for re-sale	9.2%	2.4%
Deposits	1.0%	0.9%
Financial liabilities:		
Investment contract liabilities	6.1%	5.2%
Notes and loans payable	9.4%	8.3%
Other funding instruments	1.9%	2.2%
Deposits	2.1%	1.9%
Securities sold for re-purchase	4.5%	3.7%

a) Sensitivity

Sensitivity to interest rate risk is considered by operating subsidiaries. The effects of changes in interest rates of assets backing actuarial liabilities are disclosed in note 43.4. The Group's property and casualty operations are not exposed to a significant degree of interest rate risk, since the majority of its interest bearing instruments has short-term maturities. The sensitivity of the Group's principal operating subsidiaries engaged in banking, investment management and other financial services are considered in the following paragraphs.

41.3 Interest rate risk (continued)

Sagicor Investments Jamaica Limited and Sagicor Bank Jamaica Limited

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

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

2016				2015			
Change in interest rate		Effect on net income	Effect on TCI	Change in interest rate		Effect on net income	Effect on TCI
JMD	USD			JMD	USD		
- 1%	- 0.5%	1,057	13,141	- 1%	- 0.5%	4,145	10,219
+2.5%	+ 2%	(3,690)	(46,516)	+2.5%	+ 2%	(6,838)	(35,879)

41.4 Foreign exchange risk

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

In order to manage the risk associated with movements in currency exchange rates, the Group seeks to maintain investments and cash in each operating currency, which are sufficient to match liabilities denominated in the same currency. Exceptions are made to invest amounts in United States dollar assets which are held to back liabilities in Caribbean currencies. Management considers that these assets diversify the range of investments available in the Caribbean, and in the long-term are likely to either maintain capital value and/or provide satisfactory returns.

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

41.4 Foreign exchange risk (continued)

2016	US\$ 000 equivalents of balances denominated in						Total
	Barbados \$	Jamaica \$	Trinidad \$	Eastern Caribbean \$	US \$	Other Currencies	
ASSETS							
Financial investments ⁽¹⁾	452,914	817,968	384,175	148,864	2,619,819	169,800	4,593,540
Reinsurance assets	5,758	336	10,432	1,820	736,067	1,156	755,569
Receivables ⁽¹⁾	20,613	86,232	10,271	13,226	13,939	6,059	150,340
Cash resources	15,064	43,379	28,492	15,430	135,180	41,525	279,070
Total monetary assets	494,349	947,915	433,370	179,340	3,505,005	218,540	5,778,519
Other assets ⁽²⁾	207,993	337,791	82,129	28,264	99,446	(2,222)	753,401
Total assets of continuing operations	702,342	1,285,706	515,499	207,604	3,604,451	216,318	6,531,920
LIABILITIES							
Actuarial liabilities	386,276	302,777	329,544	61,905	1,605,596	90,264	2,776,362
Other insurance liabilities ⁽¹⁾	65,787	20,504	27,874	10,105	37,273	11,395	172,938
Investment contracts	33,733	66,482	140,242	52,451	76,301	8,367	377,576
Notes and loans payable	-	-	-	-	395,213	-	395,213
Deposit and security liabilities	86,251	483,291	1,413	14,414	1,021,431	16,525	1,623,325
Provisions	31,160	48,198	12,487	844	1,784	6,819	101,292
Accounts payable and accruals	42,710	89,992	16,484	2,831	50,073	2,885	204,975
Total monetary liabilities	645,917	1,011,244	528,044	142,550	3,187,671	136,255	5,651,681
Other liabilities ⁽²⁾	13,848	12,794	19,315	3,492	33,751	1,625	84,825
Total liabilities of continuing operations	659,765	1,024,038	547,359	146,042	3,221,422	137,880	5,736,506
Net position	42,577	261,668	(31,860)	61,562	383,029	78,438	795,414

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

41.4 Foreign exchange risk (continued)

2015	US\$ 000 equivalents of balances denominated in						Total
	Barbados \$	Jamaica \$	Trinidad \$	Eastern Caribbean \$	US \$	Other Currencies	
ASSETS							
Financial investments ⁽¹⁾	459,902	782,475	355,091	146,006	2,698,719	169,471	4,611,664
Reinsurance assets	11,040	1,189	11,068	1,792	618,240	1,134	644,463
Receivables ⁽¹⁾	25,533	76,047	10,338	12,873	7,368	4,204	136,363
Cash resources	21,349	45,720	39,224	14,825	89,379	39,992	250,489
Total monetary assets	517,824	905,431	415,721	175,496	3,413,706	214,801	5,642,979
Other assets ⁽²⁾	200,772	324,237	86,074	28,755	119,332	(2,264)	756,906
Total assets of continuing operations	718,596	1,229,668	501,795	204,251	3,533,038	212,537	6,399,885
LIABILITIES							
Actuarial liabilities	392,022	271,391	330,099	63,948	1,500,972	73,955	2,632,387
Other insurance liabilities ⁽¹⁾	70,336	18,878	28,989	9,113	33,929	10,936	172,181
Investment contracts	34,561	66,619	135,169	49,993	74,847	7,407	368,596
Notes and loans payable	19,980	-	-	-	455,537	-	475,517
Deposit and security liabilities	91,187	476,088	1,548	14,929	1,003,153	20,706	1,607,611
Provisions	26,870	37,236	14,732	988	2,815	5,565	88,206
Accounts payable and accruals	30,769	85,701	12,973	10,130	50,510	11,639	201,722
Total monetary liabilities	665,725	955,913	523,510	149,101	3,121,763	130,208	5,546,220
Other liabilities ⁽²⁾	12,787	4,756	20,089	2,789	26,944	1,110	68,475
Total liabilities of continuing operations	678,512	960,669	543,599	151,890	3,148,707	131,318	5,614,695
Net position	40,084	268,999	(41,804)	52,361	384,331	81,219	785,190

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

41.4 Foreign exchange risk (continued)

(a) Sensitivity

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

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

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

This occurs when a monetary balance is denominated in a currency other than the functional currency of the reporting unit to which it belongs. In this instance, a change in currency exchange rates results in the monetary balances being retranslated at the date of the financial statements and the exchange gain or loss is taken to income (note 26).

- Currency risk of reported results of foreign operations

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

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

This occurs when a reporting unit's functional currency depreciates or appreciates in value when retranslated to the USD, which is the Group's presentational currency. In this instance, the conversion of the reporting unit's assets and liabilities at a different rate of exchange results in a currency loss or gain which is recorded in the currency translation reserve (note 22). If the reporting unit was disposed of, either wholly or in part, then the corresponding accumulated loss or gain in the currency translation reserve would be transferred to income or retained earnings.

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

41.4 Foreign exchange risk (continued)

JMD currency risk

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

	Amounts denominated in		Total amounts	Effect of a 10% depreciation
	JMD	USD		
Financial position:				
Assets	1,359,388	1,159,171	2,518,559	(135,939)
Liabilities	1,040,655	1,032,241	2,072,896	(104,066)
Net position	318,733	126,930	445,663	(31,873)
Represented by:				
Currency risk of the Group's investment in foreign operations				(31,873)
Income statement:				
Revenue	423,398	79,354	502,752	(29,319)
Benefits	(216,843)	(21,539)	(238,382)	21,684
Expenses	(141,023)	(14,606)	(155,629)	14,102
Income taxes	(23,722)	(24)	(23,746)	2,372
Net income	41,810	43,185	84,995	8,839
Represented by:				
Currency risk relating to the future cash flows of monetary balances				13,021
Currency risk of reported results of foreign operations				(4,182)
				8,839

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

41.5 Fair value of financial instruments

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.

41.5 Fair value of financial instruments (continued)

In assessing the fair value of non-traded financial liabilities, the Group uses a variety of methods including obtaining dealer quotes for specific or similar instruments and the use of internally developed pricing models, such as the use of discounted cash flows. If the non-traded liability is backed by a pool of assets, then its value is equivalent to the value of the underlying assets.

Certain of the Group's policy liabilities are unit linked, i.e. derive their value from a pool of assets which are carried at fair value. The Group assigns a fair value hierarchy of Level 2 to the contract liability if the liability represents the unadjusted fair value of the underlying pool of assets.

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

A financial instrument is classified as Level 3 if:

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

Level 3 available for sale securities include corporate and government agency debt instruments issued in the Caribbean, primarily in Jamaica and Trinidad. The fair values of these instruments have been derived from December 31 market yields of government instruments of similar durations in the country of issue of the instruments.

Level 3 assets designated fair value through income include mortgage loans, debt securities and equities for which the full income return and capital returns accrue to holders of unit linked policy and deposit administration contracts. These assets are valued with inputs other than observable market data.

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

41.5 Fair value of financial instruments (continued)

(a) Financial instruments carried at fair value

	2016				2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Available for sale securities:								
Debt securities	604,786	1,663,306	2,928	2,271,020	355,330	1,929,520	26,741	2,311,591
Equity securities	35,350	51,732	9,602	96,684	46,644	29,538	12,198	88,380
	640,136	1,715,038	12,530	2,367,704	401,974	1,959,058	38,939	2,399,971
Investments at fair value through income:								
Debt securities	35,720	32,436	95,849	164,005	15,820	35,048	85,859	136,727
Equity securities	3,992	119,532	-	123,524	12,100	110,267	4,210	126,577
Derivative financial instruments	-	1,364	27,616	28,980	-	1,603	13,876	15,479
Mortgage loans	-	-	40,347	40,347	-	-	47,052	47,052
Deposits	-	-	-	-	56	-	-	56
	39,712	153,332	163,812	356,856	27,976	146,918	150,997	325,891
Total assets	679,848	1,868,370	176,342	2,724,560	429,950	2,105,976	189,936	2,725,862
Total assets by percentage	25%	69%	6%	100%	16%	77%	7%	100%
Investment contracts:								
Unit linked deposit administration liabilities	-	-	130,668	130,668	-	-	125,177	125,177
Deposit and security liabilities:								
Structured products	-	-	34,779	34,779	-	-	35,112	35,112
Derivative financial instruments	-	1,364	-	1,364	-	1,603	-	1,603
	-	1,364	34,779	36,143	-	1,603	35,112	36,715
Total liabilities	-	1,364	165,447	166,811	-	1,603	160,289	161,892
Total liabilities by percentage	0%	1%	99%	100%	0%	1%	99%	100%

41.5 Fair value of financial instruments (continued)

Transfers from Level 1 to Level 2 in 2016 - \$59,752 (2015 - \$4,805). Transfers from Level 2 to Level 1 in 2016 – Nil (2015 - Nil).

For Level 3 instruments, reasonable changes in inputs which could be applied to the valuation of available for sale securities would affect other comprehensive income. Reasonable changes in inputs which could be applied to the valuations of investments designated at fair value are largely offset in income, since the changes in fair value are borne by contract holders. Changes in the valuations of structured products reflect changes in the underlying securities and are borne by the contract holders. The following table presents the movements in Level 3 instruments for the year.

	2016			2015		2016		2015	
	Available for sale securities	Investments at fair value through income	Derivative instruments	Total assets	Total assets	Policy liabilities	Structured products	Total liabilities	Total liabilities
Balance, beginning of year	38,939	137,121	13,876	189,936	155,926	125,177	35,112	160,289	136,877
Additions	1,638	23,419	19,205	44,262	95,084	-	-	-	-
Transfers into Level 3 classification	-	76	-	76	1,873	-	-	-	-
Issues	-	-	-	-	-	16,458	19,206	35,664	35,194
Settlements	-	-	-	-	-	(5,687)	(17,064)	(22,751)	(8,471)
Fair value changes recorded within net investment income	493	266	7,376	8,135	(743)	-	-	-	-
Fair value changes recorded within interest expense	-	-	-	-	-	188	-	188	(682)
Fair value changes recorded in other comprehensive income	(308)	-	-	(308)	(54)	-	-	-	-
Disposals	(27,258)	(18,049)	(12,841)	(58,148)	(58,638)	-	-	-	-
Transfers to instruments carried at amortised cost	-	-	-	-	-	-	(252)	(252)	-
Effect of exchange rate changes	(974)	(6,637)	-	(7,611)	(3,512)	(5,468)	(2,223)	(7,691)	(2,629)
Balance, end of year	12,530	136,196	27,616	176,342	189,936	130,668	34,779	165,447	160,289
Fair value changes recorded in investment income for instruments held at end of year	-	1,054	9,013	10,067	(3,930)	-	-	-	-
Fair value changes recorded in interest expense for instruments held at end of year	-	-	-	-	-	188	-	188	(682)

41.5 Fair value of financial instruments (continued)

(b) Financial instruments carried at amortised cost

The carrying values of the Group's non-traded financial assets and financial liabilities carried at amortised cost approximate their fair value in notes 10, 12, and 20. The fair value hierarchy of other financial instruments carried at amortised cost as of December 31, 2016 is set out in the following tables.

	Level 1	Level 2	Level 3	Total
Held to maturity securities:				
Debt securities	-	21,688	-	21,688
Loans and receivables:				
Debt securities	-	387,182	654,926	1,042,108
Mortgage loans	-	-	291,154	291,154
Policy loans	-	-	148,141	148,141
Finance loans and finance leases	-	-	491,131	491,131
Securities purchased for resale	-	-	5,227	5,227
	-	387,182	1,590,579	1,977,761
	-	408,870	1,590,579	1,999,449

41.5 Fair value of financial instruments (continued)

	Level 1	Level 2	Level 3	Total
Investment contracts:				
Deposit administration liabilities	-	9,574	118,771	128,345
Other investment contracts	-	-	121,051	121,051
	-	9,574	239,822	249,396
Notes and loans payable:				
Notes and lease payables	-	364,095	80,496	444,591
	-	364,095	80,496	444,591
Deposit and security liabilities				
Other funding instruments	-	-	346,216	346,216
Customer deposits	-	1,463	913,956	915,419
Securities sold for repurchase	-	-	320,574	320,574
	-	1,463	1,580,746	1,582,209
	-	375,132	1,901,064	2,276,196

41.5 Fair value of financial instruments (continued)

(c) Equity price risk

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

Sensitivity

The sensitivity to fair value changes in equity securities arises from those instruments classified as available for sale. There is no significant sensitivity to those instruments classified at fair value through income, since fair value changes are borne by policy contract holders.

The effects of an across the board 20% change in equity prices of the Group's available for sale equity securities as of December 31, 2016 on total comprehensive income before tax (TCIBT) are as follows.

Available for sale equities	Carrying value	20% change on TCIBT
Listed on Caribbean stock exchanges and markets	19,275	3,855
Listed on US stock exchanges and markets	49,679	9,936
Listed on other exchanges and markets	27,730	5,546
	96,684	19,337

41.6 Derivative financial instruments and hedging activities

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

41.6 Derivative financial instruments and hedging activities (continued)

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

	Contract / notional amount	Fair value	
		Assets	Liabilities
2016			
Derivatives held for trading:			
Equity indexed options	673,264	28,980	1,364
	673,264	28,980	1,364
2015			
Derivatives held for trading:			
Equity indexed options	643,667	15,479	1,603
	643,667	15,479	1,603

41.6 Derivative financial instruments and hedging activities (continued)

(i) *Equity indexed options*

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

For certain structured product contracts with customers (note 17), equity indexed options give the holder the ability to participate in the upward movement of an equity index while being protected from downward risk. The Group is exposed to credit risk on purchased options only, and only to the extent of the carrying amount, which is their fair value.

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

41.7 Offsetting Financial Assets and Liabilities

The Group is eligible to present certain financial assets and financial liabilities on a net basis on the balance sheet pursuant to criteria described in Note 1 "Accounting Policies: 2.15 Offsetting financial instruments".

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

2016	Gross amounts of financial assets	Gross amounts set off on the balance sheet	Net amounts of financial assets presented on the balance sheet	Impact of master netting arrangements	Financial instruments collateral	Net amount
ASSETS						
Financial investments	4,779,541	-	4,779,541	(821,168)	(260,443)	3,697,930
Securities purchases under resale agreement	5,227	-	5,227	-	-	5,227
Derivative financial instruments	28,980	-	28,980	(1,364)	-	27,616
	4,813,748	-	4,813,748	(822,532)	(260,443)	3,730,773
LIABILITIES						
Security liabilities	1,621,961	-	1,621,961	(415,910)	(220,100)	985,951
Derivative financial instruments	1,364	-	1,364	(1,364)	-	-
	1,623,325	-	1,623,325	(417,274)	(220,100)	985,951
2015						
ASSETS						
Financial investments	4,803,078	-	4,803,078	(629,825)	(302,098)	3,871,155
Securities purchases under resale agreement	8,064	-	8,064	-	-	8,064
Derivative financial instruments	15,479	-	15,479	(1,603)	-	13,876
	4,826,621	-	4,826,621	(631,428)	(302,098)	3,893,095
LIABILITIES						
Security liabilities	1,606,008	-	1,606,008	(614,643)	(255,860)	735,505
Derivative financial instruments	1,603	-	1,603	(1,603)	-	-
	1,607,611	-	1,607,611	(616,246)	(255,860)	735,505

42 INSURANCE RISK – PROPERTY & CASUALTY CONTRACTS

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

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

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

42.1 Underwriting risk

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

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

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

42.2 Claims risk

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

- attritional losses, which are expected to be of reasonable frequency and are less than established threshold amounts;

42.2 Claims risk (continued)

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

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

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

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

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

Total insurance coverage on insurance policies provides a quantitative measure of absolute risk. However, claims arising in any one year are a very small proportion in relation to the total insurance coverage provided. The total amounts insured by the Group at December 31, gross and net of reinsurance, are summarised by class of insurance.

42.2 Claims risk (continued)

Total insurance coverage		2016	2015
Property	Gross	7,673,403	6,726,203
	Net	1,083,282	1,004,774
Motor	Gross	385,978	346,729
	Net	192,989	173,364
Accident and liability	Gross	2,275,771	2,162,735
	Net	1,086,198	1,034,289
Total	Gross	10,335,152	9,235,667
	Net	2,362,469	2,212,427

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

	Gross loss	Net loss
A Barbados and St. Lucia windstorm having a 200 year return period.	318,357	5,000

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

42.3 Reinsurance risk

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

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

42.3 Reinsurance risk (continued)

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

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

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

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

Retention limits represent the level of risk retained by the insurer. Coverage in excess of these limits is ceded to reinsurers up to the treaty limit. Claim amounts in excess of reinsurance treaty limits revert to the insurer. Principal features of retention program used by Sagicor General for its property insurance class is summarised in the following table.

Type of risk	Retention by insurers - currency amounts in thousands
Property	<ul style="list-style-type: none"> • maximum retention of \$4,500 for a single event; • maximum retention of \$5,000 for a catastrophic event; • quota share retention to maximum of 20% in respect of treaty limits; • quota share retention is further reduced to a maximum of \$375 per event.

The effects of reinsurance ceded are disclosed in notes 14, 24 and 27 and information on reinsurance balances is included in notes 10, 20 and 41.

42.3 Reinsurance risk (continued)

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

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

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

Risk Rating	Classification	Exposure \$000	Exposure %
1	Minimal risk	253,696	31%
2	Low risk	559,762	68%
3	Moderate risk	-	0%
4	Acceptable risk	5,241	1%
5	Average risk	-	0%
6	Higher risk	-	0%
7	Special mention	-	0%
8	Substandard	-	0%
TOTAL		818,699	100%

43 INSURANCE RISK – LIFE, ANNUITY & HEALTH CONTRACTS

Insurers are exposed to insurance risks such as product design and pricing, mortality and morbidity, lapse, expense, reinsurance, and actuarial liability estimation in respect of life, annuity and health contracts. Disclosure of these risks is set out in the following sections.

43.1 Contracts without investment returns

These contracts are principally term life, critical illness and health insurance. Individual term life and critical illness products are generally long-term contracts while group term life and health insurance products are generally one year renewable. The principal insurance risks associated with these contracts are product design and pricing and mortality and morbidity.

43.1 Contracts without investment returns (continued)**(a) Product design and pricing risk**

Product design and pricing risk arises from poorly designed or inadequately priced contracts and can lead to both financial loss and reputational damage to the insurer.

Risks are priced to achieve an adequate return on capital on the insurer's business as a whole. In determining the pricing of an insurance contract, the insurer considers the nature and amount of the risk assumed, and recent experience and industry statistics of the benefits payable. Pricing inadequacy may arise either from the use of inadequate experience and statistical data in deriving pricing factors or from market softening conditions.

The underwriting process has established pricing guidelines, and may include specific medical tests and enquiries which determine the insurer's assessment of the risk. Insurers may also establish deductibles and coverage limits for health risks which will limit the potential claims incurred. Term life and critical illness risks have limitations of insured amounts. The pricing of a contract therefore consists of establishing appropriate premium rates, deductibles and coverage limits.

(b) Mortality and morbidity risk

Mortality risk is the risk that worsening mortality rates will result in an increase of death claims. Morbidity is the incidence of disease or illness and the associated risk is that of increased disability and medical claims. Insurance claims are triggered by the incurrence of a medical claim, the diagnosis of a critical illness or by death of the person insured.

For contracts providing death benefits, higher mortality rates would result in an increase in death claims. The Group annually reviews its mortality experience and compares it to industry mortality tables. This review may result in future adjustments to the pricing or re-pricing of these contracts.

Critical illness claims arise from the diagnosis of a specific illness incurred by the policy beneficiary. The Group annually reviews its critical illness claims experience and compares it to industry statistics. This review may result in future adjustments to the pricing or re-pricing of these contracts.

The concentration risks of term life and critical illness contracts are included in the related disclosure on other long-term contracts in note 43.2(b).

43.1 Contracts without investment returns (continued)

The cost of health related claims depends on the incidence of beneficiaries becoming ill, the duration of their illness, and the cost of providing medical services. An increase in any of these three factors will result in increased health insurance claims. In such circumstances, the insurer may adjust the pricing or re-pricing of these contracts.

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

2016 Premium revenue by location of insureds	Gross	Ceded	Net
Barbados	22,349	871	21,478
Jamaica	77,718	2,004	75,714
Trinidad & Tobago	27,485	606	26,879
Other Caribbean	26,057	536	25,521
USA	57	60	(3)
Total	153,666	4,077	149,589

(c) Sensitivity of incurred claims

The sensitivity of term life and critical illness claims is included in the related disclosure on other long-term contracts in note 43.4. The impact on gross claims of increasing the total liability by 5% for un-reinsured health insurance claims is illustrated in the following table.

	2016		2015	
	Liability	5% increase in liability	Liability	5% increase in liability
Actuarial liability	48,373	2,419	40,845	2,042
Claims payable	4,284	214	3,379	169
	52,657	2,633	44,224	2,211

43.2 Contracts with investment returns

Life and annuity insurance contracts with investment returns generally have durations of 5 or more years. The contract terms provide for the policyholder to pay either a single premium at contract inception, or periodic premiums over the duration of the contract. From the premium received, acquisition expenses and maintenance expenses are financed. Investment returns are credited to the policy and are available to fund surrender, withdrawal and maturity policy benefits. The principal risks associated with these policies are in respect of product design and pricing, mortality and longevity, lapse, expense and investment.

(a) Product design and pricing risk

Product design and pricing risk arises from poorly designed or inadequately priced contracts and can lead to both financial loss and reputational damage to the insurer.

Risks are priced to achieve an adequate return on capital on the insurer's business as a whole. In determining the pricing of a contract, the insurer considers the age of the policyholder and/or beneficiary, the expenses and taxes associated with the contract, the prospective investment returns to be credited to the contract, and the guaranteed values within the contract. Pricing inadequacy may arise either from the use of inadequate experience and statistical data in deriving pricing factors or from future changes in the economic environment.

(b) Mortality and longevity risk

Mortality risk is the risk that worsening mortality rates will result in an increase of death claims. Longevity risk is the risk that improving mortality rates will lengthen the payout period of annuities.

For contracts providing death benefits, higher mortality rates will result in an increase in death claims over time. For contracts providing the payout of annuities, improving mortality rates will lead to increased annuity benefits over time. Insurers annually review their mortality experience and compare it to industry mortality tables. This review may result in future adjustments to the pricing or re-pricing of these contracts.

43.2 Contracts with investment returns (continued)

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

Total insurance coverage on insurance policies provides a quantitative measure of absolute mortality risk. However, claims arising in any one year are a very small proportion in relation to the total insurance coverage provided. The total amounts insured by the Group in respect of both contracts with or without investment returns at December 31, gross and net of reinsurance, are summarised by geographic area below.

		2016		2015	
		Individual contracts	Group contracts	Individual contracts	Group contracts
Total insurance coverage					
Barbados	Gross	3,855,798	1,338,221	3,717,465	1,319,187
	Net	3,546,641	1,286,564	3,404,278	1,272,561
Jamaica	Gross	7,107,905	4,901,489	6,788,633	4,722,254
	Net	6,961,507	4,869,094	6,633,173	4,693,456
Trinidad & Tobago	Gross	3,322,781	2,379,773	3,299,470	2,591,709
	Net	2,741,682	2,262,405	2,699,592	2,460,183
Other Caribbean	Gross	7,702,307	1,824,971	7,425,375	1,993,205
	Net	6,616,723	1,647,151	6,315,588	1,718,537
USA	Gross	5,935,908	43,463	5,416,515	45,491
	Net	2,018,213	41,422	1,944,902	43,300
Total	Gross	27,924,699	10,487,917	26,647,458	10,671,846
	Net	21,884,776	10,106,636	20,997,533	10,188,037

43.2 Contracts with investment returns (continued)

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

		2016		2015	
		Individual contracts	Group contracts	Individual contracts	Group contracts
Total liability under annuity contracts					
Barbados	Gross	110,544	43,674	114,475	46,288
	Net	110,544	43,674	114,475	46,288
Jamaica	Gross	575	293,596	509	285,843
	Net	575	293,596	509	285,843
Trinidad & Tobago	Gross	115,254	-	113,108	-
	Net	115,254	-	113,108	-
Other Caribbean	Gross	26,827	27	24,171	-
	Net	26,827	27	24,171	-
USA	Gross	1,150,170	25,684	946,891	26,447
	Net	390,478	8,024	375,338	7,988
Total	Gross	1,403,370	362,981	1,199,154	358,578
	Net	643,678	345,321	627,601	340,119

43.2 Contracts with investment returns (continued)**(c) Lapse risk**

Lapse risk is that, on average, policyholders will terminate their policies ahead of the insurer's expectation. Early lapse may result in the following:

- Acquisition costs are not recovered from the policyholder;
- In order to settle benefits, investments are liquidated prematurely resulting in a loss to the insurer;
- Maintenance expenses are allocated to the remaining policies, resulting in an increase in expense risk.

(d) Expense risk

The Group monitors policy acquisition and policy maintenance expenses. Expenses are managed through policy design, fees charged and expense control. However, there are a significant number of inforce contracts for which insurers have limited or no ability to re-price for increases in expenses caused by inflation or other factors. Therefore growth in maintenance expenses has to be funded either by increasing the volume of inforce policies or by productivity gains. Failure to achieve these goals will require increases in actuarial liabilities held.

(e) Investment risk

A substantial proportion of the Group's financial investments support insurer obligations under life and annuity contracts with investment returns. The financial risks outlined in note 41 pertaining to credit, liquidity, interest rate, foreign exchange and equity price are considered integral investment risks associated with these insurance contracts.

Asset defaults, mismatches in asset and liability cash flows, interest rate and equity price volatility generally have the effect of increasing investment risk and consequential increases in actuarial liabilities held.

43.3 Reinsurance risk

To limit its exposure of potential loss on an insurance policy, the insurer may cede certain levels of risk to a reinsurer. The Group selects reinsurers which have well established capability to meet their contractual obligations and for new business a Sagikor credit risk rating of 1 or 2 is usually selected. Reinsurance ceded does not discharge the insurer's liability and failure by a reinsurer to honour its commitments could result in losses to the Group.

Insurers have limited their exposure per person by excess of loss or quota share treaties. Retention limits represent the level of risk retained by the insurer. Coverage in excess of these limits is ceded to reinsurers up to the treaty limit. The principal features of retention programs used by insurers are summarised in the following table.

Type of insurance contract	Retention by insurers - currency amounts in thousands
Health insurance contracts with individuals	Retention per individual to a maximum of \$175
Health insurance contracts with groups	Retention per individual to a maximum of \$175
Life insurance contracts with individuals	Retention per individual life to a maximum of \$500
Life insurance contracts with groups	Retention per individual life to a maximum of \$500

43.4 Sensitivity arising from the valuation of actuarial liabilities

The estimation of actuarial liabilities is sensitive to a number of assumptions. Changes in those assumptions could have a significant effect on the valuation results which are discussed below.

The valuation of actuarial liabilities of life insurance and annuity contracts is sensitive to:

- the economic scenario used,
- the investments allocated to back the liabilities,
- the underlying assumptions used (note 13.3 (b) to (f)), and
- the margins for adverse deviations (note 13.3 (g)).

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

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

Sensitivity	Scenario		
	Sagikor Life Inc segment	Sagikor Jamaica Segment	Sagikor USA segment
Worsening rate of lapse	Lapse rates were either doubled or halved, and the more adverse result was selected.		For 2016, lapse rates were increased or reduced by 30%, and the more adverse result was selected. For 2015, lapse rates were doubled or halved.
High interest rate	Assumed increases in the investment portfolio yield rates of 0.25% per year for 5 years, with the rates remaining constant thereafter.	Assumed increases in the investment portfolio yield rates of 0.5% for 10 years.	A 1% increase was applied to the investment portfolio rate.
Low interest rate	Assumed decreases in investment portfolio yield rates of 0.25% per year for 5 years, with the rates remaining constant thereafter.	Assumed decreases in investment portfolio yield rates of 0.5% per year for 10 years.	A 1% decrease was applied to the investment portfolio rate.
Worsening mortality and morbidity	Mortality and morbidity rates for insurance and critical illness products were increased by 3% of the base rate per year for 5 years. For annuity products, the mortality rates were decreased by 3% of the base rate for 5 years.		For life insurance products only, the base assumed rates were increased annually by 3% cumulatively over the next 5 years. For annuity products, the mortality rates were decreased by 3% of the base rate for 5 years.
Higher expenses	Policy unit maintenance expense rates were increased by 5% per year for 5 years above those reflected in the base scenario.		

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

The following table represents the estimated sensitivity of each of the above scenarios to net actuarial liabilities for insurers by segment. Correlations that may exist between scenario assumptions were not explicitly taken into account.

Scenario	Sagikor Life segment		Sagikor Jamaica segment		Sagikor Life USA segment	
	2016	2015	2016	2015	2016	2015
Base net actuarial liability	936,049	939,819	327,183	326,652	580,784	562,236
Scenario	increase in liability		increase in liability		increase in liability	
Worsening rate of lapse	135,728	127,997	47,635	40,153	9,330	9,123
High interest rate	(84,334)	(76,882)	(98,734)	(101,205)	(34,545)	(33,619)
Low interest rate	156,127	151,291	124,400	136,247	39,771	38,922
Worsening mortality/morbidity	35,808	34,191	37,209	33,891	12,842	12,737
Higher expenses	20,715	19,174	14,939	15,972	4,418	3,846

43.5 Dynamic capital adequacy testing (DCAT)

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

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

The financial condition of an insurer at a particular date is its prospective ability at that date to meet its future obligations, especially obligations to policyholders, those to whom it owes benefits and to its shareholders. The financial condition analysis examines both an insurer's ability to execute its business plan and to absorb adverse experience beyond that provided for when its actuarial liabilities are established.

The purpose of the DCAT is

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

Full DCAT is conducted periodically by some insurers within the Group.

44 FIDUCIARY RISK

The Group provides investment management and pension administration services to investment and pension funds which involve the Group making allocation, purchase and sale decisions in relation to a wide range of investments. These services give rise to fiduciary risk that may expose the Group to claims for mal-administration or under-performance of these funds.

In the ordinary course of business, the Group manages assets of pension funds, mutual funds and unit trusts which are held in a fiduciary capacity and are not included in the Group's financial statements. The investments and cash under administration are summarised in the following table.

	2016	2015
Pension and insurance fund assets	1,726,467	1,576,696
Mutual fund, unit trust and other investment fund assets	890,235	796,775
	2,616,702	2,373,471

Fee income under administration is discussed in Note 26.

45 STATUTORY RESTRICTIONS ON ASSETS

Insurers are registered to conduct insurance business under legislation in place in each relevant jurisdiction. This legislation may prescribe a number of requirements with respect to deposits, investment of funds and solvency for the protection of policyholders. In general, these requirements do not restrict the ability of the insurer to trade investments. Banking subsidiaries may also be required to hold deposits with Central Banks which regulate the conduct of banking operations.

To satisfy the above requirements, invested assets and cash totalling \$1,436,232 (2015 - \$1,313,013) have been deposited with regulators or are held in trust to the order of regulators.

In some countries where the Group operates, there are exchange controls or other restrictions on the remittance of funds out of those countries.

46 CAPITAL MANAGEMENT

The Group's objectives when managing capital, which is a broader concept than equity in the statement of financial position, are:

- To comply with capital requirements established by insurance, banking and other financial intermediary regulatory authorities;
- To comply with internationally recognised capital requirements for insurance, where local regulations do not meet these international standards;
- To safeguard its ability as a going concern to continue to provide benefits and returns to policyholders, depositors, note-holders and shareholders;
- To provide adequate returns to shareholders;
- To maintain a strong capital base to support the future development of Group operations.

46.1 Capital resources

The principal capital resources of the Group are as follows:

	2016	2015
Shareholders' equity	536,149	506,046
Non-controlling interest	257,974	231,735
Notes and loans payable	395,213	475,517
Total financial statement capital resources	1,189,336	1,213,298

The Group deploys its capital resources through its operating activities. These operating activities are carried out by subsidiary companies which are either insurance entities or provide other financial services. The capital is deployed in such a manner as to ensure that subsidiaries have adequate and sufficient capital resources to carry out their activities and to meet regulatory requirements.

46.2 Capital adequacy

The capital adequacy of the principal operating subsidiaries is discussed in this section.

(a) Life insurers

Capital adequacy is managed at the operating company level. It is calculated by the Appointed Actuary and reviewed by executive management, the audit committee and the board of directors. In addition, certain subsidiaries of the Group seek to maintain internal capital adequacy at levels higher than the regulatory or internationally recognised requirements.

To assist in evaluating the current business and strategy opportunities, a risk-based capital approach is a core measure of financial performance. The risk-based assessment measure which has been adopted is the Canadian Minimum Continuing Capital and Surplus Requirement (MCCSR) standard. The minimum standard recommended by the Canadian regulators for companies is an MCCSR of 150%. A number of jurisdictions in the Caribbean region have no internationally recognised capital adequacy requirements, and in accordance with its objectives for managing capital, the Group has adopted the Canadian MCCSR standard. Jamaica and the USA have recognised capital adequacy standards.

The consolidated MCCSR for the Sagicor Group as of December 31 has been estimated as 291% (2015 – 301%). The 2015 MCCSR which was disclosed as 221% in 2015 has been reviewed and restated to 301% this year. This is the principal standard of capital adequacy used to assess the overall strength of the Sagicor Group. However, because of the variations in capital adequacy standards across jurisdictions, the consolidated result should be regarded as applicable to the Group as a whole and not necessarily applicable to each individual segment, insurance subsidiary or insurance subsidiary branch.

The Company is in compliance with all capital requirements.

46.2 Capital adequacy (continued)

(i) Sagicor Life Jamaica

Sagicor Life Jamaica is governed by the Jamaican MCCSR regime which requires an insurer to maintain a minimum ratio of 150%. For the years ended December 31, 2016 and 2015, this ratio was 156.5% and 201.5% respectively.

(ii) Sagicor Life Insurance Company (USA)

A risk-based capital (RBC) formula and model have been adopted by the National Association of Insurance Commissioners (NAIC) of the United States. RBC is designed to assess minimum capital requirements and raise the level of protection that statutory surplus provides for policyholder obligations. The RBC formula for life insurance companies measures four major areas of risk: (i) underwriting, which encompasses the risk of adverse loss developments and property and casualty insurance product mix; (ii) declines in asset values arising from credit risk; (iii) declines in asset values arising from investment risks, including concentrations; and (iv) off-balance sheet risk arising from adverse experience from non-controlled assets such as reinsurance guarantees for affiliates or other contingent liabilities and reserve and premium growth. If an insurer's statutory surplus is lower than required by the RBC calculation, it will be subject to varying degrees of regulatory action, depending on the level of capital inadequacy.

The RBC methodology provides for four levels of regulatory action. The extent of regulatory intervention and action increases as the ratio of surplus to RBC falls. The least severe regulatory action is the "Company Action Level" (as defined by the NAIC) which requires an insurer to submit a plan of corrective actions to the regulator if surplus falls below 200% of the RBC amount.

Sagicor Life Insurance Company looks to maintain at least 300% of the Company Action Level, and has maintained these ratios as of December 31, 2016 and 2015 respectively.

46.2 Capital adequacy (continued)

(b) Sagicor Investments Jamaica Limited and Sagicor Bank Jamaica Limited

Capital adequacy and the use of regulatory capital are monitored monthly by management employing techniques based on the guidelines developed by the Financial Services Commission (FSC), the Bank of Jamaica (BOJ), Basel II and the Risk Management and Compliance Unit. The required information is filed with the respective Regulatory Authorities at stipulated intervals. The BOJ and the FSC require each regulated entity to hold the minimum level of regulatory capital, and to maintain a minimum ratio of total regulatory capital to the risk-weighted assets.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off financial statements exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the capital adequacy ratios. During 2016 and 2015, all applicable externally imposed capital requirements were complied with.

	Sagicor Investments Jamaica		Sagicor Bank Jamaica	
	2016	2015	2016	2015
Actual capital base to risk weighted assets	13%	14%	14%	14%
Required capital base to risk weighted assets	10%	10%	10%	10%

46.3 Financial covenants

(a) 8.875% Senior Notes

Under the indenture entered into by the Group on the issue of these senior notes the Group has to comply with a number of covenants as follows:

COVENANT	DESCRIPTION
Limitation of indebtedness	Under this covenant, the Group is restricted to incremental borrowing up to a prescribed level. The Group must maintain a fixed charge coverage ratio, in excess of 2:1 in order to incur additional debt.
Limitation on restricted payments covenant	This covenant limits cash outflows, dividends, acquisition and investments by the Group. The Group must maintain a fixed charge coverage ratio of 2:1 and an MCCR capital ratio in excess of 175%.
Limitation on restricted distributions from subsidiaries	This covenant limits the subsidiaries from creating encumbrances or restrictions on their ability to make distributions to the Parent.
Limitation on sale of assets of subsidiary stock	This covenant restricts the Group from selling material subsidiary assets without using the proceeds to either reinvest in the business or offer to buy back bondholders.
Limitation on affiliate transactions	This covenant restricts affiliate transactions of the Group.
Change in control	This covenant allows investors to put their bonds back to the Group at a certain value when a specified event has changed ownership/control of the Group.
Limitation on liens	This covenant restricts the Group's ability to secure future debt with the Group's assets.
Optional Redemption	The notes are redeemable at the Group's option after August 11, 2018 at specified redemption rates.

46.3 Financial covenants (continued)

(b) 4.85% notes due 2019

Under an indenture and a trust deed entered into by the Group on the issue of the senior notes and notes respectively (see note 16), the Group has to comply with permitted lien covenants, which will not allow the Company nor any of its subsidiaries to directly or indirectly, incur or permit to exist any lien to secure any indebtedness or any guarantee of indebtedness, other than permitted liens, without effectively providing that the senior notes and notes are secured equitably and rateably with (or, if the obligation to be secured by lien, this is subordinated in right of payment to the senior notes and notes, prior to) the obligations so secured for so long as such obligations are so secured.

Permitted liens are liens existing on the dates of issue of the senior notes and notes respectively, certain liens which would arise in the course of normal business, and other liens whose outstanding principal amounts in aggregate outstanding principal amount do not exceed 10% of the consolidated net tangible assets (as is defined in the indenture and trust deed). As of December 31, 2016, and 2015, the Group satisfied these requirements.

(c) International Finance Corporation (IFC)

On March 31, 2011, the Company entered into subscription and policy agreements with IFC, regarding the latter's participation in the issue of new common and convertible redeemable preference shares. Pursuant to the aforementioned agreements, on July 18, 2011, 12,269,938 common shares and 78,339,530 convertible redeemable preference shares were issued to IFC. The convertible redeemable preference shares were redeemed on July 18, 2016.

The Company is in compliance with all covenants.

47 RELATED PARTY TRANSACTIONS

Other than as disclosed in notes 5, 9, 12, 26, 30, 31 and 44, there are no material related party transactions except as disclosed below.

Key management transactions and balances

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

Compensation	2016	2015
Salaries, directors' fees and other short-term benefits	20,548	20,176
Equity-settled compensation benefits	4,047	3,377
Pension and other retirement benefits	1,235	1,717
	25,830	25,270

	Mortgage loans	Other loans	Total loans
Balance, beginning of year	5,492	836	6,328
Advances	282	592	874
Repayments	(837)	(400)	(1,237)
Effects of exchange rate changes	-	(36)	(36)
Balance, end of year	4,937	992	5,929
Interest rates prevailing during the year	3.75% - 7.00%	5.95% - 8.00%	

48 EVENTS AFTER DECEMBER 31, 2016

On March 3rd, 2017 Standards & Poor's downgraded the Government of Barbados' long-term foreign and local currency sovereign rating by one notch from 'B-' to 'CCC+' and assigned a negative outlook. On March 9th, 2017 Moody's Investors Service also downgraded the Government of Barbados' credit rating one notch from 'Caa1' to 'Caa3' and maintained a stable outlook.

Subsequent to the year end, the Board of Directors of Sagikor Bank Jamaica Limited (SBJ) approved the issuance of:

- (i) Up to 1,500,000,000 Class A Cumulative Redeemable Preference Shares without par value with a tenor of eighteen (18) months @ 7.75% interest per annum to be issued at a share price of J\$1.00 per share; and
- (ii) Up to 1,500,000,000 Class B Cumulative Redeemable Preference Shares without par value with a tenor of three (3) years @ 8.25% interest per annum to be issued at a share price of J\$1.00 per share by way of private placement in an Exempt Distribution made under the Guidelines for Exempt Distribution. The Preference Shares will be offered to accredited investors and to investors whose investment is J\$10,000,000 or more and thereafter an application shall be made to the Jamaica Stock Exchange to list the Preference Shares on the exchange using the listing method of introduction.

APPENDIX F – SAGICOR INTERIM FINANCIAL STATEMENTS

SAGICOR FINANCIAL CORPORATION LIMITED

Interim Financial Statements

Nine-months ended September 30, 2018

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September 30, 2018

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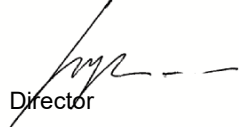
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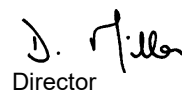
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SAGICOR FINANCIAL CORPORATION LIMITED
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<u>Amounts in US \$000</u>	<u>As of September 30, 2018 (unaudited)</u>	<u>As of December 31, 2017 Restated (Note 17)</u>	<u>As of January 1, 2017 Restated (Note 17)</u>
ASSETS			
Investment property	78,901	80,816	80,662
Property, plant and equipment	151,782	165,560	167,723
Associates and joint ventures	95,535	97,223	87,293
Intangible assets	81,521	81,714	83,487
Financial investments (note 9)	5,077,123	4,953,241	4,813,748
Reinsurance assets	748,965	797,391	777,344
Income tax assets	46,856	39,980	59,575
Miscellaneous assets and receivables	162,240	228,543	183,018
Cash resources	365,170	360,064	279,070
Assets of the discontinued operation (note 8)	13,301	10,110	-
Total assets	6,821,394	6,814,642	6,531,920
LIABILITIES			
Actuarial liabilities	2,974,560	2,944,700	2,771,824
Other insurance liabilities	239,141	224,159	207,122
Investment contract liabilities (note 10)	377,192	379,018	377,576
Total policy liabilities	3,590,893	3,547,877	3,356,522
Notes and loans payable (note 11)	404,353	413,805	395,213
Deposits and security liabilities (note 12)	1,632,178	1,559,232	1,623,325
Provisions	70,386	80,027	101,292
Income tax liabilities	34,165	29,502	51,078
Accounts payable and accrued liabilities	193,566	246,976	204,975
Total liabilities	5,925,541	5,877,419	5,732,405
EQUITY			
Share capital	3,059	3,059	3,029
Share premium	300,471	300,470	297,050
Reserves	(87,911)	(47,388)	(64,798)
Retained earnings	382,488	368,451	301,799
Shareholders' equity	598,107	624,592	537,080
Participating accounts	(10,528)	865	1,291
Non-controlling interests in subsidiaries	308,274	311,766	261,144
Total equity	895,853	937,223	799,515
Total liabilities and equity	6,821,394	6,814,642	6,531,920

These financial statements have been approved for issue by the Board of Directors on November 29, 2018.


 Director


 Director

The accompanying notes form an integral part of these financial statements

SAGICOR FINANCIAL CORPORATION LIMITED
CONDENSED CONSOLIDATED STATEMENT OF INCOME

	Nine months to September 30, 2018	Nine months to September 30, 2017 Restated (Note 17)	Three months to September 30, 2018	Three months to September 30, 2017 Restated (Note 17)
<u>Amounts in US \$000</u>	(unaudited)	(unaudited)	(unaudited)	(unaudited)
REVENUE				
Premium revenue (note 5)	789,117	673,238	327,790	255,660
Reinsurance premium expense (note 5)	(69,117)	(114,434)	(17,820)	(37,001)
Net premium revenue	720,000	558,804	309,970	218,659
Net gain/(losses) on derecognition of financial assets measured at amortised cost	2,747	-	651	-
Interest income earned from financial assets measured at amortised cost and FVOCI (note 6)	215,359	-	71,225	-
Interest income earned from financial assets measured at fair value through profit and loss	10,829	-	2,722	-
Net investment income	30,492	281,535	17,733	105,439
Fees and other revenue	89,290	70,590	27,857	24,191
Loss arising on disposal	(13)	-	(13)	-
Total revenue	1,068,704	910,929	430,145	348,289
BENEFITS				
Policy benefits and change in actuarial liabilities (note 7)	519,647	509,509	193,840	218,238
Policy benefits and change in actuarial liabilities reinsured (note 7)	(19,807)	(76,191)	33,644	(35,804)
Net policy benefits and change in actuarial liabilities	499,840	433,318	227,484	182,434
Interest expense	37,541	41,831	11,481	13,290
Total benefits	537,381	475,149	238,965	195,724
EXPENSES				
Administrative expenses	212,579	203,992	73,600	64,833
Commissions and related compensation	79,370	72,925	27,792	23,642
Premium and asset taxes	11,681	10,483	1,865	2,331
Finance costs	26,412	25,848	8,928	8,767
Credit impairment losses (note 2, 15.2 and 15.3)	96,010	-	38,183	-
Depreciation and amortisation	16,906	15,900	5,672	5,275
Total expenses	442,958	329,148	156,040	104,848
INCOME BEFORE TAXES	88,365	106,632	35,140	47,717
Income taxes	(32,591)	(29,027)	(15,396)	(10,235)
NET INCOME FROM CONTINUING OPERATIONS	55,774	77,605	19,744	37,482

The accompanying note form an integral part of these financial statements

SAGICOR FINANCIAL CORPORATION LIMITED
CONDENSED CONSOLIDATED STATEMENT OF INCOME

	Nine months to September 30, 2018	Nine months to September 30, 2017	Three months to September 30, 2018	Three months to September 30, 2017
		Restated (Note 17)		Restated (Note 17)
<u>Amounts in US \$000</u>	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net income / (loss) from continuing operations	55,774	77,605	19,744	37,482
Net income from discontinued operation (note 8)	3,191	8,225	(166)	2,017
NET INCOME FOR THE PERIOD	58,965	85,830	19,578	39,499
Net income is attributable to:				
Common shareholders:				
From continuing operations	28,541	46,536	6,998	28,554
From discontinued operation (note 8)	3,191	8,225	(166)	2,017
	31,732	54,761	6,832	30,571
Participating policyholders	(7,722)	(1,595)	588	(1,121)
Non-controlling interests	34,955	32,664	12,158	10,049
	58,965	85,830	19,578	39,499
Basic earnings per common share:				
From continuing operations	9.3 cents	15.3 cents	2.3 cents	9.4 cents
From discontinued operation	1.0 cents	2.7 cents	(0.1) cents	0.7 cents
	10.3 cents	18.0 cents	2.2 cents	10.1 cents
Fully diluted earnings per common share:				
From continuing operations	9.1 cents	15.0 cents	2.2 cents	9.2 cents
From discontinued operation	1.0 cents	2.7 cents	(0.1) cents	0.7 cents
	10.1 cents	17.7 cents	2.1 cents	9.9 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>	Nine months to September 30, 2018 (unaudited)	Nine months to September 30, 2017 Restated (Note 17) (unaudited)	Three months to September 30, 2018 (unaudited)	Three months to September 30, 2017 Restated (Note 17) (unaudited)
NET INCOME FOR THE PERIOD	58,965	85,830	19,578	39,499
OTHER COMPREHENSIVE INCOME:				
Items net of tax that may be reclassified subsequently to income:				
Available for sale financial assets:				
Gains on revaluation	-	36,670	-	14,983
Losses transferred to income	-	6,052	-	(1,159)
Debt instruments measured at fair value through other comprehensive income:				
Losses on revaluation	(57,623)	-	7,490	-
Losses / (gains) transferred to income	(964)	-	785	-
Net change in actuarial liabilities	27,297	(17,195)	(2,577)	(4,280)
Retranslation of foreign currency operations	(34,946)	(5,217)	(17,164)	(3,360)
	(66,236)	20,310	(11,466)	6,184
Items net of tax that will not be reclassified subsequently to income:				
Gains/(losses) arising on revaluation of owner occupied property	816	-	(16)	-
Net losses on equity securities designated at fair value through other comprehensive income	(173)	-	(200)	-
Gains on defined benefit plans	-	2,227	2,500	94
	643	2,227	2,284	94
Other comprehensive (loss) / income	(65,593)	22,537	(9,182)	6,278
TOTAL COMPREHENSIVE (LOSS) / INCOME (TCI)	(6,628)	108,367	10,396	45,777
TCI attributable to common shareholders:				
From continuing operations	(10,035)	61,913	2,941	30,283
From discontinued operation	3,191	8,225	(166)	2,017
	(6,844)	70,138	2,775	32,300
TCI attributable to participating policyholders	(8,307)	(492)	754	(328)
TCI attributable to non-controlling interests	8,523	38,721	6,867	13,805
	(6,628)	108,367	10,396	45,777

The accompany 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)
Nine months to September 30, 2018					
Balance as of December 31, 2017	3,059	300,470	(47,482)	367,327	623,374
Adjustment - actuarial liabilities (note 17)	-	-	94	1,124	1,218
Balance as of December 31, 2017 restated	3,059	300,470	(47,388)	368,451	624,592
Transition adjustment - IFRS 9 (note 17)	-	-	(217)	(10,442)	(10,659)
Balance as of January 1, 2018	3,059	300,470	(47,605)	358,009	613,933
Total comprehensive income:					
From continuing operations	-	-	(38,576)	28,541	(10,035)
From discontinued operation	-	-	-	3,191	3,191
Transactions with holders of equity instruments:					
Movements in treasury shares	-	1	-	-	1
Changes in reserve for equity compensation benefits	-	-	(750)	-	(750)
Disposal of interest in subsidiaries	-	-	(935)	935	-
Dividends declared	-	-	-	(7,648)	(7,648)
Transfers and other movements	-	-	(45)	(540)	(585)
Balance as of September 30, 2018	3,059	300,471	(87,911)	382,488	598,107

The accompanying notes form an integral part of these financial statements

SAGICOR FINANCIAL CORPORATION LIMITED
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<u>Amounts in US \$000</u>	Total Shareholders' Equity (unaudited)	Participating Accounts (unaudited)	Non-controlling Interests (unaudited)	Total Equity (unaudited)
Nine months to September 30, 2018				
Balance as of December 31, 2017	623,374	865	308,089	932,328
Adjustment - actuarial liabilities (note 17)	1,218	-	3,677	4,895
Balance as of December 31, 2017 restated	624,592	865	311,766	937,223
Transition adjustment - IFRS 9 (note 17)	(10,659)	(2,930)	(2,352)	(15,941)
Balance as of January 1, 2018	613,933	(2,065)	309,414	921,282
Total comprehensive income:				
From continuing operations	(10,035)	(8,307)	8,523	(9,819)
From discontinued operation	3,191	-	-	3,191
Transactions with holders of equity instruments:				
Movements in treasury shares	1	-	-	1
Changes in reserve for equity compensation benefits	(750)	-	-	(750)
Disposal of interest in subsidiaries	-	-	(2,221)	(2,221)
Dividends declared	(7,648)	-	(10,237)	(17,885)
Transfers and other movements	(585)	(156)	2,795	2,054
Balance as of September 30, 2018	598,107	(10,528)	308,274	895,853

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
Amounts in US \$000	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Nine months to September 30, 2017					
restated					
Balance as of December 31, 2016	3,029	297,050	(64,795)	300,865	536,149
Adjustment - actuarial liabilities (note 17)	-	-	(3)	934	931
Balance as of January 1, 2017 restated	3,029	297,050	(64,798)	301,799	537,080
Total comprehensive income:					
From continuing operations	-	-	13,173	48,740	61,913
From discontinued operation	-	-	-	8,225	8,225
Transactions with holders of equity instruments:					
Allotment of common shares	21	2,021	-	-	2,042
Movements in treasury shares	6	834	-	-	840
Changes in reserve for equity compensation benefits	-	-	(45)	-	(45)
Dividends declared	-	-	-	(7,575)	(7,575)
Transfers and other movements	-	-	1,226	(2,702)	(1,476)
Balance as of September 30, 2017	3,056	299,905	(50,444)	348,487	601,004

The accompanying notes form an integral part of these financial statements

SAGICOR FINANCIAL CORPORATION LIMITED
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<u>Amounts in US \$000</u>	Total Shareholders' Equity (unaudited)	Participating Accounts (unaudited)	Non-controlling Interests (unaudited)	Total Equity (unaudited)
Nine months to September 30, 2017 restated				
Balance as of December 31, 2016	536,149	1,291	257,974	795,414
Adjustment - actuarial liabilities (note 17)	931	-	3,170	4,101
Balance as of January 1, 2017 restated	537,080	1,291	261,144	799,515
Total comprehensive income:				
From continuing operations	61,913	(492)	38,721	100,142
From discontinued operation	8,225	-	-	8,225
Transactions with holders of equity instruments:				
Allotment of common shares	2,042	-	-	2,042
Movements in treasury shares	840	-	-	840
Changes in reserve for equity compensation benefits	(45)	-	-	(45)
Dividends declared	(7,575)	-	(10,840)	(18,415)
Transfers and other movements	(1,476)	(162)	(2,031)	(3,669)
Balance as of September 30, 2017	601,004	637	286,994	888,635

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>	Nine months to September 30, 2018 (unaudited)	Nine months to September 30, 2017 Restated
OPERATING ACTIVITIES		
Income before taxes	88,365	106,632
Adjustments for non-cash items, interest and dividends (note 16)	(90)	(118,813)
Interest and dividends received	229,450	225,546
Interest paid	(60,108)	(77,091)
Income taxes paid	(23,446)	(35,315)
Net change in investments and operating assets (note 16)	(304,492)	(92,573)
Net change in operating liabilities (note 16)	156,746	68,944
Net cash flows - operating activities	86,425	77,330
INVESTING ACTIVITIES		
Property, plant and equipment, net (note 16)	(7,748)	(9,907)
Associates and joint ventures	(146)	(6,894)
Intangible assets, net	(2,817)	(4,518)
Acquisition of subsidiaries, net of cash and cash equivalents	(2,697)	-
Sale of subsidiaries	(14,109)	-
Net cash flows - investing activities	(27,517)	(21,319)
FINANCING ACTIVITIES		
Redemption of preference share	(1)	-
Shares issued to / (purchased from) non-controlling interest	2,056	(3,564)
Notes and loans payable, net (note 16)	(6,386)	15,316
Dividends received from associates and joint ventures	440	2,439
Dividends paid to common shareholders	(7,491)	(7,444)
Dividends paid to non-controlling interest	(10,237)	(10,840)
Net cash flows - financing activities	(21,619)	(4,093)
Effect of exchange rate changes	(8,490)	(1,317)
NET CHANGE IN CASH AND CASH EQUIVALENTS OF CONTINUING OPERATIONS	28,799	50,601
Cash and cash equivalents, beginning of period	338,349	308,109
CASH AND CASH EQUIVALENTS, END OF PERIOD (note 16)	367,148	358,710

The accompanying notes form an integral part of these financial statements

SAGICOR FINANCIAL CORPORATION LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2018

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 2017 annual consolidated financial statements and the accompanying notes included in pages 114 to 233 of the Annual Report for 2017. 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 2017 annual consolidated financial statements. The principle accounting policies are described in note 2 of those annual consolidated financial statements.

2.1 Adoption of IFRS 9 - Financial Instruments

As of January 1, 2018, the Group adopted IFRS 9 - Financial Instruments (“IFRS 9”). As a result of the application of this new standard, the Group changed its accounting policies as outlined in sections (a) to (l) below. As permitted by the transition provisions in IFRS 9, the Group has elected not to restate comparative period results; accordingly, all comparative period information on financial instruments is presented in accordance with the accounting policies disclosed in notes 2.8, 2.12, 2.14 and 2.22 of the annual 2017 consolidated financial statements. Adjustments to the carrying amounts of financial assets and financial liabilities as of January 1, 2018 were recognised in equity. New or amended interim disclosures have been provided for the current period, where applicable, and comparative period disclosures are consistent with those made in 2017.

(a) Classification of financial assets

IFRS 9 introduces a principles-based approach to the classification of financial assets. Debt instruments, including hybrid contracts, are measured at fair value through profit or loss (“FVTPL”), fair value through other comprehensive income (“FVOCI”) or amortized cost based on the nature of the cash flows of these assets and the Group’s business model. These categories replace the existing IAS 39 classification of FVTPL, available for sale, loans and receivables and held-to-maturity. Equity instruments are measured at FVTPL, unless they are not held for trading purposes, in which case an irrevocable election can be made on initial recognition to measure them at FVOCI with no subsequent reclassification to profit or loss.

Financial assets are measured on initial recognition at fair value and are classified as and subsequently measured either at amortised cost, at FVOCI or at FVTPL. Financial assets and liabilities are recognised when the Group becomes a party to the contractual provision of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

SAGICOR FINANCIAL CORPORATION LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2018

2 ACCOUNTING POLICIES

2.1 Adoption of IFRS 9 - Financial Instruments (continued)

Financial assets measured at amortized cost

Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest, such as most loans and advances to banks and customers and some debt securities, are measured at amortised cost. In addition, most financial liabilities are measured at amortised cost. The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs.

Financial assets measured at fair value through other comprehensive income

Financial assets held for a business model that is achieved by both collecting contractual cash flows and selling and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI. These comprise primarily debt securities.

Financial assets measured at fair value through profit and loss

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below and are so designated irrevocably at inception:

- the use of the designation removes or significantly reduces an accounting mismatch;
- when a group of financial assets and liabilities or a group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Held for trading securities are acquired principally for the purpose of selling in the short-term or if they form part of a portfolio of financial assets in which there is evidence of short-term profit taking. Derivatives are also classified as held for trading unless designated as hedges. Assets held for trading are measured at fair value through profit and loss.

Business model assessment

Business models are determined at the level which best reflects how the Group manages portfolios of assets to achieve business objectives. Judgement is used in determining business models, which is supported by relevant, objective evidence including:

- The nature of liabilities, if any, funding a portfolio of assets;
- The nature of the market of the assets in the country of origination of a portfolio of assets;
- How the Group intends to generate profits from holding a portfolio of assets;
- The historical and future expectations of asset sales within a portfolio.

Solely repayments of principle and interest ("SPPI")

Where the business model is hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principle and interest. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial assets is classified and measured at FVTPL.

SAGICOR FINANCIAL CORPORATION LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2018

2. ACCOUNTING POLICIES

2.1 Adoption of IFRS 9 - Financial Instruments (continued)

(b) Unit linked funds fair value model

The Group's liabilities include unit linked funds which are components of insurance contracts issued or unit linked investment contracts issued with terms that the full investment return earned on the backing assets accrue to the contract-holders. As these liabilities are accounted for at FVTPL, the financial assets backing these liabilities are consequently classified as and measured at FVTPL.

(c) Embedded derivatives

The Group may hold debt securities and preferred equity securities which may contain embedded derivatives. The embedded derivative of a financial asset is classified in the same manner as the host contract.

(d) Impairment of financial assets measured at amortized cost and FVTOCI

IFRS 9 introduces an impairment model that requires the recognition of expected credit losses ("ECL") on financial assets measured at amortised cost and FVOCI and off balance sheet loan commitments and financial guarantees which were previously provided for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) is required for ECL resulting from default events that are possible within the next 12 months (or less, where the remaining life is less than 12 months) ('12-month ECL').

In the event of a significant increase in credit risk (SICR) an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit-impaired are in 'stage 3'. Purchased or originated credit-impaired financial assets ("POCI") are treated differently as set out below.

To determine whether the life-time credit risk has increased significantly since initial recognition, the Group considers reasonable and supportable information that is available including information from the past and forward-looking information. Factors such as whether payments of principal and interest are in default, an adverse change in credit rating of the borrower and adverse changes in the borrower's industry and economic environment are considered in determining whether there has been a significant increase in the credit risk of the borrower.

SAGICOR FINANCIAL CORPORATION LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2018

2. ACCOUNTING POLICIES

2.1 Adoption of IFRS 9 - Financial Instruments (continued)

(e) Purchased or originated credit-impaired assets

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

(f) Definition of default

The Group determines that a financial instrument is credit-impaired and in stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are past due for 90 days or more;
- there are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
- the financial asset is otherwise considered to be in default.

If such unlikelihood to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due.

(g) Write-off

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

(h) The general approach to recognising and measuring ECL

The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money;
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

SAGICOR FINANCIAL CORPORATION LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2018

2. ACCOUNTING POLICIES

2.1 Adoption of IFRS 9 - Financial Instruments (continued)

Measurement

Expected credit losses are calculated by multiplying three main components, being the probability of default (“PD”), loss given default (“LGD”) and the exposure at default (“EAD”), discounted at the original effective interest rate. Management has calculated these inputs based on the historical experience of the portfolios adjusted for the current point in time. A simplified approach to calculating the ECL is applied to contract and other receivables which do not contain a significant financing component. Generally, these receivables are due within 12 months unless there are extenuating circumstances. Under this approach, an estimate is made of the life-time ECL on initial recognition (i.e. Stage 3). For ECL provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

The PD, LGD and EAD models which support these determinations are reviewed regularly in light of differences between loss estimates and actual loss experience, but given that IFRS 9 requirements have only just been applied, there has been little time available to make these comparisons. Therefore, the underlying models and their calibration, including how they react to forward-looking economic conditions remain subject to review and refinement. This is particularly relevant for lifetime PDs, which have not been previously used in regulatory modelling and for the incorporation of ‘downside scenarios’ which have not generally been subject to experience gained through stress testing. The exercise of judgement in making estimations requires the use of assumptions which are highly subjective and sensitive to the risk factors, in particular to changes in economic and credit conditions across a large number of geographical areas. Many of the factors have a high degree of interdependency and there is no single factor to which loan impairment allowances as a whole are sensitive. Therefore, sensitivities are considered in relation to key portfolios which are particularly sensitive to a few factors and the results should not be further extrapolated.

The main difference between Stage 1 and Stage 2 expected credit losses is the respective PD horizon. Stage 1 estimates will use a maximum of a 12-month PD while Stage 2 estimates will use a lifetime PD. Stage 3 estimates will continue to leverage existing processes for estimating losses on impaired loans, however, these processes will be updated to reflect the requirements of IFRS 9, including the requirement to consider multiple forward-looking scenarios. An expected credit loss estimate will be produced for each individual exposure, including amounts which are subject to a more simplified model for estimating expected credit losses.

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information will require significant judgment.

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions.

For a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

SAGICOR FINANCIAL CORPORATION LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2018

2. ACCOUNTING POLICIES

2.1 Adoption of IFRS 9 - Financial Instruments (continued)

Forward looking information (continued)

For defaulted financial assets, based on management's assessment of the borrower, a specific provision of expected life-time losses which incorporates collateral recoveries, is calculated and recorded as the ECL. The resulting ECL is the difference between the carrying amount and the present value of expected cash flows discounted at the original effective interest rate.

Forward looking information

The estimation and application of forward-looking information will require significant judgment. PD, LGD and EAD inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio.

Each macroeconomic scenario used in the expected credit loss calculation will have forecasts of the relevant macroeconomic variables – including, but not limited to, unemployment rates and gross domestic product, for a three year period, subsequently reverting to long-run averages. Our estimation of expected credit losses in Stage 1 and Stage 2 will be a discounted probability-weighted estimate that considers a minimum of three future macroeconomic scenarios. Our base case scenario will be based on macroeconomic forecasts where available. Upside and downside scenarios will be set relative to our base case scenario based on reasonably possible alternative macroeconomic conditions.

Scenario design, including the identification of additional downside scenarios will occur on at least an annual basis and more frequently if conditions warrant. Scenarios will be probability-weighted according to our best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights will be updated on a quarterly basis.

The weightings assigned to each economic scenario as at January 1 and September 30, 2018 were as follows:

	Base	Upside	Downside
Sagicor Life portfolios (excluding Government of Barbados)	80%	10%	10%
Sagicor Jamaica portfolios (excluding Government of Barbados)	80%	10%	10%
Sagicor Life USA	80%	10%	10%
Refer to note 15.4 for Government of Barbados exposures			

Financial assets measured at amortized cost and FVTOCI, recognize impairment gains and losses in the statement of profit and loss. Unrealised gains and losses arising from changes in fair value on FVTOCI assets are measured in other comprehensive income. When the asset is sold, the cumulative gain or loss is reclassified to investment income. Interest income, dividend income and gains and losses arising from changes in fair value are included in investment income.

(i) Interest income and interest earned on assets measured at fair value through profit and loss

Interest income is earned based on the effective interest rate based on the carrying amount before allowances. Interest earned on assets measured at fair value through profit and loss is recognised based on the effective interest rate. For assets that are credit-impaired when purchased or originated, the carrying amount after allowances for ECL is the basis for applying the effective interest rate.

SAGICOR FINANCIAL CORPORATION LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2018

2 ACCOUNTING POLICIES

2.1 Adoption of IFRS 9 - Financial Instruments (continued)

(j) Classification of financial liabilities (continued)

Financial liabilities are measured at initial recognition at fair value and are classified as and subsequently measured either at amortised cost, or at fair value through income (FVTPL). Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The financial liabilities described under the unit linked fair value model (see section (a) above) are classified and measured at FVTPL as the Group is obligated to provide investment returns to the unit holder in direct proportion to the investment returns on a specific portfolio of assets, which are also carried at FVTPL. Derivative financial liabilities are carried at FVTPL. All other financial liabilities are carried at amortised cost. It is noted that the financial liabilities measured at FVTPL do not have a cumulative own credit adjustment gain or loss.

(k) Re-classified balances

The Group reclassifies debt instruments when and only where its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period. Any re-classified balances of financial investment and impairment losses relating to the adoption of IFRS 9 are detailed in notes 9, 15 and 17.

Financial liability balances which were accounted for at amortised cost under IAS 39 continue to be so accounted for under IFRS 9 and financial liability balances which were accounted for at fair value through income under IAS 39 are now accounted at FVTPL on the adoption of IFRS 9. Consequently, no financial liability balances have been restated as of January 1, 2018.

(l) Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers and debt instruments. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flow to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the group derecognises the original financial asset and recognises a new asset at fair value and recalculates the new effective interest rate for the asset. The date of negotiation is consequently considered to be the date of initial recognition for impairment calculation purposes and the purpose of determining if there has been a significant increase in credit risk. At this point the Group will assess if the asset is POCI.

SAGICOR FINANCIAL CORPORATION LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2018

2. ACCOUNTING POLICIES

2.2 Adoption of IFRS 15 “Revenue from Contracts with Customers”

Effective January 1, 2018, the Sagicor Group adopted IFRS 15. This standard clarifies revenue recognition principles and provides a framework for recognising revenue and cash flows from service contracts from customers. IFRS 15 does not apply to the Group’s primary activities of insurance and banking which are governed by IFRS 4 – ‘Insurance Contracts’ and IFRS 9 – ‘Financial Instruments’.

In accordance with the transition provisions in IFRS 15, the standard has been implemented using the modified retrospective method with no restatement of comparative information. There was no significant impact on the Group resulting from the implementation of the standard and consequently no transition adjustment has been recorded in the statement of equity.

The standard introduces new disclosure requirements for interim financial statements which are set out in note 4.5.

2.3 Change in accounting policy for the measurement of actuarial liabilities

The improvement of mortality rates is an accepted trend that is occurring in developed and developing countries around the world. All segments within the Group had previously recognized this trend in their reserving assumptions with the exception of Jamaica. During this period, Jamaica incorporated mortality improvement into its reserve calculations. The foregoing is part of a wider initiative across the Group to harmonize reserving practices across the segments. The harmonization of the mortality improvement assumption emanates from a Group policy that was implemented on January 1, 2018.

This change in policy was a voluntary change and was reflected as a prior period adjustment with retrospective application.

The impact of this change in policy is summarized in note 17.

2.4 Exchange rates

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

	Closing rates as of September 30, 2018	Closing rates as of December 31, 2017	Average rates for the Nine months to September 30, 2018	Average rates for the Nine months to September 30, 2017
Barbados dollar	2.0000	2.0000	2.0000	2.0000
Eastern Caribbean dollar	2.7000	2.7000	2.7000	2.7000
Jamaica dollar	134.5434	124.5754	128.1390	128.3496
Trinidad & Tobago dollar	6.7522	6.7628	6.7442	6.7426
Pound sterling	0.76680	0.74020	0.73872	0.78466

SAGICOR FINANCIAL CORPORATION LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2018

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

3.1 Impairment of financial assets

In determining ECL, management is required to exercise judgement in defining what is considered a significant increase in credit risk and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions. Further information about the judgements involved is included in the earlier sections 'Measurement' and 'Forward-looking information'.

(a) Establishing staging for debt securities and deposits

The Group's internal credit rating model is a 10-point scale which allows for distinctions in risk characteristics and is referenced to the rating scale of international credit rating agencies. The scale is set out in the following table:

Category		Sagicor Risk Rating	Classification	S&P	Moody's	Fitch	AM Best
Non-default	Investment grade	1	Minimal risk	AAA, AA	Aaa, Aa	AAA, AA	aaa, aa
		2	Low risk	A	A	A	a
		3	Moderate risk	BBB	Baa	BBB	bbb
	Non-investment grade	4	Acceptable risk	BB	Ba	BB	bb
		5	Average risk	B	B	B	b
	Watch	6	Higher risk	CCC, CC	Caa, Ca	CCC, CC	ccc, cc
		7	Special mention	C	C	C	c
Default		8	Substandard			DDD	
		9	Doubtful	D	C	DD	d
		10	Loss			D	

The Group uses its internal credit rating model to determine which of the three stages an asset is to be categorized for the purposes of ECL.

Once the asset has experienced a significant increase in credit risk the investment will move from Stage 1 to Stage 2. Sagicor has assumed that the credit risk of a financial instruments has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial asset that is investment grade or Sagicor risk rating of 1-3 is considered low credit risk.

Stage 1 investments are rated (i) investment grade, or (ii) below investment grade and have not been downgraded more than 2 notches since origination. Stage 2 investments are assets which (i) have been downgraded from investment grade to below investment grade, or (ii) are rated below investment grade and have been downgraded more than 2 notches since origination. Stage 3 investments are assets in default.

SAGICOR FINANCIAL CORPORATION LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2018

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(b) Establishing staging for other assets measured at amortised cost, lease receivables, loan commitments and financial guarantee contracts

Exposures are considered to have resulted in a significant increase in credit risk and are moved to stage 2 when:

Qualitative test

- accounts that meet the portfolio's 'high risk' criteria and are subject to closer credit monitoring.

Backstop Criteria

- accounts that are 30 calendar days or more past due. The 30 days past due criteria is a backstop rather than a primary driver of moving exposures into stage 2.

(c) Forward looking information

When management determines the macro-economic factors that impact the portfolios of financial assets, they first determine all readily available information within the relevant market. Portfolios of financial assets are segregated based on product type, historical performance and homogenous country exposures. There is often limited timely macro-economic data for Barbados, Eastern Caribbean, Trinidad and Jamaica. Management assesses data sources from local government, International Monetary Fund and other reliable data sources. A regression analysis is performed to determine which factors are most closely correlated with the credit losses for each portfolio. Where projections are available, these are used to look into the future up to three years and subsequently the expected performance is then used for the remaining life of the product. These projections are re-assessed on a quarterly basis.

As described in note 15.4, as at September 30, 2018 the negotiations of the new bond were materially completed and on October 3, 2018 the Company signed an agreement with the Government of Barbados which outlined the terms of the debt exchange.

4. SEGMENTS

The Group conducts its business through three reportable operating segments.

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

There have been no changes in the reportable operating segments from 2017. Segmented financial information is set out in the sections 4.1 to 4.5.

SAGICOR FINANCIAL CORPORATION LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2018

4. SEGMENTS (continued)

4.1 Statement of income from continuing operations by reportable operating segment

<u>Amounts in US \$000</u>	Sagicor	Sagicor	Sagicor	Head office	Adjust-	Total
Nine months to September 30, 2018	Life	Jamaica	Life USA	and other	ments	
Net premium revenue	230,768	224,397	238,525	26,310	-	720,000
Net gain/(losses) on derecognition of financials assets measured at amortised cost	-	2,747	-	-	-	2,747
Interest income	59,368	119,793	41,170	5,857	-	226,188
Other investment income	3,633	19,747	7,046	729	(663)	30,492
Fees and other revenue	12,756	71,000	(8,482)	13,868	148	89,290
Gain/Loss arising on disposal	458	-	-	(471)	-	(13)
Inter-segment revenues	11,349	-	-	39,045	(50,394)	-
Total revenue	318,332	437,684	278,259	85,338	(50,909)	1,068,704
Net policy benefits	157,940	148,105	78,805	12,897	-	397,747
Net change in actuarial liabilities	(52,103)	18,350	135,846	-	-	102,093
Interest expense	6,855	25,322	3,448	1,916	-	37,541
Administrative expenses	51,116	98,377	24,632	35,288	3,166	212,579
Commissions and premium and asset taxes	31,137	34,832	17,998	7,084	-	91,051
Finance costs	-	943	139	26	25,304	26,412
Credit impairment losses	82,701	10,706	(33)	2,636	-	96,010
Depreciation and amortisation	4,814	7,415	2,136	2,541	-	16,906
Inter-segment expenses	1,893 ⁽¹⁾	1,415	478 ⁽¹⁾	10,908	(14,694)	-
Total benefits and expenses	284,353	345,465	263,449	73,296	13,776	980,339
Segment income before taxes	33,979	92,219	14,810	12,042	(64,685)	88,365
Income taxes	(7,584)	(21,297)	(3,111)	(797)	198	(32,591)
Net income - continuing operations	26,395	70,922	11,699	11,245	(64,487)	55,774
Net income / (loss) attributable to shareholders from continuing operations	34,117	34,833	11,699	(12,925)	(39,183)	28,541
Total comprehensive income / (loss) attributable to shareholders from continuing operations	29,990	8,564	2,745	(13,640)	(37,694)	(10,035)

(1) During 2015, Sagicor Life USA entered into a reinsurance agreement with Sagicor Life; included in the inter-segment expenses is \$1,148 relating to this transaction.

SAGICOR FINANCIAL CORPORATION LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2018

4. SEGMENTS (continued)

4.1 Statement of income from continuing operations by reportable operating segment

<u>Amounts in US \$000</u>	Sagicor	Sagicor	Sagicor	Head office	Adjust-	Total
Three months to September 30, 2018	Life	Jamaica	Life USA	and other	ments	
Net premium revenue	77,080	77,432	146,448	9,010	-	309,970
Net gain/(losses) on derecognition of financials assets measured at amortised cost	-	651	-	-	-	651
Interest income	19,560	38,382	14,257	1,748	-	73,947
Other investment income	631	10,527	5,797	612	166	17,733
Fees and other revenue	1,723	25,311	(3,457)	3,979	301	27,857
Gain/Loss arising on disposal	458	-	-	(471)	-	(13)
Inter-segment revenues	3,875	-	-	866	(4,741)	-
Total revenue	103,327	152,303	163,045	15,744	(4,274)	430,145
Net policy benefits	57,245	46,977	29,787	4,704	-	138,713
Net change in actuarial liabilities	(23,105)	15,838	96,038	-	-	88,771
Interest expense	1,511	7,943	1,519	508	-	11,481
Administrative expenses	17,271	31,674	9,639	12,749	2,267	73,600
Commissions and premium and asset taxes	10,099	8,866	8,636	2,056	-	29,657
Finance costs	-	284	42	99	8,503	8,928
Credit impairment losses	34,652	2,788	253	490	-	38,183
Depreciation and amortisation	1,720	2,465	750	737	-	5,672
Inter-segment expenses	(178) ⁽¹⁾	508	1,048 ⁽¹⁾	3,611	(4,989)	-
Total benefits and expenses	99,215	117,343	147,712	24,954	5,781	395,005
Segment income before taxes	4,112	34,960	15,333	(9,210)	(10,055)	35,140
Income taxes	(2,446)	(9,280)	(3,221)	(380)	(69)	(15,396)
Net income - continuing operations	1,666	25,680	12,112	(9,590)	(10,124)	19,744
Net income / (loss) attributable to shareholders from continuing operations	1,078	12,616	12,112	(17,187)	(1,621)	6,998
Total comprehensive income / (loss) attributable to shareholders from continuing operations	(567)	7,053	12,297	(17,116)	1,274	2,941

⁽¹⁾ During 2015, Sagicor Life USA entered into a reinsurance agreement with Sagicor Life; included in the inter-segment expenses is \$429 in income relating to this transaction.

SAGICOR FINANCIAL CORPORATION LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2018

4. SEGMENTS (continued)

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

<u>Amounts in US \$000</u>						
Nine months to September 30, 2017 restated	Sagicor Life	Sagicor Jamaica	Sagicor Life USA	Head office and other	Adjustments	Total
Net premium revenue	223,310	247,883	64,440	23,171	-	558,804
Interest income	58,790	118,970	36,647	6,655	-	221,062
Other investment income	6,202	36,952	17,033	394	(108)	60,473
Fees and other revenue	8,314	48,613	(1,420)	15,164	(81)	70,590
Inter-segment revenues	9,622	-	-	48,190	(57,812)	-
Total revenue	306,238	452,418	116,700	93,574	(58,001)	910,929
Net policy benefits	148,992	127,849	66,417	20,849	-	364,107
Net change in actuarial liabilities	(312)	67,530	1,993	-	-	69,211
Interest expense	9,293	28,593	1,575	2,370	-	41,831
Administrative expenses	50,739	100,082	22,185	30,210	776	203,992
Commissions and premium and asset taxes	32,562	32,400	11,992	6,454	-	83,408
Finance costs	-	759	28	(188)	25,249	25,848
Depreciation and amortisation	4,881	6,802	1,213	3,004	-	15,900
Inter-segment expenses	3,752 ⁽¹⁾	785	(1,826) ⁽¹⁾	9,426	(12,137)	-
Total benefits and expenses	249,907	364,800	103,577	72,125	13,888	804,297
Segment income before taxes	56,331	87,618	13,123	21,449	(71,889)	106,632
Income taxes	(7,318)	(16,569)	(4,592)	(548)	-	(29,027)
Net income - continuing operations	49,013	71,049	8,531	20,901	(71,889)	77,605
Net income / (loss) attributable to shareholders from continuing operations	50,608	34,898	8,531	(861)	(46,640)	46,536
Total comprehensive income / (loss) attributable to shareholders from continuing operations	53,415	40,456	14,420	(575)	(45,803)	61,913

(1) During 2015, Sagicor Life USA entered into a reinsurance agreement with Sagicor Life; included in the inter-segment expenses is \$3,044 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 September 30, 2017 restated	Sagicor Life	Sagicor Jamaica	Sagicor Life USA	Head office and other	Adjustments	Total
Net premium revenue	75,895	112,267	23,217	7,280	-	218,659
Interest income	19,992	40,285	12,580	2,267	-	75,124
Other investment income	299	23,916	6,129	6	(35)	30,315
Fees and other revenue	1,852	17,699	(760)	5,416	(16)	24,191
Inter-segment revenues	3,252	-	-	722	(3,974)	-
Total revenue	101,290	194,167	41,166	15,691	(4,025)	348,289
Net policy benefits	49,379	45,746	20,609	12,060	-	127,794
Net change in actuarial liabilities	(13,308)	64,106	3,842	-	-	54,640
Interest expense	2,748	9,136	652	754	-	13,290
Administrative expenses	17,413	30,272	7,460	9,421	267	64,833
Commissions and premium and asset taxes	10,730	9,088	4,180	1,975	-	25,973
Finance costs	-	327	8	(63)	8,495	8,767
Depreciation and amortisation	1,587	2,332	397	959	-	5,275
Inter-segment expenses	1,158 ⁽¹⁾	269	(473) ⁽¹⁾	3,169	(4,123)	-
Total benefits and expenses	69,707	161,276	36,675	28,275	4,639	300,572
Segment income before taxes	31,583	32,891	4,491	(12,584)	(8,664)	47,717
Income taxes	(2,429)	(5,898)	(1,570)	(338)	-	(10,235)
Net income - continuing operations	29,154	26,993	2,921	(12,922)	(8,664)	37,482
Net income / (loss) attributable to shareholders from continuing operations	30,275	13,261	2,921	(17,734)	(169)	28,544
Total comprehensive income / (loss) attributable to shareholders from continuing operations	27,266	16,671	3,616	(17,413)	143	30,283

(1) During 2015, Sagicor Life USA entered into a reinsurance agreement with Sagicor Life; included in the inter-segment expenses is \$913 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
September 30, 2018						
Financial investments	1,340,757	2,291,013	1,363,392	81,961	-	5,077,123
Other external assets	337,967	478,006	805,475	172,701	(63,179)	1,730,970
Assets of discontinued operation	-	-	-	13,301	-	13,301
Inter-segment assets	255,517	13,732	15,145	68,281	(352,675)	-
Total assets	1,934,241	2,782,751	2,184,012	336,244	(415,854)	6,821,394
Policy liabilities	1,300,028	734,228	1,547,277	72,539	(63,179)	3,590,893
Other external liabilities	75,364	1,478,986	324,889	455,409	-	2,334,648
Inter-segment liabilities	31,679	5,928	70,086	244,982	(352,675)	-
Total liabilities	1,407,071	2,219,142	1,942,252	773,930	(415,854)	5,925,541
Net assets	527,170	563,609	241,760	(436,686)	-	895,853

<u>Amounts in US \$000</u>	Sagicor Life	Sagicor Jamaica	Sagicor Life USA	Head office and other	Adjust- ments	Total
December 31, 2017 restated						
Financial investments	1,386,182	2,291,191	1,123,623	152,245	-	4,953,241
Other external assets	351,871	531,671	856,271	182,468	(70,990)	1,851,291
Assets of discontinued operation	-	-	-	10,110	-	10,110
Inter-segment assets	214,767	13,347	2,505	62,101	(292,720)	-
Total assets	1,952,820	2,836,209	1,982,399	406,924	(363,710)	6,814,642
Policy liabilities	1,296,525	757,480	1,498,250	66,612	(70,990)	3,547,877
Other external liabilities	89,643	1,507,289	194,216	538,394	-	2,329,542
Inter-segment liabilities	27,285	4,098	51,587	209,750	(292,720)	-
Total liabilities	1,413,453	2,268,867	1,744,053	814,756	(363,710)	5,877,419
Net assets	539,367	567,342	238,346	(407,832)	-	937,223

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4. SEGMENTS (continued)

4.3 Revenues by products and services

<u>Amounts in US \$000</u>	Nine months to September 30, 2018	Nine months to September 30, 2017	Three months to September 30, 2018	Three months to September 30, 2017
Life, health and annuity insurance contracts issued to individuals	674,587	493,801	299,460	174,629
Life, health and annuity insurance and pension administration contracts issued to groups	210,171	243,752	70,608	113,187
Property and casualty insurance	34,693	30,492	11,198	9,751
Banking, investment management and other financial services	127,162	121,495	41,833	41,693
Farming and unallocated revenues	22,091	21,389	7,046	9,029
Total revenue	1,068,704	910,929	430,145	348,289

4.4 Revenues by geographical area

<u>Amounts in US \$000</u>	Nine months to September 30, 2018	Nine months to September 30, 2017	Three months to September 30, 2018	Three months to September 30, 2017
Barbados	135,048	125,096	43,335	39,725
Jamaica	415,532	427,975	142,944	185,780
Trinidad and Tobago	122,845	122,809	39,452	41,001
Other Caribbean	117,657	118,455	41,201	40,651
USA	277,622	116,594	163,213	41,132
Total revenue	1,068,704	910,929	430,145	348,289

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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NINE MONTHS ENDED SEPTEMBER 30, 2018

4. SEGMENTS (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
Nine months to September 30, 2018						
Revenue from contracts with customers:						
Products transferred at a point in time	-	26,493	175	(7)	-	26,661
Products and services transferred over time	5,748	24,474	-	-	-	30,222
Total included in fees and other revenue	5,748	50,967	175	(7)	-	56,883
Three months to September 30, 2018						
Revenue from contracts with customers:						
Products transferred at a point in time	-	7,487	59	(7)	-	7,539
Products and services transferred over time	1,993	8,380	-	14	-	10,387
Total included in fees and other revenue	1,993	15,867	59	7	-	17,926

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5. PREMIUM REVENUE

<u>Amounts in US \$000</u>	Gross premium		Ceded to reinsurers	
Nine months to September 30,	2018	2017	2018	2017
Life insurance	325,608	311,063	23,501	22,400
Annuity	285,034	196,470	15,824	60,096
Health insurance	125,702	115,217	3,350	3,411
Property and casualty insurance	52,773	50,488	26,442	28,527
Total premium revenue	789,117	673,238	69,117	114,434

<u>Amounts in US \$000</u>	Gross premium		Ceded to reinsurers	
Three months to September 30,	2018	2017	2018	2017
Life insurance	107,710	106,241	7,789	7,186
Annuity	159,820	93,800	63	18,930
Health insurance	42,108	38,741	821	1,058
Property and casualty insurance	18,152	16,878	9,147	9,827
Total premium revenue	327,790	255,660	17,820	37,001

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6. NET INVESTMENT INCOME

<u>Amounts in US \$000</u>	Nine months to September 30, 2018			Nine months to September 30, 2017
	Amortised cost assets	FVOCI assets	Total	
Investment income				
Interest income:				
Debt securities	61,163	84,202	145,365	
Mortgage loans	13,065	-	13,065	
Policy loans	7,457	-	7,457	
Finance loans and finance leases	46,531	-	46,531	
Securities purchased for re-sale	1,040	-	1,040	
Deposits	1,901	-	1,901	
	131,157	84,202	215,359	
Interest income from FVTPL investments			10,829	
Total interest income (IAS 39 basis)			-	221,062
Dividend income			1,549	2,789
Net gain/(losses) on derecognition of financial assets measured at amortised cost			2,747	-
Net investment gains			27,538	49,485
Share of operating income of associates and joint venture			1,499	8,501
Other investment income			3,041	3,183
			262,562	285,020
Investment expenses				
Allowances for impairment losses (IAS 39 basis)			-	1,082
Direct operating expenses of investment property			1,567	1,445
Other direct investment expenses			1,568	958
			3,135	3,485
Net investment income			259,427	281,535

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6. NET INVESTMENT INCOME

<u>Amounts in US \$000</u>	Three months to September 30, 2018			Three
	Amortised cost assets	FVOCI assets	Total	months to September 30, 2017
Investment income				
Interest income:				
Debt securities	20,726	28,425	49,151	
Mortgage loans	4,258	-	4,258	
Policy loans	2,505	-	2,505	
Finance loans and finance leases	14,434	-	14,434	
Securities purchased for re-sale	323	-	323	
Deposits	554	-	554	
	42,800	28,425	71,225	
Interest income from FVTPL investments			2,722	
Total interest income (IAS 39 basis)			-	75,124
Dividend income			274	1,424
Net gain/(losses) on derecognition of financial assets measured at amortised cost			651	-
Net investment gains			20,326	24,420
Share of operating (loss) / income of associates and joint venture			(2,135)	4,601
Other investment income			925	1,120
			93,988	106,689
Investment expenses				
Allowances for impairment losses (IAS 39 basis)			-	564
Direct operating expenses of investment property			625	490
Other direct investment expenses			1,032	196
			1,657	1,250
Net investment income			92,331	105,439

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7. POLICY BENEFITS AND CHANGE IN ACTUARIAL LIABILITIES

<u>Amounts in US \$000</u>	Gross benefit		Ceded to reinsurers	
Nine months to September 30,	2018	2017 restated	2018	2017 restated
Life insurance benefits	180,121	172,176	13,841	7,927
Annuity benefits	176,985	139,515	52,812	45,357
Health insurance benefits	96,811	89,463	2,656	4,066
Property and casualty claims	19,188	24,570	6,049	4,267
Total policy benefits	473,105	425,724	75,358	61,617
Change in actuarial liabilities	46,542	83,785	(55,551)	14,574
Total policy benefits and change in actuarial liabilities	519,647	509,509	19,807	76,191

<u>Amounts in US \$000</u>	Gross benefit		Ceded to reinsurers	
Three months to September 30,	2018	2017 restated	2018	2017 restated
Life insurance benefits	64,422	60,969	3,881	2,664
Annuity benefits	64,096	42,629	19,462	15,243
Health insurance benefits	31,495	31,690	2,724	1,707
Property and casualty claims	5,630	14,256	863	2,136
Total policy benefits	165,643	149,544	26,930	21,750
Change in actuarial liabilities	28,197	68,694	(60,574)	14,054
Total policy benefits and change in actuarial liabilities	193,840	218,238	(33,644)	35,804

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

The movement in price adjustments were as follows:

Amounts in US \$000

Liability of discontinued operation:

Estimated amount payable December 31, 2016	-
Payment made	-
Experience gain for the twelve months ended December 31, 2017 ⁽¹⁾	(10,110)
Net currency movements to December 31, 2016	-
Estimated amount receivable December 31, 2017	(10,110)
Experience gain for the nine months ended September 30, 2018	(3,586)
Net currency movements to September 30, 2018	395
Estimated amount receivable September 30, 2018	(13,301)

¹⁾ The experience gain of \$10,110 was not reported in any of the interim quarters in 2017. Each interim quarter recorded a nil movement, with the full amount being reflected in the annual financial statements. The cumulative result for the nine months to September 30, 2017 has been restated to record a gain of \$8,225, of which \$4,285 was allocated to the three months ended March 31, 2017, \$1,923 was allocated to the three months ended June 30, 2017 and \$2,017 was allocated to the three months ended September 30, 2017. As a consequence, the corresponding earnings per share were restated. These restatements reflect more accurately the timing of this experience gain.

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9. FINANCIAL INVESTMENTS

(a) Reclassification from IAS 39 to IFRS 9

The following table summarises the results of management's reclassification of financial investments from their IAS 39 categories to their IFRS 9 categories:

<u>Amounts in US \$000</u>	IAS 39 classification	Carrying value December 31, 2017	IFRS 9 classification	Carrying value January 1, 2018
Debt securities	Available for sale	2,266,275	FVOCI	2,235,782
Debt securities	Fair value through income	180,484	FVTPL	210,977
Debt securities	Loans and receivables	1,051,683	Amortised cost	1,040,291
Equity securities	Available for sale	86,862	FVOCI	470
Equity securities	Fair value through income	158,621	FVTPL	245,013
Derivative financial instruments	Fair value through income	32,477	FVTPL	32,477
Mortgage loans	Fair value through income	45,447	FVTPL	25,675
Mortgage loans	Loans and receivables	296,939	Amortised cost	315,849
Policy loans	Loans and receivables	142,132	Amortised cost	142,132
Finance loans and finance leases	Loans and receivables	564,399	Amortised cost	560,988
Securities purchased for resale	Loans and receivables	16,518	Amortised cost	16,518
Deposits	Loans and receivables	111,404	Amortised cost	110,892
		4,953,241		4,937,064

The Group holds a small portfolio of debt instruments which failed to meet the SPPI test requirement for the FVOCI classification under IFRS 9. These are hybrid securities with features of both debt and equity, with interest payments in shares and callable dates, but have no fixed maturity date. As a result, these instruments are classified as FVTPL under IFRS 9.

The Group assessed its business model for securities within the Group's portfolio and identified certain securities which are managed separately and actively traded for capital gains. These securities which were previously classified as available for sale are reclassified to FVTPL under IFRS 9.

Floating rate mortgages being held to received contractual cash flows, which were previously classified as fair value through income, are reclassified as amortised cost under IFRS 9.

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9. FINANCIAL INVESTMENTS (continued)

(b) Reconciliation of financial investment balances from IAS 39 to IFRS 9

The following tables reconcile the carrying amounts of financial investments, from their previous measurement category in accordance with IAS 39 as of December 31, 2017 to their new measurement categories upon transition to IFRS 9 as at January 1, 2018.

<u>Amounts in US \$000</u>	IAS 39 carrying amount December 31, 2017	Reclass- ifications	Remeasure- ments	IFRS 9 carrying amount January 1, 2018
FINANCIAL INVESTMENTS AT AMORTISED COST:				
Debt securities				
Opening balance under IAS 39	1,051,683			
Valuation re-measurement			23	
Re-measurement: ECL allowance			(11,415)	
Closing balance under IFRS 9				1,040,291
Mortgage Loans				
Opening balance under IAS 39	296,939			
Addition: From FVTPL (IFRS 9)		19,772		
Re-measurement: ECL allowance			(862)	
Closing balance under IFRS 9				315,849
Policy Loans				
Opening balance under IAS 39	142,132			
Closing balance under IFRS 9				142,132
Finance loans and leases				
Opening balance under IAS 39	564,399			
ECL allowance			(3,411)	
Closing balance under IFRS 9				560,988
Securities purchased for resale				
Opening balance under IAS 39	16,518			
Closing balance under IFRS 9				16,518
Deposits				
Opening balance under IAS 39	111,404			
ECL allowance			(512)	
Closing balance under IFRS 9				110,892
Total financial investments at amortised cost				2,186,670

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9. FINANCIAL INVESTMENTS (continued)

(c) Reconciliation of financial investment balances from IAS 39 to IFRS 9 (continued)

<u>Amounts in US \$000</u>	IAS 39 carrying amount December 31, 2017	Reclass- ifications	Remeasure- ments	IFRS 9 carrying amount January 1, 2018
MISCELLANEOUS ASSETS AND RECEIVABLES				
Cash resources				
Opening balance under IAS 39	360,064			
Closing balance under IFRS 9				360,064
Other accounts receivables				
Opening balance under IAS 39	133,167			
Re-measurement: ECL allowance			(48)	
Closing balance under IFRS 9				133,119
Total Miscellaneous assets and receivables				493,183
FINANCIAL INVESTMENTS AT FVOCI:				
Debt securities				
Opening balance: Available for sale under IAS 39	2,266,275			
Subtraction: To FVTPL (IFRS 9)		(30,493)		
Closing balance under IFRS 9				2,235,782
Equity securities				
Opening balance: Available for sale under IAS 39	86,862			
Subtraction: To FVTPL (IFRS 9)		(86,392)		
Closing balance under IFRS 9				470
Total financial investments measured at FVOCI				2,236,252

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9. FINANCIAL INVESTMENTS (continued)

(d) Reconciliation of financial investment balances from IAS 39 to IFRS 9 (continued)

<u>Amounts in US \$000</u>	IAS 39 carrying amount December 31, 2017	Reclass- ifications	Remeasure- ments	IFRS 9 carrying amount January 1, 2018
FINANCIAL INVESTMENTS AT FVTPL:				
Debt securities				
Opening balance under IAS 39	180,484			
Addition: From available for sale (IAS 39)		30,493		
Closing balance under IFRS 9				210,977
Equity securities				
Opening balance under IAS 39	158,621			
Addition: From available for sale (IAS 39)		86,392		
Closing balance under IFRS 9				245,013
Mortgage loans				
Opening balance under IAS 39	45,447			
Subtraction: To amortised cost (IFRS 9)		(19,772)		
Closing balance under IFRS 9				25,675
Derivative financial instruments				
Opening balance under IAS 39	32,477			
Closing balance under IFRS 9				32,477
Total financial investments measured at FVTPL				514,142

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9. FINANCIAL INVESTMENTS (continued)

(e) Analysis of financial investments

<u>Amounts in US \$000</u>	September 30, 2018		December 31, 2017	
	IFRS 9 basis		IAS 39 basis	
	Carrying value	Fair value	Carrying value	Fair value
Investments at FVOCI (available for sale):				
Debt securities	2,451,193	2,451,193	2,266,275	2,266,275
Equity securities	364	364	86,862	86,862
	2,451,557	2,451,557	2,353,137	2,353,137
Investments at FVTPL (fair value through income):				
Debt securities	177,197	177,197	180,484	180,484
Equity securities	252,778	252,778	158,621	158,621
Derivative financial instruments	27,015	27,015	32,477	32,477
Mortgage loans	30,637	30,637	45,447	45,447
	487,627	487,627	417,029	417,029
Investments at amortised cost (loans and receivables):				
Debt securities	1,050,173	1,184,383	1,051,683	1,155,331
Mortgage loans	292,392	291,604	296,939	296,867
Policy loans	145,035	150,884	142,132	149,995
Finance loans and finance leases	517,276	506,895	564,399	551,922
Securities purchased for re-sale	30,166	30,166	16,518	16,518
Deposits	102,897	102,897	111,404	111,404
	2,137,939	2,266,829	2,183,075	2,282,037
Total financial investments	5,077,123	5,206,013	4,953,241	5,052,203
Non-derivative financial assets at fair value through profit or loss:				
Designated at fair value upon recognition	452,725	452,725	375,917	375,917
Assets held for trading	7,887	7,887	8,635	8,635
	460,612	460,612	384,552	384,552

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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>	September 30, 2018		December 31, 2017	
	IFRS 9 basis		IAS 39 basis	
	Carrying value	Fair Value	Carrying value	Fair value
Liabilities at amortised cost:				
Deposit administration liabilities	112,431	112,431	121,483	121,483
Other investment contracts	120,023	120,023	117,782	119,915
	232,454	232,454	239,265	241,398
Liabilities at FVTPL (fair value through income):				
Unit linked deposit administration liabilities	144,738	144,738	139,753	139,753
Total investment contract liabilities	377,192	377,192	379,018	381,151

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>	September 30, 2018		December 31, 2017	
	IFRS 9 basis		IAS 39 basis	
	Carrying value	Fair value	Carrying value	Fair Value
Liabilities at amortised cost:				
8.875% senior notes due 2022	311,194	329,871	317,028	364,131
8.25% convertible redeemable preference shares due 2020	10,509	10,584	11,310	11,887
7.75% convertible redeemable preference share due 2018	-	-	5,181	5,433
4.85% notes due 2019	75,918	74,572	74,929	76,199
Finance lease payable	6,732	6,732	5,357	5,357
Total notes and loans payable	404,353	421,759	413,805	463,007

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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>	September 30, 2018		December 31, 2017	
	IFRS 9 basis		IAS 39 basis	
	Carrying value	Fair Value	Carrying value	Fair value
Liabilities at amortised cost:				
Other funding instruments	381,273	385,524	279,874	284,980
Customer deposits	704,996	707,247	750,948	749,834
Securities sold for re-purchase (Note 17 – SGJ)	480,110	480,110	476,034	473,771
Bank overdrafts	783	783	2,568	2,568
	1,567,162	1,573,664	1,509,424	1,511,153
Liabilities at FVTPL (fair value through income):				
Structured products	63,779	63,779	47,576	47,576
Derivative financial instruments	1,237	1,237	2,232	2,232
	65,016	65,016	49,808	49,808
Total deposit and security liabilities	1,632,178	1,638,680	1,559,232	1,560,961

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13. SUBSIDIARY ACQUISITION AND OWNERSHIP CHANGES

13.1 Acquisition

On September 1, 2018 the Sagicor Group acquired 100% of the shareholding of Harmony General Insurance Company Ltd. Harmony General, was a locally owned property and casualty insurance company which operated only in the Barbadian market. The net assets acquired are as follows:

	Fair Value	Acquiree's carrying value
Net assets acquired:		
Property, plant and equipment	16	16
Intangible assets	1,732	-
Financial investments	4,377	4,377
Reinsurance assets	1,720	1,720
Income tax assets	34	34
Miscellaneous assets and receivables	2,584	2,584
Cash resources	2,051	2,051
Other insurance liabilities	(8,543)	(8,543)
Provisions	(117)	(117)
Income tax liabilities	150	150
Accounts payable and accrued liabilities	(650)	(650)
Total net assets	3,354	1,622
Share of net assets acquired	3,354	
Purchase consideration and related costs	4,750	
Goodwill arising on acquisition	1,396	
	Total Revenue	Net Income/(Loss)
Details of acquiree's net income and total revenue:		
For the period ended September 30, 2018	5,272	(5,824)
Consolidated from acquisition date to September 30, 2018	426	30

The acquisition has been recorded using provisional values which could be subject to adjustment within the time frame permitted by International Financial Reporting Standards.

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13. SUBSIDIARY ACQUISITION AND OWNERSHIP CHANGES (continued)

13.2 Disposal

On September 4, 2018 the Sagicor Group divested its holdings in Globe Finance Inc. The Sagicor Group effectively owned 51% of the company.

The financial performance for the nine months ended September 2018 and September 2017 were as follows:

	Nine months to September 2018	Nine months to September 2017
Total net income from Globe Finance Inc	(2,953)	117
Income attributable to shareholders	(1,772)	70

Details of the sale of Globe Finance Inc.

	Nine months to September 2018
Consideration received or receivable:	
Net sales price	5,538
Carrying amount of net assets sold	<u>5,551</u>
Loss on sale	<u>(13)</u>

The carrying amount of assets and liabilities at the date of sale were:

	August 2018
ASSETS	
Financial Investments	71,742
Other investments and assets	<u>23,806</u>
Total assets	<u>95,548</u>
LIABILITIES	
Policy liabilities	-
Other liabilities	<u>89,997</u>
Total liabilities	<u>89,997</u>
NET ASSETS	<u>5,551</u>

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

14.1 Property

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

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

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

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

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

<u>Amounts in US \$000</u>	As of September 30, 2018	As of December 31, 2017
	Level 3	Level 3
Investment property	78,901	80,816
Owner-occupied lands	35,232	35,232
Owner-occupied land and buildings	73,961	78,465
Total properties	188,094	194,513

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

14.1 Property (continued)

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

	Nine months to September 30,				December 31,
	2018	2018	2018	2018	2017
<u>Amounts in US \$000</u>	Investment property	Owner-occupied lands	Owner-occupied land and buildings	Total	Total
Balance, beginning of period	80,816	35,232	78,465	194,513	195,702
Additions	9	-	1,352	1,361	3,175
Transfers in / (out)	(125)	-	-	(125)	(1,696)
Fair value changes recorded in net investment income	996	-	-	996	74
Fair value changes recorded in other comprehensive income	-	-	(1,027)	(1,027)	(2,227)
Depreciation	-	-	(833)	(833)	(1,098)
Disposals and divestitures	(2,500)	-	(2,509)	(5,009)	-
Effect of exchange rate changes	(295)	-	(1,487)	(1,782)	583
Balance, end of period	78,901	35,232	73,961	188,094	194,513

14.2 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.

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

14.2 Financial instruments carried at fair value (continued)

(ii) Level 2 – inputs that are observable for the instrument, either directly or indirectly

A financial instrument is classified as Level 2 if:

- The fair value is derived from quoted prices of similar instruments which would be classified as Level 1; or
- The fair value is determined from quoted prices that are observable but there is no data available to substantiate frequent market trading of the instrument.

In estimating the fair value of non-traded financial assets, the Group uses a variety of methods such as obtaining dealer quotes and using discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are discounted at market derived rates for government securities in the same country of issue as the security; for non-government securities, an interest spread is added to the derived rate for a similar government security rate according to the perceived additional risk of the non-government security.

In assessing the fair value of non-traded financial liabilities, the Group uses a variety of methods including obtaining dealer quotes for specific or similar instruments and the use of internally developed pricing models, such as the use of discounted cash flows. If the non-traded liability is backed by a pool of assets, then its value is equivalent to the value of the underlying assets.

Certain of the Group's policy liabilities are unit linked, i.e. derive their value from a pool of assets which are carried at fair value. The Group assigns a fair value hierarchy of Level 2 to the contract liability if the liability represents the unadjusted fair value of the underlying pool of assets.

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

A financial instrument is classified as Level 3 if:

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

Level 3 assets designated fair value through income include mortgage loans and debt securities and equities for which the full income return and capital returns accrue to holders of unit linked policy and deposit administration contracts. These assets are valued with inputs other than observable market data.

The techniques and methods described in the preceding section (ii) for non-traded financial assets and liabilities may also 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:

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

14.2 Financial instruments carried at fair value (continued)

<u>Amounts in US \$000</u>	As of September 30, 2018			
	Level 1	Level 2	Level 3	Total
Investments at FVOCI:				
Debt securities	665,605	1,785,588	-	2,451,193
Equity securities	317	2	45	364
	665,922	1,785,590	45	2,451,557
Investments at FVTPL:				
Debt securities	13,829	86,869	76,499	177,197
Equity securities	37,966	198,079	16,733	252,778
Derivative financial instruments	-	1,380	25,635	27,015
Mortgage loans	-	-	30,637	30,637
	51,795	286,328	149,504	487,627
Total assets	717,717	2,071,918	149,549	2,939,184
Total assets by percentage	24%	71%	5%	100%
Investment contracts:				
Unit linked deposit administration liabilities	-	-	144,738	144,738
Deposit and security liabilities:				
Structured products	-	-	63,779	63,779
Derivative financial instruments	-	1,237	-	1,237
	-	1,237	63,779	65,016
Total liabilities	-	1,237	208,517	209,754
Total liabilities by percentage	0%	1%	99%	100%

During the nine months ended September 30, 2018, there were no transfers between level 1 and level 2.

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

14.2 Financial instruments carried at fair value (continued)

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

Transfers from Level 2 to Level 1 in 2017 totalled \$19,819.

For Level 3 instruments, reasonable changes in inputs which could be applied to the valuation of available for sale securities/investments at fair value through other comprehensive income would affect other comprehensive income. Reasonable changes in inputs which could be applied to the valuations of investments designated at fair value are largely offset in income, since the changes in fair value are borne by contract holders. Changes in the valuations of structured products reflect changes in the underlying securities and are borne by the contract holders. The following tables present the movements in Level 3 instruments for the period.

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

14.2 Financial instruments carried at fair value (continued)

	Nine months to September 30,				December 31,
	2018	2018	2018	2018	2017
<u>Amounts in US \$000</u>	Investments at FVOCI	Investments at FVTPL	Derivative financial instruments	Total assets	Total assets
Balance, beginning of period	12,877	144,204	30,245	187,326	176,342
Reclassifications on initial application of IFRS 9	(9,365)	(7,822)	-	(17,187)	-
Additions	-	30,097	15,519	45,616	78,882
Fair value changes recorded in net investment income	-	(1,723)	8,453	6,730	21,044
Fair value changes recorded in other comprehensive income	-	-	-	-	(98)
Disposals	(3,463)	(45,048)	(28,582)	(77,093)	(87,814)
Transfers (out of) Level 3 Classification	-	-	-	-	(16)
Effect of exchange rate changes	(4)	4,161	-	4,157	(1,014)
Balance, end of period	45	123,869	25,635	149,549	187,326
Fair value changes recorded in net investment income for instruments held at the end of the period	-	(1,635)	5,420	3,785	10,067

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

14.2 Financial instruments carried at fair value (continued)

	Nine months to September 30,			December 31,
	2018	2018	2018	2017
<u>Amounts in US \$000</u>	Policy liabilities	Structured products	Total liabilities	Total liabilities
Balance, beginning of period	139,753	47,576	187,329	165,447
Issues	14,642	34,070	48,712	44,185
Settlements	(8,221)	(24,198)	(32,419)	(28,256)
Fair value changes recorded within interest expense	(1,647)	-	(1,647)	125
Transfers (to)/from instruments carried at amortised cost	-	7,708	7,708	3,682
Effect of exchange rate changes	211	(1,377)	(1,166)	2,146
Balance, end of period	144,738	63,779	208,517	187,329
Fair value changes recorded in interest expense for instruments held at the end of the period	(1,647)	-	(1,647)	188

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15. CREDIT RISK

15.1 Credit risk exposure – financial investments subject to impairment

The following tables contain analyses of 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>	September 30, 2018				Total	December 31,
	ECL Staging			Purchased credit-impaired		2017
Debt securities – amortised cost	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL			Total
Credit grade:						
Investment	229,624	-	-	-	229,624	201,894
Non-investment	606,428	7,329	9	278	614,044	662,657
Watch	49,219	45	-	12,449	61,713	187,097
Default	-	-	230,147	-	230,147	-
Unrated	-	-	-	30	30	35
Gross carrying amount	885,271	7,374	230,156	12,757	1,135,558	1,051,683
Loss allowance	(3,255)	(14)	(81,082)	(1,034)	(85,385)	-
Carrying amount	882,016	7,360	149,074	11,723	1,050,173	1,051,683

<u>Amounts in US \$000</u>	September 30, 2018				Total	December 31,
	ECL Staging			Purchased credit-impaired		2017
Mortgage loans – amortised cost	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL			Total
Credit grade:						
Investment	200,365	9,030	41	-	209,436	209,675
Non-investment	56,553	3,358	23	-	59,934	68,156
Watch	-	967	14,415	-	15,382	13,191
Default	-	-	10,095	-	10,095	8,533
Gross carrying amount	256,918	13,355	24,574	-	294,847	299,555
Loss allowance	(571)	(156)	(1,728)	-	(2,455)	(2,616)
Carrying amount	256,347	13,199	22,846	-	292,392	296,939

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NINE MONTHS ENDED SEPTEMBER 30, 2018

15. CREDIT RISK (continued)

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

<u>Amounts in US \$000</u>	September 30, 2018				December 31, 2017	
	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL	Purchased credit- impaired	Total	Total
Finance loans and leases – amortised cost						
Credit grade:						
Investment	1,519	-	-	-	1,519	2,079
Non-investment	496,241	15,852	6,420	-	518,513	559,384
Watch	-	2,271	1,608	-	3,879	1,758
Default	-	-	8,739	-	8,739	13,726
Gross carrying amount	497,760	18,123	16,767	-	532,650	576,947
Loss allowance	(5,639)	(1,197)	(8,538)	-	(15,374)	(12,548)
Carrying amount	492,121	16,926	8,229	-	517,276	564,399

<u>Amounts in US \$000</u>	September 30, 2018				December 31, 2017	
	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL	Purchased credit- impaired	Total	Total
Securities purchased for resale – amortised cost						
Credit grade:						
Non-investment	30,166	-	-	-	30,166	16,518
Gross carrying amount	30,166	-	-	-	30,166	16,518
Loss allowance	-	-	-	-	-	-
Carrying amount	30,166	-	-	-	30,166	16,518

<u>Amounts in US \$000</u>	September 30, 2018				December 31, 2017	
	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL	Purchased credit- impaired	Total	Total
Policy loans – amortised cost						
Credit grade:						
Investment	79,604	-	-	-	79,604	80,945
Unrated	65,431	-	-	-	65,431	61,187
Gross carrying amount	145,035	-	-	-	145,035	142,132
Loss allowance	-	-	-	-	-	-
Carrying amount	145,035	-	-	-	145,035	142,132

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15. CREDIT RISK (continued)

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

<u>Amounts in US \$000</u>	September 30, 2018				December 31, 2017	
	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL	Purchased credit- impaired	Total	Total
Deposits – amortised cost						
Credit grade:						
Investment	78,710	-	-	-	78,710	76,754
Non-investment	21,329	1	-	-	21,330	32,281
Watch	1,835	371	-	-	2,206	964
Unrated	1,056	-	-	-	1,056	1,405
Gross carrying amount	102,930	372	-	-	103,302	111,404
Loss allowance	(355)	(50)	-	-	(405)	-
Carrying amount	102,575	322	-	-	102,897	111,404

<u>Amounts in US \$000</u>	September 30, 2018				December 31, 2017	
	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL	Purchased credit- impaired	Total	Total
Debt securities – FVOCI						
Credit grade:						
Investment	1,919,039	-	-	-	1,919,039	1,665,004
Non-investment	433,391	93,780	-	-	527,171	561,448
Watch	256	6,776	-	-	7,032	46,824
Default	-	-	53,633	-	53,633	-
Unrated	-	-	-	-	-	102
Gross carrying amount	2,352,686	100,556	53,633	-	2,506,875	2,273,378
Loss allowance	(1,539)	(8,750)	(17,533)	-	(27,822)	(6,707)
Carrying amount	2,351,147	91,806	36,100	-	2,479,053	2,266,671

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15. CREDIT RISK (continued)

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

For financial investments measured at FVTPL under the unit-linked funds fair value model, the unit holders bear the credit risk and the Group has no direct credit exposure.

Maximum exposure to credit risk - Financial instruments not subject to impairment

Amounts expressed in US\$ 000	Maximum exposure to credit risk
Financial assets designated at fair value	
Debt securities	177,197
Derivative financial instruments	27,015
Mortgage loans	30,637

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NINE MONTHS ENDED SEPTEMBER 30, 2018

15. CREDIT RISK (continued)

15.2 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 an analysis of the credit risk exposure of financial investments for which an ECL allowance is recognised. The gross carrying amount of financial assets below represents the Group's maximum exposure to credit risk on these assets.

<u>Amounts in US \$000</u>	Nine months ended September 30, 2018				
	ECL staging				Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit- impaired	
DEBT SECURITIES - FVOCI					
Loss Allowance as at January 01, 2018	2,780	8,863	95	-	11,738
Transfers:					
Transfer from Stage 1 to Stage 2	(32)	32	-	-	-
Transfer from Stage 1 to Stage 3	(45)	-	45	-	-
Transfer from Stage 2 to Stage 3	-	(1,818)	1,818	-	-
New financial assets originated or purchased	346	-	-	-	346
Financial assets fully derecognised during the period	(498)	(1,048)	(92)	-	(1,638)
Changes in models/assumptions used in ECL calculation	(6)	-	-	-	(6)
Changes to inputs used in ECL calculation	(935)	2,695	15,554	-	17,314
Foreign exchange adjustment	(71)	26	113	-	68
Loss Allowance as at September 30, 2018	1,539	8,750	17,533	-	27,822

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NINE MONTHS ENDED SEPTEMBER 30, 2018

15. CREDIT RISK (continued)

15.2 Loss allowances (continued)

<u>Amounts in US \$000</u>	Nine months ended September 30, 2018				
	ECL staging				Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit- impaired	
DEBT SECURITIES – AMORTISED COST					
Loss Allowance as at January 01, 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	-	(8,535)	8,535	-	-
New financial assets originated or purchased	2,024	-	-	187	2,211
Financial assets fully derecognised during the period	(204)	(39)	(906)	(54)	(1,203)
Changes in models/assumptions used in ECL calculation	(8)	8	1,429	30	1,459
Changes to inputs used in ECL calculation	(157)	(1)	71,748	(46)	71,544
Foreign exchange adjustment	(57)	-	3	-	(54)
Loss Allowance as at September 30, 2018	3,255	14	81,080	1,034	85,383

<u>Amounts in US \$000</u>	Nine months ended September 30, 2018				
	ECL staging				Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit- impaired	
MORTGAGE LOANS - AMORTISED COST					
Loss Allowance as at January 01, 2018	941	309	1,149	-	2,399
Transfers:					
Transfer from Stage 1 to Stage 2	(85)	85	-	-	-
Transfer from Stage 1 to Stage 3	(182)	-	182	-	-
Transfer from Stage 2 to Stage 1	68	(68)	-	-	-
Transfer from Stage 2 to Stage 3	-	(88)	88	-	-
Transfer from Stage 3 to Stage 2	-	7	(7)	-	-
Transfer from Stage 3 to Stage 1	2	-	(2)	-	-
New financial assets originated or purchased	53	-	-	-	53
Financial assets fully derecognised during the period	(131)	(47)	(3)	-	(181)
Changes to inputs used in ECL calculation	(94)	(44)	323	-	185
Foreign exchange adjustments	(1)	2	(2)	-	(1)
Loss Allowance as at September 30, 2018	571	156	1,728	-	2,455

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NINE MONTHS ENDED SEPTEMBER 30, 2018

15. CREDIT RISK (continued)

15.2 Loss allowances (continued)

<u>Amounts in US \$000</u>	Nine months ended September 30, 2018				
	ECL staging				Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit- impaired	
FINANCE LOANS AND FINANCE LEASES - AMORTISED COST					
Loss Allowance as at January 01, 2018	6,114	1,427	8,294	-	15,835
Transfers:					
Transfer from Stage 1 to Stage 2	(273)	273	-	-	-
Transfer from Stage 1 to Stage 3	(24)	-	24	-	-
Transfer from Stage 2 to Stage 1	368	(368)	-	-	-
Transfer from Stage 2 to Stage 3	-	(265)	265	-	-
Transfer from Stage 3 to Stage 1	106	-	(106)	-	-
New financial assets originated or purchased	1,653	41	340	-	2,034
Financial assets fully derecognised during the period	(1,454)	(654)	(1,433)	-	(3,541)
Changes to inputs used in ECL calculation	(518)	790	1,715	-	1,987
Foreign exchange adjustment	(333)	(47)	(561)	-	(941)
Loss Allowance as at September 30, 2018	5,639	1,197	8,538	-	15,374

<u>Amounts in US \$000</u>	Nine months ended September 30, 2018				
	ECL staging				Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit- impaired	
DEPOSITS - AMORTISED COST					
Loss Allowance as at January 01, 2018	506	51	-	-	557
New financial assets originated or purchased	153	-	-	-	153
Financial assets fully derecognised during the period	(97)	-	-	-	(97)
Changes to inputs used in ECL calculation	(208)	(1)	-	-	(209)
Foreign exchange adjustment	1	-	-	-	1
Loss Allowance as at September 30, 2018	355	50	-	-	405

Under IAS 39 there was a collective provision for financial assets recognised of US\$4,045. Upon adoption of IFRS 9 as at January 1, 2018, an expected credit loss on assets in stage 1 and stage 2 replaced the IAS 39 collective provision. The IAS 39 collective provision was reversed from the opening adjustment presented in the condensed consolidated statement of changes in equity.

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NINE MONTHS ENDED SEPTEMBER 30, 2018

15. CREDIT RISK (continued)

15.2 Loss allowances (continued)

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

At January 1, 2018

Economic variable assumptions		2018	2019	2020
Unemployment rate (USA)	Base	4.7%	4.5%	4.5%
	Upside	4.4%	3.7%	3.8%
	Downside	5.2%	5.5%	5.7%
World GDP	Base	3.7%	3.7%	3.7%
	Upside	5.6%	5.6%	5.6%
	Downside	2.8%	2.8%	2.85%
WTI Oil Prices/10	Base	\$5.72	\$5.42	\$5.23
	Upside	\$1.96	\$1.96	\$1.96
	Downside	\$9.52	\$9.52	\$9.52

At September 30, 2018

Economic variable assumptions

		2018	2019	2020
Unemployment rate (USA)	Base	3.9%	4.1%	4.4%
	Upside	3.6%	3.7%	3.8%
	Downside	4.2%	4.4%	4.6%
World GDP	Base	3.9%	3.8%	3.7%
	Upside	5.4%	5.4%	5.4%
	Downside	2.9%	2.9%	2.8%
WTI Oil Prices/10	Base	\$6.73	\$6.44	\$6.11
	Upside	\$9.52	\$9.52	\$9.52
	Downside	\$2.96	\$2.83	\$2.69

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.

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NINE MONTHS ENDED SEPTEMBER 30, 2018

15. CREDIT RISK (continued)

15.2 Loss allowances (continued)

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

SAGICOR FINANCIAL CORPORATION LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2018

15. CREDIT RISK (continued)

15.2 Loss allowances (continued)

Amounts in US \$000

SICR and IAS 1 critical estimated disclosure

SICR criteria *	Actual threshold applied	Change in threshold	ECL impact of	
			Change in threshold	
Investments	2-notch downgrade since origination	1-notch downgrade since origination	\$927	

* See note 3.1 for full criteria for staging. The staging for lending products are primarily based on days past due with 30-day used as backstop, thus sensitivity analysis is not performed.

Loss Given Default	Actual value applied	Change in value	ECL impact of	
			Increase in value	Decrease in value
Investments - Corporate Debts	52%	(- /+ 5) %	\$963	(\$938)
Investments - Sovereign Debts (excluding Government of Barbados and Government of Jamaica)	35%	(- /+ 5) %	\$393	(\$393)
Investments - Sovereign Debts (GoB - Excluding BAICO)	36%	(- /+ 5) %	\$13,909	(\$13,909)
Investments - Sovereign Debts (GoB - BAICO Bonds ONLY)	27%	(- /+ 5) %	\$283	(\$283)
Investments - Sovereign Debts (Government of Jamaica)	15%	(- /+ 5) %	\$278	(278)

Weighting for downside scenario	Actual value applied	Change in value	ECL impact of	
			Increase in value	Decrease in value
Investments - excluding Government of Barbados	10% (80% for base scenario and 10% for upside scenario)	(- /+ 5) % - keep the weighting for base scenario and adjust the weighting for upside scenario accordingly	\$314	(\$314)
Lending products	10% (80% for base scenario and 10% for upside scenario)	(- /+ 5) % - keep the weighting for base scenario and adjust the weighting for upside scenario accordingly	\$128	(\$130)
Investments – Sovereign Debts (GoB - BAICO Bonds ONLY)	10% (80% for base scenario and 10% for upside scenario)	(- /+ 5) % - keep the weighting for base scenario and adjust the weighting for upside scenario accordingly	\$23	(\$23)

*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.

SAGICOR FINANCIAL CORPORATION LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2018

15. CREDIT RISK (continued)

15.3 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.

<u>Amounts in US \$000</u>	Nine months ended September 30, 2018				
	ECL staging				Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit- impaired	
DEBT SECURITIES - FVOCI					
Gross carrying amount as at January 01, 2018	2,061,339	136,393	2,330	-	2,200,062
Transfers:					
Transfer from Stage 1 to Stage 2	(12,576)	12,576	-	-	-
Transfer from Stage 1 to Stage 3	(17,657)	-	17,657	-	-
Transfer from Stage 2 to Stage 3	-	(34,750)	34,750	-	-
New financial assets originated or purchased	629,973	-	-	-	629,973
Financial assets fully derecognised during the period	(256,015)	(12,911)	(2,266)	-	(271,192)
Changes in principle and interest	(22,378)	(739)	797	-	(22,320)
Foreign exchange adjustment	(30,000)	(13)	365	-	(29,648)
Gross carrying amount as at September 30, 2018	2,352,686	100,556	53,633	-	2,506,875
	Nine months ended September 30, 2018				
	ECL staging				Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit- impaired	
DEBT SECURITIES - AMORTISED COST					
Gross carrying amount as at January 01, 2018	813,354	225,621	-	12,708	1,051,683
Transfers:					
Transfer from Stage 1 to Stage 3	(14,937)	-	14,937	-	-
Transfer from Stage 2 to Stage 3	-	(214,057)	214,057	-	-
New financial assets originated or purchased	218,515	497	4,696	754	224,462
Financial assets fully derecognised during the period	(107,175)	(1,847)	(3,997)	(809)	(113,828)
Changes in principle and interest	(2,242)	(2,838)	463	104	(4,513)
Foreign exchange adjustment	(22,244)	(2)	-	-	(22,246)
Gross carrying amount as at September 30, 2018	885,271	7,374	230,156	12,757	1,135,558

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2018

15. CREDIT RISK (continued)

15.3 IFRS 9 Carrying Values (continued)

<u>Amounts in US \$000</u>	Nine months ended September 30, 2018				
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit- impaired	Total
MORTGAGE LOANS - AMORTISED COST					
Gross carrying amount as at January 01, 2018	270,719	17,567	29,934	-	318,220
Transfers:					
Transfer from Stage 1 to Stage 2	(8,990)	8,990	-	-	-
Transfer from Stage 1 to Stage 3	(2,508)	-	2,508	-	-
Transfer from Stage 2 to Stage 1	6,225	(6,225)	-	-	-
Transfer from Stage 2 to Stage 3	-	(3,012)	3,012	-	-
Transfer from Stage 3 to Stage 2	-	1,086	(1,086)	-	-
Transfer from Stage 3 to Stage 1	912	-	(912)	-	-
New financial assets originated or purchased	27,380	158	100	-	27,638
Financial assets fully derecognised during the period	(25,127)	(3,548)	(7,229)	-	(35,904)
Write-offs	-	-	(10)	-	(10)
Changes in principle and interest	(7,446)	(1,675)	(1,385)	-	(10,506)
Foreign exchange adjustment	(4,247)	14	(358)	-	(4,591)
Gross carrying amount as at 30 September, 2018	256,918	13,355	24,574	-	294,847

<u>Amounts in US \$000</u>	Nine months ended September 30, 2018				
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit- impaired	Total
POLICY LOANS - AMORTISED COST					
Gross carrying amount as at January 01, 2018	142,132	-	-	-	142,132
Transfers:					
New financial assets originated or purchased	4,490	-	-	-	4,490
Financial assets fully derecognised during the period	(1,213)	-	-	-	(1,213)
Changes in principle and interest	196	-	-	-	196
Foreign exchange adjustment	(570)	-	-	-	(570)
Gross carrying amount as at 30 September, 2018	145,035	-	-	-	145,035

SAGICOR FINANCIAL CORPORATION LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2018

15. CREDIT RISK (continued)

15.3 IFRS 9 Carrying Values (continued)

<u>Amounts in US \$000</u>	Nine months ended September 30, 2018				
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit- impaired	Total
FINANCE LOANS AND FINANCE LEASES - AMORTISED COST					
Gross carrying amount as at January 01, 2018	544,414	12,236	19,946	-	576,596
Transfers:					
Transfer from Stage 1 to Stage 2	(18,083)	18,083	-	-	-
Transfer from Stage 1 to Stage 3	(2,104)	-	2,104	-	-
Transfer from Stage 2 to Stage 1	2,748	(2,748)	-	-	-
Transfer from Stage 2 to Stage 3	-	(5,107)	5,107	-	-
Transfer from Stage 3 to Stage 1	173	-	(173)	-	-
New financial assets originated or purchased	149,367	1,439	660	-	151,466
Financial assets fully derecognised during the period	(131,694)	(8,441)	(12,750)	-	(152,885)
Write-offs	(14)	(4)	(114)	-	(132)
Changes in principle and interest	(17,976)	3,003	3,004	-	(11,969)
Foreign exchange adjustment	(29,071)	(338)	(1,017)	-	(30,426)
Gross carrying amount as at 30 September, 2018	497,760	18,123	16,767	-	532,650

<u>Amounts in US \$000</u>	Nine months ended September 30, 2018				
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit- impaired	Total
SECURITIES PURCHASED FOR RESALE - AMORTISED COST					
Gross carrying amount as at January 01, 2018	16,518	-	-	-	16,518
Net new financial assets originated or purchased	15,615	-	-	-	15,615
Foreign exchange adjustment	(1,967)	-	-	-	(1,967)
Gross carrying amount as at 30 September, 2018	30,166	-	-	-	30,166

SAGICOR FINANCIAL CORPORATION LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2018

15. CREDIT RISK (continued)

15.3 IFRS 9 Carrying Values (continued)

<u>Amounts in US \$000</u>	Nine months ended September 30, 2018				
	ECL staging				Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit- impaired	
DEPOSITS - AMORTISED COST					
Gross carrying amount as at January 01, 2018	111,034	370	-	-	111,404
New financial assets originated or purchased	32,924	1	-	-	32,925
Financial assets fully derecognised during the period	(34,321)	-	-	-	(34,321)
Changes in principle and interest	(3,567)	1	-	-	(3,566)
Foreign exchange adjustment	(3,140)	-	-	-	(3,140)
Gross carrying amount as at September 30, 2018	102,930	372	-	-	103,302

SAGICOR FINANCIAL CORPORATION LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2018

15. CREDIT RISK (continued)

15.4 Debt Securities in Default

During the month of June 2018, the Government of Barbados (GOB) suspended all payments to creditors of its external commercial debt which is denominated primarily in US dollars. Interest payments due on June 5, 2018 and June 15, 2018 were not made. Principal payments on matured domestic debt which is denominated in Barbados dollars were suspended and debt holders were required to roll-over principal balances.

The announcement of the suspended payments was evidence that the financial assets were credit-impaired and consequently, in June Sagicor re-classified its GOB debt security holdings to Stage 3 with a probability of default of 100%. Some GOB debt instruments were purchased more recently and therefore there were instruments that had not yet experienced a significant increase in credit risk relative to the initial credit risk and moved from Stage 1 to Stage 3 upon the announcement.

On September 7, 2018 the GOB announced its debt restructuring program which is being done in conjunction with the economic recovery plan and an IMF programme. The IMF programme will allow Barbados to reduce its current debt service cost substantially and it is expected that the manageability of the restructured cash flows will improve the credit quality of the instrument offered in the debt exchange.

As at September 30, 2018 the negotiations of the new bond were materially completed and on October 3, 2018 the company signed an agreement with the Government of Barbados which outlined the terms of the debt exchange. In exchange for its debt the Group has accepted the following securities:

Series C

A 15-year amortising bond with interest rates ranging from 1.0% for the first 3 years to 3.75% for years 5 through to maturity. Interest on these bonds is to be paid quarterly with the first payment due on December 31, 2018. The principal will be repaid in four equal quarterly instalments commencing one year prior to maturity.

Series D

A 35-year amortising bond with interest rates ranging from 1.5% for the first 5 years to 7.5% for years 16 through to maturity. Interest on these bonds is paid quarterly with the first payment due on November 30, 2018. The principal will be repaid in three equal instalments commencing one year prior to maturity with the final payment on August 31, 2053.

Series G

A 50-year amortising bond which includes a 15-year grace period on principal payments. The interest rates on the bond range from 4% per annum for the first 15 years to 8% for years 26 through 50 with interest capitalisation of 100% for the first five years.

External Debt

The restructuring of the external debt is yet to be finalised.

Given this agreement and the short timeframe required for the restructuring to close subsequent to September 30, 2018 the Group applied a significant weighting to the probability of the current instruments being exchanged for the new instruments in determining the expected credit loss. The Group has also considered other scenarios, these however are considered unlikely and have not had a significant impact on the expected credit loss computed as at September 30, 2018. As the new instruments have not been issued, the determination of the expected fair value is based on models and an internally developed yield curve. As a result, the actual fair value that the Group will record on exchange may be different to the expected credit loss recorded at September 30. The impact of sensitizing the ECL recorded on GoB debt instruments is disclosed in note 15.2.

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2018

CREDIT RISK (continued)

15.4 Debt Securities in Default

Accordingly, an expected credit loss has been recognized in the condensed consolidated statement of income as follows:

Amounts in US \$000

	GOB	GOB
	Exposure	Loss Allowances
Balance as of September 30, 2018	337,183	101,437

SAGICOR FINANCIAL CORPORATION LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2018

16. CASH FLOWS

Amounts in US \$000

	September 30, 2018	September 30, 2017
Adjustments for non-cash items, interest and dividends:		
Interest and dividend income	(227,737)	(223,851)
Net investment (gains) / losses	(27,538)	(49,485)
Loss arising on disposal	13	-
Net increase in actuarial liabilities	102,093	69,211
Gain on recapture insurance portfolio	(5,280)	-
Interest expense and finance costs	63,953	67,679
Depreciation and amortisation	16,906	15,900
Increase in provision for unearned premiums	3,482	7,992
Other items	74,018	(6,259)
	<u>(90)</u>	<u>(118,813)</u>
Net increase in investments and operating assets:		
Investment property	2,491	-
Debt securities	(363,753)	(42,603)
Equity securities	(3,801)	2,867
Mortgage loans	2,450	(9,343)
Policy loans	(2,952)	(2,879)
Finance loans and finance leases	(41,966)	(9,435)
Securities purchased for re-sale	(8,513)	(2,292)
Deposits	(3,437)	(36,576)
Other assets and receivables	114,989	7,688
	<u>(304,492)</u>	<u>(92,573)</u>

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NINE MONTHS ENDED SEPTEMBER 30, 2018

16. CASH FLOWS (continued)

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

<u>Amounts in US \$000</u>	September 30, 2018	September 30, 2017
Investment property:		
Disbursements	(9)	-
Disposal proceeds	2,500	-
	<u>(2,491)</u>	<u>-</u>
Debt securities:		
Disbursements	(1,105,209)	(1,445,539)
Disposal proceeds	741,456	1,402,936
	<u>(363,753)</u>	<u>(42,603)</u>
Equity securities:		
Disbursements	(35,299)	(29,870)
Disposal proceeds	31,498	32,737
	<u>(3,801)</u>	<u>2,867</u>
Net increase in operating liabilities:		
Insurance liabilities	3,474	12,554
Investment contract liabilities	4,268	1,674
Other funding instruments	103,338	(49,312)
Deposits	86,625	(71,336)
Securities sold for re-purchase	8,279	144,012
Other liabilities and payables	(49,238)	31,352
	<u>156,746</u>	<u>68,944</u>

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2018

16. CASH FLOWS (continued)

<u>Amounts in US \$000</u>	September 30, 2018	September 30, 2017
Property, plant and equipment:		
Purchases	(9,943)	(16,062)
Disposal proceeds	2,195	6,155
	(7,748)	(9,907)
Financing activities		
Notes and loans payable:		
Proceeds	553	15,828
Repayments	(6,939)	(512)
	(6,386)	15,316
Cash and cash equivalents		
Cash resources	269,698	206,502
Call deposits and other liquid balances	98,233	155,138
Bank overdrafts	(783)	(2,930)
	367,148	358,710

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2018

17. IMPACT OF CHANGES IN ACCOUNTING POLICIES AND OTHER CORRECTIONS TO THE FINANCIAL STATEMENTS

The changes in accounting policies outlined in note 2.3 which have impacted the prior period statements of financial position, income and comprehensive income are summarised in the following tables. Other corrections are outlined separately below.

STATEMENT OF FINANCIAL POSITION <u>Amounts in US \$000</u>	December 31, 2017 as originally presented	Adjustment - actuarial liabilities	December 31, 2017 as restated	Transition adjustment - IFRS 9	As of January 1, 2018
ASSETS					
Investment property	80,816		80,816		80,816
Property, plant and equipment	165,560		165,560		165,560
Associates and joint ventures	97,223		97,223		97,223
Intangible assets	81,714		81,714		81,714
Financial investments (note 9)	4,953,241		4,953,241	(16,177)	4,937,064
Reinsurance assets	797,391		797,391		797,391
Income tax assets	39,980		39,980	284	40,264
Miscellaneous assets and receivables	228,543		228,543	(48)	228,495
Cash resources	360,064		360,064		360,064
Assets of discontinued operation	10,110		10,110		10,110
Total assets	6,814,642		6,814,642	(15,941)	6,798,701
LIABILITIES					
Actuarial liabilities	2,950,820	(6,120) ⁽¹⁾	2,944,700		2,944,700
Other insurance liabilities	224,159		224,159		224,159
Investment contract liabilities	379,018		379,018		379,018
Total policy liabilities	3,553,997	(6,120)	3,547,877		3,547,877
Notes and loans payable	413,805		413,805		413,805
Deposits and security liabilities	1,559,232		1,559,232		1,559,232
Provisions	80,027		80,027		80,027
Income tax liabilities	28,277	1,225	29,502		29,502
Accounts payable and accrued liabilities	246,976		246,976		246,976
Total liabilities	5,882,314	(4,895)	5,877,419		5,877,419

⁽¹⁾ Effective January 1, 2018 the Group implemented a policy to harmonise its actuarial reserving practices across operational segments. This voluntary change in policy was reflected as a prior period adjustment in accordance with IAS 8. In addition, a detailed review of Sagicor USA's actuarial model was completed which concluded that the model inputs were generally appropriate; however, certain items were identified which have been treated as errors and prior periods have been adjusted accordingly. The Sagicor Jamaica's adjustment reduced actuarial liabilities by \$9,070 and Sagicor USA's adjustment increased the liability by \$2,950.

SAGICOR FINANCIAL CORPORATION LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2018

17. IMPACT OF CHANGES IN ACCOUNTING POLICIES AND OTHER CORRECTIONS TO THE FINANCIAL STATEMENTS

(continued)

STATEMENT OF FINANCIAL POSITION <u>Amounts in US \$000</u>	December 31, 2017 as originally presented	Adjustment - actuarial liabilities	December 31, 2017 as restated	Transition adjustment - IFRS 9	As of January 1, 2018
EQUITY					
Share capital	3,059		3,059		3,059
Share premium	300,470		300,470		300,470
Reserves	(47,482)	94	(47,388)	(217)	(47,605)
Retained earnings	367,327	1,124	368,451	(10,442)	358,009
Shareholders' equity	623,374	1,218	624,592	(10,659)	613,933
Participating accounts	865		865	(2,930)	(2,065)
Non-controlling interests in subsidiaries	308,089	3,677	311,766	(2,352)	309,414
Total equity	932,328	4,895	937,223	(15,941)	921,282
Total liabilities and equity	6,814,642	-	6,814,642	(15,941)	6,798,701

SAGICOR FINANCIAL CORPORATION LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2018

17. IMPACT OF CHANGES IN ACCOUNTING POLICIES AND OTHER CORRECTIONS TO THE FINANCIAL STATEMENTS
(continued)

STATEMENT OF FINANCIAL POSITION	December 31, 2016 as originally presented	Adjustment - actuarial liabilities	December 31, 2016 as restated
<u>Amounts in US \$000</u>			
ASSETS	6,531,920	-	6,531,920
LIABILITIES			
Actuarial liabilities	2,776,362	(4,538) ⁽¹⁾	2,771,824
Income tax liabilities	50,641	437	51,078
Liabilities not subject to restatement	2,909,503	-	2,909,503
Total liabilities	5,736,506	(4,101)	5,732,405
EQUITY			
Share capital	3,029	-	3,029
Share premium	297,050	-	297,050
Reserves	(64,795)	(3)	(64,798)
Retained earnings	300,865	934	301,799
Shareholders' equity	536,149	931	537,080
Participating accounts	1,291	-	1,291
Non-controlling interests in subsidiaries	257,974	3,170	261,144
Total equity	795,414	4,101	799,515
Total liabilities and equity	6,531,920	-	6,531,920

⁽¹⁾ Effective January 1, 2018 the Group implemented a policy to harmonise its actuarial reserving practices across operational segments. This voluntary change in policy was reflected as a prior period adjustment in accordance with IAS 8. In addition, a detailed review of Sagicor USA's actuarial model was completed which concluded that the model inputs were generally appropriate; however, certain items were identified which have been treated as errors and prior periods have been adjusted accordingly. The Sagicor Jamaica's adjustment reduced actuarial liabilities by \$7,815 and Sagicor USA's adjustment increased the liability by \$3,277.

SAGICOR FINANCIAL CORPORATION LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2018

17. IMPACT OF CHANGES IN ACCOUNTING POLICIES AND OTHER CORRECTIONS TO THE FINANCIAL STATEMENTS
(continued)

<u>Amounts in US \$000</u>	Nine months to September 30, 2017			Three months to September 30, 2017		
	Originally presented	Actuarial and other adjustment	Restated	Originally presented	Actuarial and other adjustment	Restated
STATEMENT OF INCOME						
REVENUE	910,929	-	910,929	348,289	-	348,289
Net policy benefits and change in actuarial liabilities ⁽¹⁾	432,542	776 ⁽³⁾	433,318	183,087	(653) ⁽³⁾	182,434
Interest expense	41,831	-	41,831	13,290	-	13,290
Total benefits	474,373	776	475,149	196,377	(653)	195,724
EXPENSES	329,148	-	329,148	104,848	-	104,848
INCOME BEFORE TAXES	107,408	(776)	106,632	47,064	653	47,717
Income taxes	(29,303)	276 ⁽³⁾	(29,027)	(10,070)	(165) ⁽³⁾	(10,235)
Net income - continuing operations	78,105	(500)	77,605	36,994	488	37,482
Net income - discontinued operation ⁽²⁾	-	8,225	8,225	-	2,017	2,017
NET INCOME	78,105	7,725	85,830	36,994	2,505	39,499
Net income is attributable to:						
Shareholders - continuing operations	47,211	(675)	46,536	28,205	349	28,554
Shareholders - discontinued operation	-	8,225	8,225	-	2,017	2,017
	47,211	7,550	54,761	28,205	2,366	30,571
Participating policyholders	(1,595)	-	(1,595)	(1,121)	-	(1,121)
Non-controlling interests	32,489	175	32,664	9,910	139	10,049
	78,105	7,725	85,830	36,994	2,505	39,499

⁽¹⁾ Adjustments apply to gross amounts

⁽²⁾ See note 8

⁽³⁾ In the US segment, actuarial liabilities for the nine months to September 30, 2017 were adjusted for various assumption changes, which related to the period, and which were identified and recorded in the Group's audited financial statements at December 31, 2017. In addition, the detailed review of Sagicor USA's actuarial model was completed during the quarter which concluded that the model input was generally appropriate; however certain items have been adjusted in the prior period. The Sagicor Jamaica's adjustment (see note 2.3) reduced net policy benefits and change in actuarial liabilities by \$527 and Sagicor USA's adjustment caused an increase of \$1,303. These changes had a corresponding change in Income taxes where Sagicor Jamaica's adjustment caused a decrease of \$181 and Sagicor USA's adjustment caused an increase of \$457.

SAGICOR FINANCIAL CORPORATION LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2018

17. IMPACT OF CHANGES IN ACCOUNTING POLICIES AND OTHER CORRECTIONS TO THE FINANCIAL STATEMENTS
(continued)

STATEMENT OF INCOME (continued)

Amounts in US \$000	Nine months to September 30, 2017			Three months to September 30, 2017		
	Originally presented	Actuarial and other adjust- ment	Restated	Originally presented	Actuarial and other adjustment	Restated
STATEMENT OF INCOME						
Basic earnings per share						
Continuing operations	15.5 cents	(0.2) cents	15.3 cents	9.2 cents	0.2 cents	9.4 cents
Discontinued operation	0.0 cents	2.7 cents	2.7 cents	0.0 cents	0.7 cents	0.7 cents
	15.5 cents	2.5 cents	18.0 cents	9.2 cents	0.9 cents	10.1 cents
Fully diluted earnings per share						
Continuing operations	15.2 cents	(0.2) cents	15.0 cents	9.0 cents	0.2 cents	9.2 cents
Discontinued operation	0.0 cents	2.7 cents	2.7 cents	0.0 cents	0.7 cents	0.7 cents
	15.2 cents	2.5 cents	17.7 cents	9.0 cents	0.9 cents	9.9 cents

SAGICOR FINANCIAL CORPORATION LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2018

17. IMPACT OF CHANGES IN ACCOUNTING POLICIES AND OTHER CORRECTIONS TO THE FINANCIAL STATEMENTS
(continued)

<u>Amounts in US \$000</u>	Nine months to September 30, 2017			Three months to September 30, 2017		
	Originally presented	Actuarial and other adjust- ment	Restated	Originally presented	Actuarial and other adjust- ment	Restated
STATEMENT OF COMPREHENSIVE INCOME						
NET INCOME	78,105	7,725	85,830	36,994	2,505	39,499
OTHER COMPREHENSIVE INCOME						
Items net of tax that may be reclassified subsequently to income:						
Available for sale financial assets:						
Unrealised on revaluation	36,670	-	36,670	14,983	-	14,983
Losses / (gains) transferred to income	6,052	-	6,052	(1,159)	-	(1,159)
Net change in actuarial liabilities ⁽¹⁾	(9,630)	(7,565)	(17,195)	3,285	(7,565)	(4,280)
Retranslation of foreign currency operations	(5,148)	(69)	(5,217)	(3,302)	(58)	(3,360)
	27,944	(7,634)	20,310	13,807	(7,623)	6,184
Items net of tax that will not be reclassified subsequently to income						
Gains on defined benefit plans	2,227	-	2,227	94	-	94
Other comprehensive income	30,171	(7,634)	22,537	13,901	(7,623)	6,278
TOTAL COMPREHENSIVE INCOME	108,276	91	108,367	50,895	(5,118)	45,777
Total comprehensive income is attributable to:						
Shareholders - continuing operations	70,222	(8,309)	61,913	37,557	(7,274)	30,283
Shareholders - discontinued operation	-	8,225	8,225	-	2,017	2,017
	70,222	(84)	70,138	37,557	(5,257)	32,300
Participating policyholders	(492)	-	(492)	(328)	-	(328)
Non-controlling interests	38,546	175	38,721	13,666	139	13,805
	108,276	91	108,367	50,895	(5,118)	45,777

⁽¹⁾ Actuarial liabilities at September 2017 were increased with a corresponding adjustment to actuarial liability fair value reserves in comprehensive income, reduced to reflect fair value movements on available for sale assets.

SAGICOR FINANCIAL CORPORATION LIMITED
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2018

17. IMPACT OF CHANGES IN ACCOUNTING POLICIES AND OTHER CORRECTIONS TO THE FINANCIAL STATEMENTS
(continued)

<u>Amounts in US \$000</u>	<u>Retained earnings</u>
Restated balance as of December 31, 2017	368,451
Transition adjustments on adoption of IFRS 9:	
Reclassify investments from available-for-sale to FVTPL	6,152
Increase in provision for miscellaneous receivables and contract assets	(48)
Increase in provision for debt investments at amortised cost	(10,168)
Increase in provision for debt investments at FVOCI	(7,316)
Increase in deferred tax assets relating to impairment provisions	813
Other	125
Total transition adjustments	(10,442)
Balance as of January 1, 2018	358,009

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a life-time expected loss allowance for all miscellaneous receivables. To measure the expected credit losses, miscellaneous receivables have been grouped based on shared credit risk characteristics and the days past due.

On that basis, the loss allowance as at 1 January 2018 was determined as follows for miscellaneous receivables:

Opening balance 1 January 2018	Current	More than 30 days past due	More than 60 days past due	More than 120 days past due	Total
Expected loss rate	0.2% - 1.2%	0.0%	1.4%	1.8%	
Gross carrying amount	18,069	-	-	69	18,138
Loss allowance	46	-	-	2	48

The loss allowances for miscellaneous receivables as at December 31, 2017 reconciles to the opening loss allowances on 1 January 2018 as follows:

<u>Amounts in US \$000</u>	<u>Miscellaneous receivables</u>
Loss allowances	
As of December 31, 2017 – calculated under IAS 39	-
Amounts restated through opening retained earnings	(48)
As of January 1, 2018 - calculated under IFRS 9	(48)

SAGICOR FINANCIAL CORPORATION LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2018

18. SUBSEQUENT EVENTS

On November 27, 2018, Sagicor Financial Corporation Limited (“Sagicor”), entered into a definitive arrangement agreement (“Arrangement Agreement”) with Alignvest Acquisition II Corporation (“Alignvest”) pursuant to which Alignvest will acquire all the shares of Sagicor by way of a scheme of arrangement under the laws of Bermuda, where Sagicor is incorporated. Closing is expected in early 2019, and is subject to regulatory approval and certain conditions being met by both Alignvest and Sagicor.

Sagicor also announced that Sagicor and Alignvest will acquire Scotiabank’s life insurance operations in Jamaica and in Trinidad & Tobago and will also enter into a 20-year exclusive agreement where Sagicor will provide insurance solutions to Scotiabank’s clients in Jamaica and Trinidad & Tobago. The completion of the acquisition is dependent on the completion of the acquisition of Sagicor as outlined above. Closing is expected in late 2019 or early 2020, subject to regulatory approval and certain conditions being met.

APPENDIX G – PRO FORMA FINANCIAL STATEMENTS

Sagicor Financial Company Ltd.
(formerly Alignvest Acquisition II Corporation)

Pro Forma Condensed Consolidated Financial Statements
As of and for the nine months ended September 30, 2018 and for the year
ended December 31, 2017
(Unaudited)

Sagcor Financial Company Ltd. (formerly Alignvest Acquisition II Corporation)

Pro Forma condensed consolidated statement of financial position

As of September 30, 2018

[expressed in thousands of US dollars, unaudited]

	Sagcor Financial Corporation Limited		Notes	Pro-forma consolidated before Proposed Acquisitions	ScotiaLife Trinidad and Tobago Limited as at October 31, 2018	Scotia Jamaica Life Insurance Company Limited		Pro-forma adjustments - Proposed Acquisitions	Notes	Pro-forma consolidated
	\$	\$				\$	\$			
ASSETS										
Investment property	78,901	-	-	78,901	-	-	-	-	-	78,901
Property, plant and equipment	151,782	-	-	151,782	-	47	-	-	-	151,829
Associates and joint ventures	95,535	-	-	95,535	-	-	-	-	-	95,535
Goodwill	-	-	-	-	-	-	-	151,291	Note 3(i)	151,291
Intangible assets	81,521	-	-	81,521	-	606	-	-	-	82,127
Financial instruments	5,077,123	-	-	5,077,123	293,100	394,096	(88,101)	-	Note 3(j), 3(o)	5,676,218
Reinsurance assets	748,965	-	-	748,965	2,207	-	-	-	-	751,172
Income tax assets	46,856	-	-	46,856	-	13,105	-	-	-	59,961
Miscellaneous assets and receivables	162,240	-	-	162,261	13,932	11	-	-	-	176,204
Cash resources	365,170	1,002	225,856	592,028	15,420	37,710	(254,143)	-	Note 3(i), 3(j)	391,015
Restricted cash and assets held in escrow	-	315,573	(315,573)	-	-	-	-	-	-	-
Assets of the discontinued operations	13,301	-	-	13,301	-	-	-	-	-	13,301
Total Assets	6,821,394	316,596	(89,717)	7,048,273	324,659	445,575	(190,953)			7,627,554
LIABILITIES										
Actuarial liabilities	2,974,560	-	-	2,974,560	204,189	334,159	-	-	-	3,512,908
Other insurance liabilities	239,141	-	-	239,141	2,423	-	-	-	-	241,564
Investment contract liabilities	377,192	-	-	377,192	-	-	-	-	-	377,192
Total policy liabilities	3,590,893	-	-	3,590,893	206,612	334,159	-	-	-	4,131,684
Notes and loans payable	404,353	-	-	404,353	-	-	-	-	-	404,353
Deposits and security liabilities	1,632,178	-	-	1,632,178	-	-	-	-	-	1,632,178
Provisions	70,386	-	-	70,386	-	-	-	-	-	70,386
Income tax liabilities	34,165	-	-	34,165	429	-	-	-	-	34,594
Deferred tax liabilities	-	-	-	-	3,921	6,426	-	-	-	10,347
Deferred underwriters' commission	-	10,906	(10,906)	-	-	-	-	-	-	-
Class A restricted voting shares subject to redemption	-	306,618	(306,618)	-	-	-	-	-	-	-
Warrant liability	-	11,049	(11,049)	-	-	-	-	-	-	-
Due to related party	-	142	-	142	-	-	-	-	-	142
Accounts payable and accrued liabilities	193,566	1,337	10,000	204,903	2,897	1,875	22,962	-	Note 3(i)	232,637
Total liabilities	5,925,541	330,052	(318,573)	5,937,020	213,859	342,460	22,962			6,516,301
EQUITY										
Share capital	3,059	11	496,864	499,934	8,775	1,109	(9,884)	-	Note 3(i)	499,934
Share premium	300,471	-	(203,828)	96,643	-	-	-	-	-	96,643
Reserves	(87,911)	-	69,188	(18,723)	848	11,590	(12,438)	-	Note 3(i)	(18,723)
Retained earnings (deficit)	382,488	(13,467)	(133,368)	235,653	101,177	90,416	(191,593)	-	Note 3(i), 3(j)	235,653
Shareholders' equity	598,107	(13,456)	228,856	813,507	110,800	103,115	(213,915)			813,507
Participating accounts	(10,528)	-	-	(10,528)	-	-	-	-	-	(10,528)
Non-controlling interests in subsidiaries	308,274	-	-	308,274	-	-	-	-	-	308,274
Total equity	895,853	(13,456)	228,856	1,111,253	110,800	103,115	(213,915)			1,111,253
Total liabilities and equity	6,821,394	316,596	(89,717)	7,048,273	324,659	445,575	(190,953)			7,627,554

See accompanying notes to the unaudited Pro Forma condensed consolidated financial statements

Sagicor Financial Company Ltd. (formerly Alignvest Acquisition II Corporation)

Pro Forma condensed consolidated statement of income and comprehensive income

Year ended December 31, 2017

[expressed in thousands of US dollars, except per share amounts] [unaudited]

	Alignvest Acquisition II Corporation			Notes	Pro-forma consolidated before Proposed Acquisitions	ScotiaLife Trinidad and Tobago Limited For the year ended October 31, 2017	Scotia Jamaica Life Insurance Company Limited For the year ended December 31, 2017	Pro-forma adjustments - Proposed Acquisitions	Notes	Pro-forma consolidated
	Sagicor Financial Corporation Limited For the year ended December 31, 2017	From commencement of operations on April 28, 2017 to March 31, 2018	Pro-forma adjustments - Sagicor Arrangement							
REVENUE										
Premium revenue	898,354	-	-		898,354	67,660	14,141	-		980,155
Reinsurance premium expense	(152,722)	-	-		(152,722)	(7,686)	(7)	7,686	Note 3(l)	(152,729)
Net premium revenue	745,632	-	-		745,632	59,974	14,134	7,686		827,436
Net investment income	379,236	-	1,969	Note 3(g)	381,205	12,266	27,457	(5,849)	Note 3(k)	415,079
Interest income	-	1,969	(1,969)	Note 3(g)	-	-	-	-		-
Fees and other revenue	93,740	-	-		93,740	238	4,006	-		97,984
Gain arising on disposal	2,261	-	-		2,261	-	3,620	-		5,881
Total revenue	1,220,869	1,969	-		1,222,838	72,478	49,217	1,837		1,346,370
BENEFITS										
Policy benefits and change in actuarial liabilities	720,651	-	-		720,651	48,787	4,302	873	Note 3(l)	774,613
Policy benefits and change in actuarial liabilities reinsured	(114,839)	-	-		(114,839)	-	-	-		(114,839)
Net Policy benefits and change in actuarial liabilities	605,812	-	-		605,812	48,787	4,302	873		659,774
Interest expense	54,949	-	-		54,949	-	-	-		54,949
Total benefits	660,761	-	-		660,761	48,787	4,302	873		714,723
EXPENSES										
Administrative expenses	267,427	1,432	-		268,859	5,407	7,870	(781)	Note 3(m)	281,355
Commissions and related compensation	98,749	-	-		98,749	-	-	13,100	Note 3(n)	111,849
Premium and asset taxes	13,569	-	-		13,569	-	-	-		13,569
Finance costs, net	34,746	-	-		34,746	-	-	-		34,746
Depreciation and amortisation	21,871	-	-		21,871	-	473	-		22,344
Transaction costs	-	17,547	-		17,547	-	-	-		17,547
Net unrealized gain on changes in fair value of financial liabilities	-	(2,072)	2,072	Note 3(h)	-	-	-	-		-
Total expenses	436,362	16,907	2,072		485,341	5,407	8,343	12,319		481,410
INCOME (LOSS) BEFORE TAXES	123,746	(14,938)	(2,072)		106,736	18,284	36,572	(11,355)		150,237
Income taxes	(18,577)	-	-		(18,577)	(4,372)	(9,306)	2,962	Note 3(p)	(29,293)
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	105,169	(14,938)	(2,072)		88,159	13,912	27,266	(8,393)		120,944
Net income from discontinued operation	10,110	-	-		10,110	-	-	-		10,110
NET INCOME (LOSS) FOR THE YEAR	115,279	(14,938)	(2,072)		98,269	13,912	27,266	(8,393)		131,054
Other comprehensive income	64,042	-	-		64,042	743	3,062	-		67,847
TOTAL COMPREHENSIVE INCOME (LOSS)	179,321	(14,938)	(2,072)		162,311	14,655	30,328	(8,393)		198,901
Net income (loss) is attributable to:										
Common shareholders:										
From continuing operations	62,123	(14,938)	(2,072)		45,113	13,912	27,266	(8,393)		77,898
From discontinued operations	10,110	-	-		10,110	-	-	-		10,110
Participating policyholders	72,233	(14,938)	(2,072)		55,223	13,912	27,266	(8,393)		88,008
Non-controlling interests	(1,044)	-	-		(1,044)	-	-	-		(1,044)
	44,090	-	-		44,090	-	-	-		44,090
	115,279	(14,938)	(2,072)		98,269	13,912	27,266	(8,393)		131,054
Earnings (loss) per common share from continuing operations										
Basic	0.204	(1.260)	-		0.824	0.232	0.182	-		1.130
Diluted	0.199	(1.260)	-		0.574	0.232	0.182	-		0.787
Weighted average number of common shares outstanding (000's)										
Basic	304,732	11,858	-	Note 4	106,996	60,000	150,000	-	Note 4	106,996
Diluted	312,619	11,858	-	Note 4	153,719	60,000	150,000	-	Note 4	153,719

See accompanying notes to the unaudited Pro Forma condensed consolidated financial statements

Sagicor Financial Company Ltd. (formerly Alignvest Acquisition II Corporation)

Pro Forma condensed consolidated statement of income and comprehensive income
 Nine months ended September 30, 2018
 [expressed in thousands of US dollars, except per share amounts] [unaudited]

	Sagicor Financial Corporation Limited For the nine months ended September 30, 2018	Alignvest Acquisition II Corporation For the nine months ended September 30, 2018	Pro-forma adjustments - Sagicor Arrangement	Notes	Pro-forma consolidated before Proposed Acquisitions	ScotiaLife Trinidad and Tobago Limited For the nine months ended October 31, 2018	Scotia Jamaica Life Insurance Company Limited For the nine months ended September 30, 2018	Pro-forma adjustments - Proposed Acquisitions	Notes	Pro-forma consolidated
	\$	\$	\$		\$	\$	\$	\$		\$
REVENUE										
Premium revenue	789,117	-	-		789,117	46,758	11,387	-		847,262
Reinsurance premium expense	(69,117)	-	-		(69,117)	(5,922)	-	5,922	Note 3(l)	(69,117)
Net premium revenue	720,000	-	-		720,000	40,836	11,387	5,922		778,145
Net gain on derecognition of financial assets measured at amortized cost	2,747	-	-		2,747	-	-	-		2,747
Interest income earned from financial assets measured at amortised cost and FVOCI	215,359	-	2,827	Note 3(g)	218,186	-	-	-		218,186
Interest income earned from financial assets measured at fair value through profit and loss	10,829	-	-		10,829	-	-	-		10,829
Net investment income	30,492	-	-		30,492	11,088	17,199	(4,387)	Note 3(k)	54,392
Interest income	-	2,827	(2,827)	Note 3(g)	-	-	-	-		-
Fees and other revenue	89,290	-	-		89,290	216	3,239	-		92,745
Gain/Loss arising on disposal	(13)	-	-		(13)	-	5,108	-		5,095
Total revenue	1,068,704	2,827	-		1,071,631	62,140	36,933	1,635		1,162,139
BENEFITS										
Policy benefits and change in actuarial liabilities	519,647	-	-		519,647	32,582	8,822	1,061	Note 3(l)	562,112
Policy benefits and change in actuarial liabilities reinsured	(19,807)	-	-		(19,807)	-	-	-		(19,807)
Net Policy benefits and change in actuarial liabilities	499,840	-	-		499,840	32,582	8,822	1,061		542,305
Interest expense	37,541	-	-		37,541	-	-	-		37,541
Total benefits	537,381	-	-		537,381	32,582	8,822	1,061		579,846
EXPENSES										
Administrative expenses	212,579	1,614	-		214,193	4,363	5,979	(626)	Note 3(m)	223,909
Commissions and related compensation	79,370	-	-		79,370	-	-	10,400	Note 3(n)	89,770
Premium and asset taxes	11,681	-	-		11,681	-	-	-		11,681
Finance costs, net	26,412	-	-		26,412	-	-	-		26,412
Credit impairment losses	96,010	-	-		96,010	(81)	-	-		95,929
Depreciation and amortisation	16,906	-	-		16,906	-	299	-		17,205
Transaction costs	-	862	-		862	-	-	-		862
Net unrealized loss (gain) on changes in fair value of financial liabilities	-	626	(626)	Note 3(h)	-	-	-	-		-
Total expenses	442,958	3,102	(626)		445,434	4,282	6,278	9,774		465,768
INCOME (LOSS) BEFORE TAXES	88,365	(275)	626		88,716	15,276	21,833	(9,300)		116,525
Income taxes	(32,591)	-	-		(32,591)	(1,833)	(5,697)	2,444	Note 3(p)	(37,677)
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	55,774	(275)	626		56,125	13,443	16,136	(6,856)		78,848
Net income from discontinued operation	3,191	-	-		3,191	-	-	-		3,191
NET INCOME (LOSS) FOR THE PERIOD	58,965	(275)	626		59,316	13,443	16,136	(6,856)		82,039
Other comprehensive (loss) income	(65,593)	-	-		(65,593)	725	6,407	-		(58,461)
TOTAL COMPREHENSIVE (LOSS) INCOME	(6,628)	(275)	626		(6,277)	14,168	22,543	(6,856)		23,578
Net income (loss) is attributable to:										
Common shareholders:										
From continuing operations	28,541	(275)	626		28,892	13,443	16,136	(6,856)		51,615
From discontinued operations	3,191	-	-		3,191	-	-	-		3,191
Participating policyholders	31,732	(275)	626		32,083	13,443	16,136	(6,856)		54,806
Non-controlling interests	(7,722)	-	-		(7,722)	-	-	-		(7,722)
	34,955	-	-		34,955	-	-	-		34,955
	58,965	(275)	626		59,316	13,443	16,136	(6,856)		82,039
Earnings (loss) per common share from continuing operations										
Basic	0.093	(0.021)			0.270	0.224	0.108			0.482
Diluted	0.091	(0.021)			0.188	0.224	0.108			0.336
Weighted average number of common shares outstanding (000's)										
Basic	306,892	12,888		Note 4	106,996	60,000	150,000		Note 4	106,996
Diluted	313,637	12,888		Note 4	153,719	60,000	150,000		Note 4	153,719

See accompanying notes to the unaudited Pro Forma condensed consolidated financial statements

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1. Description of Proposed Transaction

On November 27, 2018, Alignvest Acquisition II Corporation (“Alignvest”) announced that it had entered into a definitive arrangement agreement (the “Arrangement Agreement”) with Sagicor Financial Corporation Limited (“Sagicor”) pursuant to which, among other things, Alignvest shall acquire, directly or indirectly, all of the shares of Sagicor by way of a scheme of arrangement under the laws of Bermuda, where Sagicor is incorporated (the “Sagicor Arrangement”).

The Sagicor Arrangement constitutes Alignvest’s proposed qualifying transaction, which is subject to shareholder approval by both companies shareholders and the holders of Alignvest Class A Restricted Voting Shares can (conditional on closing) elect to redeem all or a portion of their Alignvest Class A Restricted Voting Shares. The Sagicor Arrangement is also conditional on Alignvest having available, immediately prior to closing, a minimum cash amount of at least \$220,000 (net of certain expenses, deferred underwriters commission and applicable redemptions of Alignvest Class A Restricted Voting Shares).

Existing shareholders of Alignvest who do not redeem their shares will continue to hold an interest in Alignvest after giving effect to the Sagicor Arrangement. In connection with the Sagicor Arrangement, Alignvest is expected to be renamed Sagicor Financial Company Ltd. and will continue from the laws of Ontario to the laws of Bermuda. On closing, Sagicor Financial Company Ltd. (“New Sagicor”) will own 100% of Sagicor.

As part of this transaction, subject to certain limitations, each of Sagicor’s eligible existing shareholders (excluding the Company’s management team and continuing directors, all of whom have elected to roll 100% of their equity into this transaction) will have the option of tendering up to 10,000 shares for US\$1.75 of cash, up to a total cash share purchase of US\$205 million less certain other amounts, as per the scheme of arrangement and the arrangement agreement. Each share of Sagicor not purchased for cash will be exchanged for 4.424 (assuming a Canadian dollar to US dollar foreign exchange rate of 0.77417) common shares of New Sagicor.

Sagicor has recently entered into definitive agreements to acquire all of the shares of Scotia Jamaica Life Insurance Company Limited (“SJLIC”) and all of the shares of ScotiaLife Trinidad and Tobago Limited (“SLTT”) (collectively the “Proposed Acquisitions”). The acquisition of SJLIC and SLTT are not inter-conditioned on each other. However, they are each conditional on the completion of the Sagicor Arrangement. They are not expected to be completed until after the closing of the Sagicor Arrangement, and are thus not part of Alignvest’s proposed qualifying acquisition.

2. Basis of Presentation

The unaudited Pro Forma condensed consolidated statement of financial position as of September 30, 2018, the unaudited Pro Forma condensed consolidated statements of income and comprehensive income for the nine months ended September 30, 2018 and for the year ended December 31, 2017 and the notes thereto (collectively, the “Pro Forma Financial Information”) of Sagicor Financial Company Limited were prepared in connection with the related proposed Sagicor Arrangement and Proposed Acquisitions as discussed above.

While Alignvest is the legal acquirer of Sagicor, Sagicor has been identified as the acquirer for accounting purposes. As Alignvest does not meet the definition of a business as defined in *IFRS 3 - Business Combinations* (“IFRS 3”), the acquisition is not within the scope of IFRS 3 and is accounted for as a share-based payment transaction in accordance with IFRS 2 – Share-based Payments (“IFRS 2”). The Pro Forma Financial Information represents the continuance of Sagicor and reflects the identifiable assets acquired and the liabilities assumed of Alignvest at fair value. Under IFRS 2, the transaction is measured at fair value of the common shares deemed to have been issued by Sagicor in order for the ownership interest in the combined entity to be the same as if the transaction had taken the legal form of Sagicor acquiring 100% of Alignvest. Any difference in the fair value of the common shares deemed to have been issued by Sagicor and the fair value of Alignvest’s identifiable net assets acquired and liabilities assumed represents a listing expense.

The Proposed Acquisitions of SJLIC and SLTT are accounted for in accordance with IFRS 3 in the Pro Forma Financial Information.

The Pro Forma Financial Information was prepared for illustrative purposes only, in compliance with National Instrument 44-101F1.

The Pro Forma Financial Information is derived from and should be read in conjunction with the following:

- the unaudited condensed consolidated financial statements of Sagicor as of and for the nine-months ended

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September 30, 2018;

- the audited consolidated financial statements of Sagikor as of and for the year ended December 31, 2017;
- the unaudited interim condensed financial statements of Alignvest as of and for the six months ended September 30, 2018;
- the audited financial statements of Alignvest as of March 31, 2018 and for the period from commencement of operation on April 28, 2017 to March 31, 2018;
- the unaudited interim condensed financial statements of Alignvest as of December 31, 2017 and for the period from commencement of operations on April 28, 2017 to December 31, 2017;
- the unaudited condensed interim financial statements of SJLIC as of and for the nine months ended September 30, 2018;
- the audited financial statements of SJLIC as of and for the year ended December 31, 2017;
- the audited financial statements of SLTT as of and for the year ended October 31, 2018; and
- the audited financial statements of SLTT as of and for the year ended October 31, 2017.

The unaudited Pro Forma condensed consolidated statement of income and comprehensive income for the nine months ended September 30, 2018 and for the year ended December 31, 2017, give pro forma effect to the Sagikor Arrangement and the Proposed Acquisitions as if they had occurred on January 1, 2017. The unaudited Pro Forma condensed consolidated statement of financial position as of September 30, 2018 assumes that the Sagikor Arrangement and the Proposed Acquisitions were completed on September 30, 2018.

As the fiscal periods of Sagikor and Alignvest differ by less than 93 days, the unaudited Pro Forma condensed consolidated statement of income and comprehensive income for the year ended December 31, 2017 was derived by combining the audited consolidated statement of income and comprehensive income of Sagikor for the year ended December 31, 2017 with the audited statement of operations and comprehensive income (loss) of Alignvest from commencement of operations on April 28, 2017 to March 31, 2018. For the unaudited Pro Forma condensed consolidated statement of income and comprehensive income for the nine months ended September 30, 2018, the Alignvest financial information was constructed by adding: [i] the financial data from Alignvest unaudited statement of operations and comprehensive income (loss) for the six months ended September 30, 2018; and [ii] the financial data of Alignvest for the three months ended March 31, 2018, which is derived by subtracting the financial data from Alignvest unaudited statement of operations and comprehensive income (loss) from commencement of operations on April 28, 2017 to December 31, 2017 from the financial data from Alignvest audited statement of operations and comprehensive income (loss) from commencement of operations on April 28, 2017 to March 31, 2018. The financial data of Alignvest for the three months ended March 31, 2018 was as follows:

	\$
Interest income	814
Transaction costs	(878)
Administrative expenses	(467)
Net unrealized loss on changes in fair value of financial liabilities	(1,089)
Net loss for the period	(1,620)

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As the fiscal periods of Sagicor and SLTT differ by less than 93 days, the unaudited Pro Forma condensed consolidated statement of income and comprehensive income for the year ended December 31, 2017 was derived by combining the audited consolidated statement of income and comprehensive income of Sagicor for the year ended December 31, 2017 with the audited statement of profit or loss and other comprehensive income of SLTT for the year ended October 31, 2017. For the unaudited Pro Forma condensed consolidated statement of income and comprehensive income for the nine months ended September 30, 2018, the SLTT financial information was constructed by subtracting: [i] the financial data from SLTT internal unaudited statement of profit or loss and other comprehensive income for the three months ended January 31, 2018; from [ii] the financial data of SLTT from the audited statement of profit or loss and other comprehensive income for the year ended October 31, 2018. The financial data of SLTT for the three months ended January 31, 2018 was as follows:

	ScotiaLife Trinidad and Tobago Limited For the three months ended January 31, 2018	\$
REVENUE		
Premium revenue	18,713	
Reinsurance premium expense	(2,030)	
Net premium revenue	16,683	
Net investment income	3,515	
Fees and other revenue	66	
Total revenue	20,264	
BENEFITS		
Policy benefits and change in actuarial liabilities	14,202	
Total benefits	14,202	
EXPENSES		
Administrative expenses	1,568	
Credit impairment losses	22	
Total expenses	1,590	
INCOME BEFORE TAXES	4,472	
Income taxes	(989)	
NET INCOME FROM CONTINUING OPERATIONS	3,483	
Other comprehensive loss	(109)	
TOTAL COMPREHENSIVE INCOME	3,374	

The Pro Forma Financial Information is for illustrative and information purposes only and may not be indicative of the operating results or financial condition that actually would have been achieved if the Sagicor Arrangement and the Proposed Acquisitions had been in effect on the dates indicated or of the results that may be obtained in the future. The historical consolidated financial statements have been adjusted in the Pro Forma Financial Information to give effect to Pro Forma events that are (1) directly attributable to the Sagicor Arrangement and Proposed Acquisitions, (2) factually supportable and (3) with respect to the statements of income and comprehensive income, expected to have a material continuing impact on the results of New Sagicor.

The accounting policies used in the preparation of the Pro Forma Financial Information are consistent with those described in the audited consolidated financial statements of Sagicor as of and for the year ended December 31, 2017 and the unaudited condensed consolidated financial statements of Sagicor as of and for the nine months ended September 30, 2018.

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The Pro Forma adjustments contained in these unaudited pro forma condensed consolidated financial statements reflect estimates and assumptions by the management of Sagicor based on currently available information. Sagicor's management believes that such assumptions provide a reasonable basis for presenting all of the significant effects of the proposed Sagicor Arrangement and the Proposed Acquisitions contemplated and that the Pro Forma adjustments give appropriate effect to those assumptions and are properly applied in the Pro Forma Financial Information.

Actual amounts recorded upon consummation of the proposed Sagicor Arrangement and the Proposed Acquisitions will differ from such Pro Forma Financial Information. Since the Pro Forma Financial Information was developed retroactively to show the effect of the proposed Sagicor Arrangement and the Proposed Acquisitions that is expected to occur at a later date (even though this was accomplished by following generally accepted practice and using reasonable assumptions), there are limitations inherent in the very nature of such Pro Forma Financial Information.

The historical financial information of Alignvest, SJLIC and SLTT has been translated to U.S. dollars using the average and period end spot rates of exchange for the U.S. dollar, expressed in Canadian dollars as follows:

	Canadian dollar to U.S. dollar	Jamaican dollar to U.S. dollar	Trinidad and Tobago dollar to U.S. dollar
Pro Forma condensed consolidated statement of income and comprehensive income for the year ended December 31, 2017	0.782597	0.007712	0.145995
Pro Forma condensed consolidated statement of income and comprehensive income for the nine months ended September 30, 2018	0.776782	0.007736	0.147043
Pro Forma condensed consolidated statement of financial position as at September 30, 2018	0.774170	0.007390	0.146250

Non-historical financial information has been translated to U.S. dollars using the same period end spot rates as the pro forma condensed consolidated statement of financial position as at September 30, 2018.

3. Pro Forma Condensed Consolidated Statement of Financial Position Adjustments and Pro Forma Condensed Consolidated Statement of Income and Comprehensive Income Adjustments

The Pro Forma adjustments contained in these unaudited Pro Forma condensed consolidated financial statements reflect estimates and assumptions by management of Sagicor based on currently available information.

- [a] This adjustment relates to the closing of the Sagicor Arrangement. This adjustment has been presented assuming no redemption of Alignvest's Class A Restricted Voting Shares, prior to the closing of the Sagicor Arrangement. The adjustment includes the following elements: [i] the investment in Canadian Government securities of \$315,573 (CAD \$407,627) is released from escrow and converted into cash resources, and [ii] a portion of the funds released from escrow are used to pay deferred underwriters commission of \$10,906.

The number of Alignvest Class A Restricted Voting Shares that will be redeemed will occur at the time of completion of the Sagicor Arrangement cannot be known until shortly before the time that the Sagicor Arrangement is effected. The redemption of no Alignvest Class A Restricted Voting Shares used in the pro forma financial statements is an assumption for illustrative purposes.

From a sensitivity perspective, if this adjustment had been presented assuming a redemption of approximately 50% of Alignvest Class A Restricted Voting Shares, then the investment in Canadian Government securities of \$315,573 would have been released from escrow with \$157,787 converted into cash resources and \$157,786 used to settle the redemption of 50% Alignvest Class A Restricted Voting Shares. If this adjustment had been presented assuming a redemption of 25% of the Alignvest Class A Restricted Voting Shares, or the midpoint of the range between no redemptions and the foregoing, then the investment in Canadian Government securities of \$315,573 would have been released from escrow with \$236,680 converted into cash resources and \$78,893 used to settle the assumed redemption of Alignvest Class A Restricted Voting Shares.

- [b] At initial public offering, certain institutional and accredited investors, including Alignvest Partners Master Fund LP, an affiliate of Alignvest II LP, and certain directors or members of the advisory board (or companies controlled by them) of Alignvest (the "Forward Purchasers"), entered into forward purchase agreements with

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Alignvest (the “Forward Purchase Agreements”) to purchase, among other things, an aggregate of 11,300,000 common shares and one-third of a share purchase warrant per common share, for an aggregate of 3,766,659 warrants, through a private placement which would occur concurrently with the closing of the Sagicor Arrangement for an aggregate proceeds of \$87,481 (CAD \$113,000). Each whole warrant entitles the holder thereof to purchase one common share at an exercise price of CAD \$11.50, commencing 30 days after the completion of the Sagicor Arrangement. The obligations under the Forward Purchase Agreements do not depend on the nature of the Qualifying Acquisition or the number of Class A Restricted Voting Shares redeemed.

Immediately prior to the closing of the Sagicor Arrangement, it is expected that the current cashless exercise feature of the warrants will be eliminated, subject to the receipt of the required approval of the warrant holders. Elimination of the cashless exercise feature results in the warrants meeting the “fixed-for-fixed” criteria for equity classification. As a result, the warrants have been classified as equity instruments. As a result, the total fair value of the warrants of \$37,388 is included within equity. The fair value of warrants was estimated based on Black-Scholes pricing model using the following assumptions:

Grant date share price	CAD \$10
Exercise price	CAD \$11.50
Risk-free interest rate	2.33%
Expected life (years)	5.0
Expected annualized volatility	27.1%
Expected dividend yield	3.65%

Total cash proceeds received for the issuance of these common shares and warrants on closing of the Sagicor Arrangement of \$87,481 has been allocated to common shares.

On November 23, 2018, certain institutional and accredited investors entered into subscription agreements with Alignvest to purchase, an aggregate of 5,000,000 Class B Shares through a private placement which would occur concurrently with the closing of the Sagicor Arrangement for an aggregate proceeds of \$38,708 (CAD \$50,000). All Class B Shares will be converted into common shares of Alignvest concurrently with the closing of the Sagicor Arrangement.

Total cash proceeds received for the issuance of these common shares on closing of the Sagicor Arrangement of \$38,708 has been allocated to common shares.

- [c] The adjustment to increase accounts payable and accrued liabilities is to accrue for Sagicor’s estimated transaction costs of \$10,000 expected to be incurred to complete the proposed Sagicor Arrangement and the Proposed Acquisitions.
- [d] The acquisition of Sagicor by Alignvest constitutes a reverse asset acquisition as Alignvest does not meet the definition of a business, as defined in IFRS 3 and is accounted for in accordance with IFRS 2. Accordingly, as a result of the Arrangement, the Pro Forma condensed consolidated statement of financial position has been adjusted for the elimination of Alignvest’s share capital of \$437,803 and deficit of \$39,806 within equity.
- [e] As a result of this reverse asset acquisition, a listing expense of \$125,966 has been recorded to reflect the difference between the estimated fair value of the Sagicor common shares and warrants deemed issued to the shareholders of Alignvest less the net fair value of the assets of Alignvest acquired.

In accordance with reverse acquisition accounting:

- i. The assets and liabilities of Sagicor are included in the Pro-Forma condensed consolidated statement of financial position at their carrying values;
- ii. The net assets of Alignvest are included at their fair value of \$430,400 (equal to the carrying value of these net assets given the current nature of the net assets);

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- iii. The net assets have been allocated as follows:

	\$
Cash	1,002
Investments released from escrow and converted into cash	315,573
Cash proceeds from Forward Purchase Agreements	87,481
Cash from subscription agreements	38,708
Cash paid on settlement of deferred underwriter's commission	(10,906)
Prepaid expenses	21
Accounts payable and accrued liabilities	(1,337)
Due to related party	(142)
Net Assets	430,400

- iv. The fair value of the consideration issued was determined as follows:

The fair value of the consideration issued to acquire Alignvest under reverse takeover accounting is assumed to be \$556,366 calculated as 62,929,500 common shares at \$7.74 per common share, 6,508,000 contingent common shares with fair value of \$4.89 per contingent common share and 34,941,659 warrants with fair value of \$1.07 per warrant. The fair value per common share is the expected share price of Sagicor based on the cash offer to purchase common shares pursuant to the Arrangement.

The fair value of contingent common shares was determined using probability weighted model with a market price per common share of \$7.74 resulting in total fair value of \$31,800.

The fair value of warrants was determined based on the Black-Scholes pricing model, the total fair value of the warrants is \$1.07 using the following assumptions:

Grant date share price	CAD \$10
Exercise price	CAD \$11.50
Risk-free interest rate	2.33%
Expected life (years)	5.0
Expected annualized volatility	27.1%
Expected dividend yield	3.65%

On closing of the arrangement, it has been assumed that the cashless exercise feature of the warrants will be eliminated resulting in warrants being classified as equity.

- v. The difference between the fair value of consideration attributed to Alignvest of \$556,366 and the estimated fair value of the net assets of Alignvest of \$430,400 amounts to a listing expense of \$125,966.
- [f] Pursuant to the Arrangement, Alignvest expects to purchase 117,142,857 common shares of Sagicor from the shareholders of Sagicor for total cash proceeds of \$205,000. As Sagicor is the accounting acquirer, these shares are deemed to be repurchased by Sagicor resulting in reduction of cash resources, share capital and share premium accounts in the amount of \$205,000, \$1,169 and \$203,831, respectively.
- [g] The adjustment is to reclassify Alignvest's historical interest income from revenue to net investment income for the year ended December 31, 2017 and to interest income earned from financial assets measured at amortized cost and FVOCI for the nine months ended September 30, 2018 to be consistent with Sagicor's financial statement presentation.
- [h] The adjustment is to eliminate unrealized gain/loss on changes in fair value of financial liabilities as the Class A restricted voting shares and warrants are converted into equity immediately prior to the completion of the Sagicor Arrangement.
- [i] Sagicor has recently entered into definitive agreements to acquire all of the shares of Scotia Jamaica Life Insurance Company Limited ("SJLIC") and all of the shares of ScotiaLife Trinidad and Tobago Limited ("SLTT") (collectively "Proposed Acquisitions"). The acquisition of SJLIC and SLTT are not inter-conditioned on each

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other but both are conditional on the completion of the Sagicor Arrangement. They are not expected to be completed until after the closing of the Sagicor Arrangement and are thus not part of the Alignvest's qualifying acquisition.

The preliminary purchase price for the acquisition of SJLIC and SLTT is \$156,987 and \$105,975, respectively. The combined purchase price is comprised of \$240,000 in cash on date of closing and estimated shareholders equity adjustments of \$22,962 which has been recognized as a liability.

Assuming an acquisition date of September 30, 2018, the following is a preliminary estimate of the values of the assets to be acquired and the liabilities to be assumed by Sagicor in connection with the Proposed Acquisitions:

	Scotia Jamaica Life Insurance Company Limited	ScotiaLife Trinidad and Tobago Limited	Total Preliminary Estimated Purchase Price Allocation
	\$	\$	\$
Property , plant and equipment	47	-	47
Goodwill and other potential intangibles	92,259	59,032	151,291
Intangible assets	606	-	606
Financial instruments	369,852	229,243	599,095
Reinsurance assets	-	2,207	2,207
Income tax assets	13,105	-	13,105
Miscellaneous assets and receivables	11	13,932	13,943
Cash resources	23,567	15,420	38,987
Actuarial liabilities	(334,159)	(204,189)	(538,348)
Other insurance liabilities	-	(2,423)	(2,423)
Income tax liabilities	-	(429)	(429)
Deferred tax liabilities	(6,426)	(3,921)	(10,347)
Accounts payable and accrued liabilities	(1,875)	(2,897)	(4,772)
Purchase consideration	156,987	105,975	262,962

The above values are based on the carrying value of the assets and liabilities of SJLIC and SLTT which management has determined to be a reasonable estimate of their fair value. These values are however subject to change once a more detailed fair value exercise has been completed. Any differences between the carrying value and the fair value of assets acquired and liabilities assumed would result in a respective change in goodwill and other potential intangibles. Sagicor's management believes the fair values recognized are based on reasonable estimates derived from currently available information. A final determination of the fair value of assets acquired and liabilities assumed will be based on the actual assets and liabilities of SJLIC and SLTT that exist as of the closing date of the acquisition and, therefore, will be finalized in due course.

Goodwill and other potential intangible assets arising on the acquisition of SJLIC and SLTT are estimated to be \$151,291. Finite-lived and indefinite lived intangible assets expected to be separately recognized include insurance licenses, customer relationships, distribution networks and participation rights. Any such intangible assets, which could be material in amount, can only be determined upon completion of detailed valuation work on closing of the Proposed Acquisitions.

Equity of SJLIC and SLTT was eliminated on consolidation.

- [j] Prior to the close of the Proposed Acquisitions, SJLIC and SLTT will declare dividends or other distributions of for excess capital in the business to the current shareholders of SJLIC and SLTT, respectively. As at September 30, 2018, the estimated amount was \$38,387 and \$63,241 for SJLIC and SLTT, respectively. This amount resulted in reduction of cash in SJLIC of \$14,143 and reduction of financial instruments in SJLIC and SLTT in the amount of \$24,244 and \$63,241, respectively.

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- [k] The adjustment represents foregone interest on excess capital discussed above. The adjustment was calculated based on average yield of 7% and 5% for SJLIC and SLTT, respectively. The adjustment for the year ended December 31, 2017 for SJLIC and SLTT is \$2,687 and 3,162, respectively. The same adjustment for the nine months ended September 30, 2018 for SJLIC and SLTT is \$2,015 and \$2,372, respectively.
- [l] The adjustment represents the termination of SLTT intercompany reinsurance contracts. The adjustment is reduction in reinsurance premium expense and reduction in reinsurance claims recovery resulting in net adjustment for the year ended December 31, 2017 and for the nine months ended September 30, 2018 of \$6,813 and \$4,861, respectively.
- [m] The adjustment represents termination of SLTT intercompany commission fee arrangement. The adjustment for the year ended December 31, 2017 and for the nine months ended September 30, 2018 was \$781 and \$626, respectively.
- [n] In conjunction with the proposed acquisition of SLTT, New Sagicor will enter into a “bancassurance” -type agreement with the seller of SLTT and SJLIC, Scotiabank Caribbean Holdings Limited (“S Caribbean”), whereby New Sagicor will be permitted to sell its products – on a white-label basis – to S Caribbean’s banking customers. In return, New Sagicor will pay commission to S Caribbean. The commission rate will vary depending on the type of product sold.

The adjustment represents estimated commission expense to S Caribbean as if the proposed acquisition of SLTT had occurred on January 1, 2017. For the year ended December 31, 2017, the commission expense is \$6,900 and \$6,200 for SLTT and SJLIC, respectively. For the nine months ended September 30, 2018, the commission expense is \$5,500 and \$4,900 for SLTT and SJLIC, respectively. The pro forma adjustment was calculated by applying the contractual commission rates to actual historical results of SLTT and SJLIC.

- [o] Sagicor adopted IFRS 9 – *Financial Instruments* (“IFRS 9”) and IFRS 15 – *Revenue from Contracts with Customers* (“IFRS 15”) on January 1, 2018. Because SLTT has not yet adopted IFRS 9 and IFRS 15, this pro forma adjustment reflects the estimated impact of adoption of IFRS 9 and IFRS 15 to conform SLTT’s accounting policies to that of Sagicor. For the pro forma condensed consolidated statement of financial position, the adoption of IFRS 9 will reduce financial assets and shareholder’s equity in the amount of \$616. For the pro forma condensed consolidated statement of income and comprehensive income for the nine months ended September 30, 2018, the adoption of IFRS 9 did not have a material impact on SLTT. There was no impact from adoption of IFRS 15 on SLTT’s financial information.
- [p] Adjustment represents the tax impact of the adjustments related to the Proposed Acquisitions above. The tax rate applied to the adjustments for SJLIC and SLTT was 25% and 30%, respectively.
- [q] This adjustment reflects 1,403,928 common shares issuable on closing of the Sagicor Arrangement to Sagicor executives in consideration for their agreement to reduce their severance entitlement and to change their “single trigger” feature into a more customary “double trigger” formulation. The fair value of the common shares of \$10,869 is recognized as expense immediately on closing of the Sagicor Arrangement resulting in a pro-forma adjustment to retained earnings and share capital of \$10,869.

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[r] The following table provides a reconciliation of pro-forma consolidated cash resources balance:

	Notes	\$
Sagicor balance as of September 30, 2018		365,170
Alignvest balance as of September 30, 2018		1,002
Alignvest cash released from escrow	Note 3(a)	315,573
Cash from forward purchase agreements	Note 3(b)	87,481
Cash from subscription agreements	Note 3(b)	38,708
Purchase of Sagicor shares	Note 3(f)	(205,000)
Payment of underwriters' deferred commission	Note 3(a)	(10,906)
Pro-forma cash resources before Proposed Acquisitions		592,028
SJLIC balance as of September 30, 2018		37,710
SLTT balance as of October 31, 2018		15,420
Dividend distribution prior to closing of Proposed Acquisitions	Note 3(j)	(14,143)
Cash consideration for acquisition of SJLIC and SLTT	Note 3(i)	(240,000)
Pro-forma consolidated cash resources		391,015

From a sensitivity perspective, assuming redemptions of approximately 50% of Alignvest Class A Restricted Voting Shares, the pro-forma consolidated cash resources would be \$233,229 and assuming redemptions of approximately 25% of Alignvest Class A Restricted Voting Shares, the pro-forma consolidated cash resources would be \$312,122.

4. Pro Forma Income per Common Share

For purposes of the Pro Forma Financial Information, the Pro Forma earnings per share figures have been calculated using the Pro Forma weighted average number of shares which would have been outstanding for the nine months ended September 30, 2018 and the year ended December 31, 2017, respectively, assuming the completion of the Sagicor Arrangement and the Proposed Acquisitions on January 1, 2017.

Shares outstanding (000's)	Pro Forma (Assuming No Redemptions)
Basic	
Common shares arising from conversion of Alignvest Class A Restricted Voting Shares	40,250
Common shares arising from conversion of Alignvest Class B Shares	6,380
Common shares issued pursuant to forward agreements and subscription agreements	16,300
Common shares issued to existing shareholders of Sagicor	42,662
Common shares issued to executives of Sagicor	1,404
Total basic shares outstanding	106,996
Diluted	
Common shares arising from exercise of Alignvest warrants	34,942
Common shares arising from conversion of Alignvest Contingent Class B Founder Shares	6,508
Common shares arising from exercise of Sagicor LTI restricted stock and stock options	5,274
Total diluted shares outstanding	153,719

APPENDIX H – HISTORICAL FINANCIAL STATEMENTS OF SJLIC AND SLTT

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Unaudited Condensed Interim Statement of Profit or Loss and Other Comprehensive Income
Nine-month period ended September 30, 2018***(expressed in thousands of Jamaican dollars unless otherwise stated)*

	2018	2017
Income		
Premium income, net of reinsurance	1,471,995	1,365,891
Investment income	2,223,195	2,677,007
Fee and commission income, net	418,660	384,493
Realised gains, net	<u>660,290</u>	<u>473,157</u>
	<u>4,774,140</u>	<u>4,900,548</u>
Policyholders' benefits and expenses		
Policyholders' benefits and reserves	1,140,434	711,272
Salaries, pension contributions and other staff benefits	403,309	349,578
Property expenses, including depreciation	38,626	40,454
Other operating expenses	<u>369,620</u>	<u>367,537</u>
	<u>1,951,989</u>	<u>1,468,841</u>
Profit before taxation	2,822,151	3,431,707
Taxation	(736,409)	(780,431)
Net profit	<u>2,085,742</u>	<u>2,651,276</u>
Other comprehensive income		
Items that may be reclassified to profit or loss:		
Realised gains on available-for-sale financial assets	(273,721)	(469,199)
Unrealised gains on available-for-sale financial assets	1,378,057	327,163
Deferred income tax relating to components of other comprehensive income	(276,084)	<u>35,509</u>
Other comprehensive income/(loss) for the period, net of tax	<u>828,252</u>	<u>(106,527)</u>
Total comprehensive income for the period	<u>2,913,994</u>	<u>2,544,749</u>

The accompanying notes form an integral part of the unaudited condensed interim financial statements.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Unaudited Condensed Interim Statement Profit or Loss and Other Comprehensive Income**
Three-month period ended September 30, 2018*(expressed in thousands of Jamaican dollars unless otherwise stated)*

	2018	2017
Income		
Premium income, net of reinsurance	521,571	471,711
Investment income	673,788	931,682
Fee and commission income, net	144,235	131,922
Realised gains, net	<u>660,290</u>	<u>212,242</u>
	<u>1,999,884</u>	<u>1,747,557</u>
Policyholders' benefits and expenses		
Policyholders' benefits and reserves	498,438	419,680
Salaries, pension contributions and other staff benefits	133,998	115,445
Property expenses, including depreciation	11,352	11,681
Other operating expenses	<u>59,903</u>	<u>74,581</u>
	<u>703,691</u>	<u>621,387</u>
Profit before taxation	1,296,193	1,126,170
Taxation	(314,123)	(223,185)
Net profit	<u>982,070</u>	<u>902,985</u>
Other comprehensive income		
Items that may be reclassified to profit or loss:		
Realised gains on available-for-sale financial assets	(273,721)	(212,230)
Unrealised gains on available-for-sale financial assets	(124,508)	116,666
Deferred income tax relating to components of other comprehensive income	<u>99,557</u>	<u>23,891</u>
Other comprehensive loss for the period, net of tax	<u>(298,672)</u>	<u>(71,673)</u>
Total comprehensive income for the period	<u>683,398</u>	<u>831,312</u>

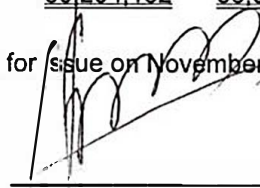
The accompanying notes form an integral part of the unaudited condensed interim financial statements.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Unaudited Condensed Interim Statement of Financial Position****September 30, 2018***(expressed in thousands of Jamaican dollars unless otherwise stated)*

	September 2018	September 2017	December 2017
ASSETS			
Cash resources			
Certificate of deposits with the Bank of Jamaica maturing within 90 days of the original purchase date	3,334,939	1,701,821	-
Accounts with parent company	<u>1,767,907</u>	<u>933,907</u>	<u>1,233,418</u>
	5,102,846	2,635,728	1,233,418
Certificate of deposits with the Bank of Jamaica maturing within 90 days of the original purchase date	<u>-</u>	<u>658,480</u>	<u>661,061</u>
	<u>5,102,846</u>	<u>3,294,208</u>	<u>1,894,479</u>
Government securities purchased under resale agreements	<u>-</u>	<u>1,002,704</u>	<u>-</u>
Investment securities			
Available for sale	51,897,063	49,046,438	52,338,230
Held to maturity	<u>-</u>	<u>1,030,587</u>	<u>1,028,804</u>
	<u>51,897,063</u>	<u>50,077,025</u>	<u>53,367,034</u>
Loans and receivables - Policy loans	<u>1,431,184</u>	<u>1,658,089</u>	<u>1,625,365</u>
Other assets			
Property, plant and equipment	6,317	8,713	8,537
Intangible assets, computer software	81,985	83,197	83,481
Taxation recoverable	1,773,325	831,479	974,831
Other assets	<u>1,442</u>	<u>1,125</u>	<u>1,324</u>
	<u>1,863,069</u>	<u>924,514</u>	<u>1,068,173</u>
	<u>60,294,162</u>	<u>56,956,540</u>	<u>57,955,051</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Policyholders' liabilities	<u>45,217,708</u>	<u>45,192,993</u>	<u>44,780,291</u>
Other liabilities			
Sundry liabilities	253,705	125,561	227,199
Taxation payable	-	121,800	281,643
Deferred tax liabilities	<u>869,597</u>	<u>315,668</u>	<u>529,079</u>
	<u>1,123,302</u>	<u>563,029</u>	<u>1,037,921</u>
Shareholders' equity			
Share capital	150,000	150,000	150,000
Cumulative re-measurement result from available for sale financial assets	1,552,232	492,264	995,815
Unappropriated profits	<u>12,250,920</u>	<u>10,558,254</u>	<u>10,991,024</u>
	<u>13,953,152</u>	<u>11,200,518</u>	<u>12,136,839</u>
	<u>60,294,162</u>	<u>56,956,540</u>	<u>57,955,051</u>

The financial statements on pages 3 to 13 were approved for issue on November 23, 2018 and signed on its behalf by:


Michelle Wright CFO, Caribbean Central


Adrian Stokes President, SJLIC

The accompanying notes form an integral part of the unaudited condensed interim financial statements.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Unaudited Condensed Interim Statement of Changes in Shareholders' Equity**
Nine-month period ended September 30, 2018*(expressed in thousands of Jamaican dollars unless otherwise stated)*

	Share capital	Cumulative re-measurement result from available for sale financial assets	Unappropriated profits	Total
Balances at December 31, 2016	150,000	598,791	11,162,424	11,911,215
Net profit for the period	-	-	2,651,276	2,651,276
Other comprehensive loss	-	(106,527)	-	(106,527)
Total comprehensive (loss)/income	-	(106,527)	2,651,276	2,544,749
Dividends	-	-	(3,255,446)	(3,255,446)
Balances September 30, 2017	<u>150,000</u>	<u>492,264</u>	<u>10,558,254</u>	<u>11,200,518</u>
Impact of initial application of IFRS 9	-	(271,835)	168,247	(103,588)
Adjusted balance as at December 31, 2017	<u>150,000</u>	<u>723,980</u>	<u>11,159,271</u>	<u>12,033,251</u>
Net profit for the period	-	-	2,085,742	2,085,742
Other comprehensive income	-	828,252	-	828,252
Total comprehensive income	-	828,252	2,085,742	2,913,994
Dividends	-	-	(994,093)	(994,093)
Balances at September 30, 2018	<u>150,000</u>	<u>1,552,232</u>	<u>12,250,920</u>	<u>13,953,152</u>

The accompanying notes form an integral part of the unaudited condensed interim financial statements.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Unaudited Condensed Interim Statement of Cash Flows****Nine-month period ended September 30, 2018***(expressed in thousands of Jamaican dollars unless otherwise stated)*

	2018	2017
Cash flows from operating activities		
Net profit for the period	2,085,742	2,651,276
Items not affecting cash:		
Investment income	(2,223,195)	(2,677,007)
Interest credited to policyholders and annuitants	1,064,230	1,149,393
Transfer from actuarial reserves	(76,466)	(590,716)
Taxation	736,409	780,431
Depreciation and amortization	<u>3,717</u>	<u>3,719</u>
	1,590,437	1,317,096
Changes in operating assets and liabilities		
Taxation recoverable	(578,149)	(21,506)
Other assets	(118)	(316)
Policyholders' liabilities	(550,344)	(354,493)
Other liabilities	<u>26,506</u>	<u>(52,590)</u>
	488,332	888,191
Interest received	2,563,310	2,680,058
Income tax paid	<u>(1,148,727)</u>	<u>(749,234)</u>
Net cash provided by operating activities	<u>1,902,915</u>	<u>2,819,015</u>
Cash flows from investing activities		
Purchase of intangible asset	-	(5,898)
Investment securities, net	2,115,218	1,758,544
Loans and receivables – Policy loans	188,832	(27,841)
Certificate of deposits with the Bank of Jamaica	<u>657,578</u>	<u>(457,375)</u>
Net cash provided by investing activities	<u>2,961,628</u>	<u>1,267,430</u>
Net cash provided before dividend payments		
Dividends paid	<u>(994,093)</u>	<u>(3,255,446)</u>
Net increase in cash and cash equivalents	3,870,450	830,999
Cash and cash equivalents at beginning of period	<u>1,232,396</u>	<u>1,804,729</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>5,102,846</u>	<u>2,635,728</u>

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

Notes to the Unaudited Condensed Interim Financial Statements September 30, 2018

(expressed in thousands of Jamaican dollars unless otherwise stated)

1. Identification, activities and licence

The company is a wholly owned subsidiary of The Bank of Nova Scotia Jamaica Limited, which is in turn a 100% subsidiary of Scotia Group Jamaica Limited. Both these companies are incorporated and domiciled in Jamaica. Scotia Group Jamaica Limited is a 71.78% subsidiary of Scotiabank Caribbean Holdings Limited, which is incorporated and domiciled in Barbados. The Bank of Nova Scotia, which is incorporated and domiciled in Canada, is the ultimate parent. The registered office of the company is located at Scotiabank Centre, Corner of Duke and Port Royal Streets, Kingston.

The company was incorporated in Jamaica on October 26, 1995 and was licensed as an insurance company on January 22, 1998 under the Insurance Act 1971, which was replaced by the Insurance Act 2001 and the Insurance Regulations 2001.

The principal activity of the company is the provision of long term life and health insurance and annuities.

2 Basis of accounting

Statement of compliance

These condensed interim financial statements for the nine-month period have been prepared in accordance with IAS 34 Interim Financial Reporting. They do not include all the information required for a complete set on IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the financial position and performance since the last annual financial statements as at and for the year ended December 31, 2017.

3 Use of judgements and estimates

In preparing these condensed interim financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgements made by management in applying the accounting policies and key sources of estimation uncertainty were the same as those applied in the financial statements as at and for the year ended December 31, 2017.

Measurement of fair values

(i) Financial instruments

Financial instruments carried on the statement of financial position include cash resources, investment securities, government securities purchased under resale agreements, other assets, policyholders' liabilities and other liabilities.

(ii) Recognition and initial measurement

The company initially recognises deposits on the date that they are originated. All other financial assets and liabilities are initially recognised on the settlement date, at which the company becomes a party to the contractual provisions of the instrument.

A financial asset or liability is initially measured at fair value plus, for an item not at Fair Value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

Notes to the Unaudited Condensed Interim Financial Statements (Continued) September 30, 2018

(expressed in thousands of Jamaican dollars unless otherwise stated)

3 Use of judgements and estimates (continued)

Measurement of fair values (continued)

(ii) Recognition and initial measurement (continued)

Financial assets – Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost; Fair Value through other comprehensive income (FVOCI) debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principle and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principle and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminate or significantly reduces and account mismatch that would otherwise arise.

Financial assets - Business model assessment: Policy applicable from 1 January 2018

The company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Unaudited Condensed Interim Financial Statements (Continued)
September 30, 2018***(expressed in thousands of Jamaican dollars unless otherwise stated)***3 Use of judgements and estimates (continued)***Measurement of fair values (continued)*

(ii) Recognition and initial measurement (continued)

Financial assets - Business model assessment: Policy applicable from 1 January 2018 (continued)

- how the performance of the portfolio is evaluated and reported to the company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the company's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets - Assessment whether contractual cash flows are solely payments of principal and interest

Policy applicable from 1 January 2018

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs) as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the company considers the contractual terms of the instrument.

This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the company's claim to cash flows from specified assets (e.g. non-recourse features).

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Unaudited Condensed Interim Financial Statements (Continued)
September 30, 2018***(expressed in thousands of Jamaican dollars unless otherwise stated)***3 Use of judgements and estimates (continued)***Measurement of fair values (continued)*

(ii) Recognition and initial measurement (continued)

Financial assets - Assessment whether contractual cash flows are solely payments of principal and interest (continued)

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets - Subsequent measurement and gains and losses

*Policy applicable from 1 January 2018*Financial assets
at FVTPL

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income are recognised in profit or loss.

Financial assets
at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Debt investments
at FVOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Unaudited Condensed Interim Financial Statements (Continued)****September 30, 2018***(expressed in thousands of Jamaican dollars unless otherwise stated)***3 Use of judgements and estimates (continued)***Measurement of fair values (continued)*

(ii) Recognition and initial measurement (continued)

Financial assets - Policy applicable before 1 January 2018

The company classified its financial assets into one of the following categories:

- loans and receivables;
- held to maturity;
- available for sale; and
- at FVTPL

*Financial assets - Subsequent measurement and gains and losses**Policy applicable before 1 January 2018*

Financial assets at FVTPL	Measured at fair value and changes therein, including any interest or dividend income, were recognised in profit or loss.
Held-to-maturity financial assets	Measured at amortised cost using the effective interest method.
Loans and receivables	Measured at amortised cost using the effective interest method.
Available-for-sale financial assets	Measured at fair value and changes therein, other than impairment losses, interest income and foreign currency differences on debt instruments, were recognised in OCI and accumulated in the fair value reserve. When these assets were derecognised, the gain or loss accumulated in equity was reclassified to profit or loss.

Financial liabilities - Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Unaudited Condensed Interim Financial Statements (Continued)
September 30, 2018***(expressed in thousands of Jamaican dollars unless otherwise stated)***3 Use of judgements and estimates (continued)***Measurement of fair values (continued)***(iii) Derecognition**

The company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the company is recognised as a separate asset or liability.

4. Changes in significant accounting policies

The company has initially applied IFRS 9 from January 2018.

Due to the transition methods chosen by the company in applying these standards, comparative information throughout these financial statements, has not been restated to reflect the requirements of the new standards, and separately present impairment loss on contract assets.

The effect of initially applying these standards is mainly attributed to:

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

As a result of the adoption of IFRS 9, the company has adopted consequential amendments to IAS 1 *Presentaton of Financial Statements*, which require impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI.

(i) Classification and measurement of financial assets and financial liabilities

IFRS 9 contain three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which financial assets is managed and its contractual cash flow characteristics.

IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

IFRS 9 largely retains the existing requirement in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on the company's accounting policies related to financial liabilities.

Based on assessment, management does not expect the application of IFRS 15 to have a significant impact on the company's condensed interim financial statements.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2017



KPMG
Chartered Accountants
P.O. Box 76
6 Duke Street
Kingston
Jamaica, W.I.
+1 (876) 922 6640
firmmail@kpmg.com.jm

INDEPENDENT AUDITORS' REPORT

To the Members of
SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Scotia Jamaica Life Insurance Company Limited ("the company"), set out on pages 5 to 52, which comprise the statement of financial position as at December 31, 2017, the statements of profit or loss and other comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company as at December 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the Jamaican Companies Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



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INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

Report on the Audit of the Financial Statements (continued)

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



Page 3

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

Report on the Audit of the Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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



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INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

Report on Additional Matters as Required by the Jamaican Companies Act

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

In our opinion, proper accounting records have been maintained, so far as appears from our examination of those records, and the financial statements, which are in agreement therewith, give the information required by the Jamaican Companies Act, in the manner required.

KPMG

Chartered Accountants
Kingston, Jamaica

February 20, 2018

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Statement of Profit or Loss and Other Comprehensive Income
December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)*


	Notes	2017	2016
Income			
Premium income, net of reinsurance	5	1,832,787	1,754,682
Investment income	6	3,560,291	3,588,620
Fee and commission income, net	7	515,516	464,262
Realised gains, net	8	<u>473,331</u>	<u>232,915</u>
		<u>6,381,925</u>	<u>6,040,479</u>
Policyholders' benefits and expenses			
Policyholders' benefits and reserves	9	557,872	1,485,470
Salaries, pension contributions and other staff benefits	10	479,840	476,279
Property expenses, including depreciation		61,312	61,985
Other operating expenses		<u>540,613</u>	<u>472,590</u>
		<u>1,639,637</u>	<u>2,496,324</u>
Profit before taxation	11	4,742,288	3,544,155
Taxation	12	(1,206,755)	(855,505)
Net profit		<u>3,535,533</u>	<u>2,688,650</u>
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Realised gains on available-for-sale financial assets		(469,381)	(152)
Unrealised gains on available-for-sale financial assets		998,749	327,984
Deferred income tax relating to components of other comprehensive income	13	(132,342)	(82,038)
Other comprehensive income for the year, net of tax		<u>397,026</u>	<u>245,794</u>
Total comprehensive income for the year		<u>3,932,559</u>	<u>2,934,444</u>


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

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Statement of Financial Position****Year ended December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)*

	Notes	2017	2016
ASSETS			
Cash resources			
Certificate of deposits with the Bank of Jamaica - maturing within 90 days of the original purchase date	14	-	1,301,413
Accounts with parent company	14	<u>1,233,418</u>	<u>503,316</u>
		1,233,418	1,804,729
Certificate of deposits with the Bank of Jamaica - maturing in excess of 90 days from the original purchase date		<u>661,061</u>	<u>201,105</u>
		<u>1,894,479</u>	<u>2,005,834</u>
Government securities purchased under resale agreements	15	<u>-</u>	<u>701,742</u>
Investment securities	16		
Available for sale		52,338,230	46,782,862
Held to maturity		1,028,804	5,307,644
Financial assets at fair value through profit or loss		<u>-</u>	<u>155,601</u>
		<u>53,367,034</u>	<u>52,246,107</u>
Loans and receivables - Policy loans	17	<u>1,625,365</u>	<u>1,630,248</u>
Other assets			
Property, plant and equipment	18	8,537	10,934
Intangible assets, computer software	2(t),19	83,481	78,796
Taxation recoverable		974,831	809,973
Other assets		<u>1,324</u>	<u>809</u>
		<u>1,068,173</u>	<u>900,512</u>
		<u>57,955,051</u>	<u>57,484,443</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Policyholders' liabilities	20	<u>44,780,291</u>	<u>44,988,803</u>
Other liabilities			
Sundry liabilities	21	227,199	142,644
Taxation payable		281,643	90,603
Deferred tax liabilities	22	<u>529,079</u>	<u>351,176</u>
		<u>1,037,921</u>	<u>584,423</u>
Shareholders' equity			
Share capital	23	150,000	150,000
Cumulative re-measurement result from available for sale financial assets	24	995,815	598,789
Unappropriated profits		<u>10,991,024</u>	<u>11,162,428</u>
		<u>12,136,839</u>	<u>11,911,217</u>
		<u>57,955,051</u>	<u>57,484,443</u>

The financial statements on pages 5 to 52 were approved for issue by the Board of Directors on February 20, 2018 and signed on its behalf by:

 Director
David Noel

 Director
Noef Foster

The accompanying notes form an integral part of the financial statements

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Statement of Changes in Shareholders' Equity****Year ended December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)*

	<u>Notes</u>	<u>Share capital (Note 23)</u>	<u>Cumulative re-measurement result from available for sale financial assets (Note 24)</u>	<u>Unappropriated profits</u>	<u>Total</u>
Balances at December 31, 2015		150,000	352,995	12,243,701	12,746,696
Net profit for the year		-	-	2,688,650	2,688,650
Other comprehensive income	13	-	245,794	-	245,794
Dividends	32	<u>-</u>	<u>-</u>	<u>(3,769,923)</u>	<u>(3,769,923)</u>
Balances at December 31, 2016		150,000	598,789	11,162,428	11,911,217
Net profit for the year		-	-	3,535,533	3,535,533
Other comprehensive income	13	-	397,026	-	397,026
Dividends	32	<u>-</u>	<u>-</u>	<u>(3,706,937)</u>	<u>(3,706,937)</u>
Balances at December 31, 2017		<u>150,000</u>	<u>995,815</u>	<u>10,991,024</u>	<u>12,136,839</u>

The accompanying notes form an integral part of the financial statements

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Statement of Cash Flows****Year ended December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)*

	Notes	2017	2016
Cash flows from operating activities			
Net profit for the year		3,535,533	2,688,650
Items not affecting cash:			
Investment income	6	(3,560,291)	(3,588,620)
Interest credited to policyholders and annuitants	9	1,510,899	1,679,022
Transfer from actuarial reserves	9	(1,162,386)	(353,251)
Taxation	12	1,206,755	855,505
Amortisation	19	2,001	2,335
Depreciation	18	<u>3,162</u>	<u>7,314</u>
		1,535,673	1,290,955
Changes in operating assets and liabilities			
Taxation recoverable		(164,858)	464,991
Other assets		(515)	(315)
Policyholders' liabilities		(557,025)	331,459
Other liabilities		<u>84,555</u>	<u>1,625</u>
		897,830	2,088,715
Interest received		3,373,869	3,686,646
Income tax paid		(970,154)	(924,239)
Net cash provided by operating activities		<u>3,301,545</u>	<u>4,851,122</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	18	(765)	-
Purchase of intangible asset	19	(6,686)	(29,708)
Investment securities, net		(405,447)	(1,696,321)
Loans and receivables – Policy loans		6,099	(221,599)
Certificate of deposits with the Bank of Jamaica		(457,792)	<u>680,215</u>
Net cash used in investing activities		<u>(864,591)</u>	<u>(1,267,413)</u>
Net cash provided before dividend payments			
Dividends paid	32	(3,706,937)	(3,769,923)
Net decrease in cash and cash equivalents		(1,269,983)	(186,214)
Cash and cash equivalents at beginning of year		<u>2,503,401</u>	<u>2,689,615</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	14	<u>1,233,418</u>	<u>2,503,401</u>

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

Notes to the Financial Statements

December 31, 2017

(expressed in thousands of Jamaican dollars unless otherwise stated)

1. Identification, activities and licence

The company is a wholly owned subsidiary of The Bank of Nova Scotia Jamaica Limited, which is in turn a 100% subsidiary of Scotia Group Jamaica Limited. Both these companies are incorporated and domiciled in Jamaica. Scotia Group Jamaica Limited is a 71.78% subsidiary of Scotiabank Caribbean Holdings Limited, which is incorporated and domiciled in Barbados. The Bank of Nova Scotia, which is incorporated and domiciled in Canada, is the ultimate parent. The registered office of the company is located at Scotiabank Centre, Corner of Duke and Port Royal Streets, Kingston.

The company was incorporated in Jamaica on October 26, 1995 and was licensed as an insurance company on January 22, 1998 under the Insurance Act 1971, which was replaced by the Insurance Act 2001 and the Insurance Regulations 2001.

The principal activity of the company is the provision of long term life and health insurance and annuities.

2. Summary of significant accounting policies

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

(a) Basis of preparation

(i) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board, and comply with the Jamaican Companies Act ("the Act").

New, revised and amended standards and interpretations that became effective during the year:

Certain new, revised and amended standards and interpretations came into effect during the current financial year. The company has assessed them and has adopted those which are relevant to its financial statements. These are as follows:

- Amendments to IAS 12, *Income Taxes*, effective for accounting periods beginning on or after January 1, 2017, clarifies the following:
 - The existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.
 - A deferred tax asset can be recognised if the future bottom line of the tax return is expected to be a loss, if certain conditions are met.
 - Future taxable profits used to establish whether a deferred tax can be recognised should be the amount calculated before the effect of reversing temporary differences.
 - An entity can assume that it will recover an asset for more than its carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(a) Basis of preparation (continued)****(i) Statement of compliance (continued)****New, revised and amended standards and interpretations that became effective during the year (continued):**

- Amendments to IAS 12 (continued)
 - Deductible temporary differences related to unrealised losses should be assessed on a combined basis for recognition unless a tax law restricts the use of losses to deductions against income of a specific type.

The adoption of the amendment has not resulted in any changes to the amounts recognised presented or disclosed in the financial statements.

- Amendments to IAS 7, *Statement of Cash Flows*, effective for accounting periods beginning on or after January 1, 2017, requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows.

The adoption of the amendment has not resulted in any changes to the amounts recognised presented or disclosed in the financial statements.

New and revised standards and interpretations that are not yet effective:

At the date of authorisation of these financial statements, certain new standards, and amendments to and interpretations of existing standards, which were in issue were not effective at the reporting date and had not been early-adopted by the company. The company is assessing them and has determined that the following are relevant to its financial statements.

- IFRS 9, *Financial Instruments*, which is effective for annual reporting periods beginning on or after January 1, 2018, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial assets and liabilities, including a new expected credit loss model for calculating impairment of financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) - are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different. IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognized.

The company is assessing the impact that this standard will have on its 2018 financial statements.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(a) Basis of preparation (continued)****(i) Statement of compliance (continued)****New and revised standards and interpretations that are not yet effective (continued):**

- IFRS 15, *Revenue From Contracts With Customers*, effective for accounting periods beginning on or after January 1, 2018, replaces IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfer of Assets from Customers* and SIC-31 *Revenue – Barter Transactions Involving Advertising Services*. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. It also does not apply if two entities in the same line of business exchange non-monetary assets to facilitate sales to other parties.

The Company will apply a five-step model to determine when to recognise revenue, and at what amount. The model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised at a point in time, when control of goods or services is transferred to the customer; or over time, in a manner that best reflects the entity's performance.

There will be new qualitative and quantitative disclosure requirements to describe the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The Company is assessing the impact that this standard will have on its 2018 financial statements.

- IFRS 16, *Leases*, which is effective for annual reporting periods beginning on or after January 1, 2019, eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Entities will be required to bring all major leases on-balance sheet, recognising new assets and liabilities. The on-balance sheet liability will attract interest; the total lease expense will be higher in the early years of a lease even if a lease has fixed regular cash rentals. Optional lessee exemption will apply to short-term leases and for low-value items with value of US\$5,000 or less.

Lessor accounting remains similar to current practice as the lessor will continue to classify leases as finance and operating leases.

The Company is assessing the impact that this standard will have on its 2019 financial statements.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(a) Basis of preparation (continued)****(i) Statement of compliance (continued)****New and revised standards and interpretations that are not yet effective (continued):**

- Amendments to IFRS 4, *Insurance Contracts*, provide two optional solutions to reduce the impact of the differing effective dates of IFRS 9, *Financial Instruments* (effective January 1, 2018), and IFRS 17, *Insurance Contracts* (effective January 1, 2021) as follows:

(i) Temporary exemption from IFRS 9:

- Rather than having to implement IFRS 9 in 2018, some companies will be permitted to continue to apply IAS 39 *Financial Instruments: Recognition and Measurement*.
- To qualify, a reporting company's activities need to be predominantly connected with insurance.

Entities applying the temporary exemption will need to disclose fair value information separately for financial assets that meet the exemption criteria and for all other financial assets.

(ii) Overlay approach:

For designated financial assets, a company is permitted to reclassify between profit or loss and other comprehensive income (OCI), the difference between the amounts recognised in profit or loss under IFRS 9 and those that would have been reported under IAS 39.

There will be new qualitative and quantitative disclosure requirements to describe how the adjustment is calculated and the effect on the financial statements.

The Company is assessing the impact that this amendment will have on its financial statements.

- IFRS 17, *Insurance Contracts*, effective for accounting periods beginning on or after January 1, 2021, replaces IFRS 4, *Insurance Contracts* and provides three models to apply to all insurance contracts: the general model, the variable fee approach and the premium allocation approach.

The key principles in IFRS 17 are that an entity:

- identifies insurance contract as those contracts under which the entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future (the insured event) adversely affects the policyholder;
- separates specified embedded derivatives, distinct investment components and distinct performance obligations from the insurance contracts;

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(a) Basis of preparation (continued)****(i) Statement of compliance (continued)****New and revised standards and interpretations that are not yet effective (continued):**

- IFRS 17, *Insurance Contracts (continued)*

The key principles in IFRS 17 are that an entity (continued):

- recognises and measures groups of insurance contracts at:
 - a) a risk - adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset); and
 - b) an amount representing the unearned profit in the group of contracts (the contractual service margin).
- recognises the profit from a group of insurance contracts over the period the entity provides insurance cover, and as the entity is released from risk. If a group contract is or becomes loss making, an entity recognizes the loss immediately;
- presents separately insurance revenue (that excludes the receipt of repayment of any investment components) and insurance finance income or expenses; and
- includes an optional simplified measurement approach, or premium allocation approach, for simpler insurance contracts where the coverage period is less than a year or where there are no significant expected changes in estimates before the claims are incurred.

Many of the disclosures of IFRS 4 are kept in IFRS 17. The general model requires disclosure and reconciliation of the expected present value of future cash flows, risk adjustment and contractual service margin. No reconciliation is required under the variable fee approach.

The Company is assessing the impact that this standard will have on its 2021 financial statements.

(ii) Basis of measurement

The financial statements have been prepared on the historical cost basis as modified for the revaluation of available-for-sale financial assets.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(a) Basis of preparation (continued)****(iii) Use of estimates and judgements**

The preparation of financial statements to conform to IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

(iv) Functional and presentation currency

These financial statements are presented in Jamaican dollars, which is the company's functional currency. Except where indicated to be otherwise, financial information presented is shown in thousands of Jamaican dollars.

(b) Insurance contracts – recognition and measurement**(i) Classification**

The company issues contracts that transfer insurance risk or financial risk or both.

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. The company defines insurance risk as significant if an insured event could cause an insurer to pay significant additional benefits in a scenario that has a discernible effect on the economics of the transactions. As a general guideline, the company defines as significant insurance risk, the possibility of having to pay benefits, at the occurrence of an insured event that is at least 10% more than the benefits payable if the insured event did not occur.

(ii) Recognition and measurement

Insurance contracts insure human life events (for example death or permanent disability) over a long duration. The accounting treatment differs according to whether the contract bears investment options or not. Under contracts that do not bear investment options, premiums are recognised as income when they are due and benefits are recorded as an expense when they are incurred.

Under contracts that bear an investment option, insurance premiums received are initially recognised directly as liabilities. These liabilities are increased by credited interest and are decreased by policy administration fees, mortality and surrender charges and any withdrawals; the resulting liability is the policyholders' fund. Income consists of fees deducted for mortality, policy administration and surrenders. Interest credited to the account and benefit claims in excess of the account balances incurred in the period are recorded as expenses in profit or loss.

Insurance contract liabilities are determined by an independent actuary using the Policy Premium Method of valuation as discussed in Note 3(ii). These liabilities are, on valuation, adjusted through profit or loss to reflect the valuation determined under the Policy Premium Method.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(c) Annuities**

Annuities are immediate payouts of fixed and variable amounts for a guaranteed period and recognised on the date that they originate.

Benefits are recognised as liabilities until the end of the guaranteed period. These liabilities are increased by credited interest and are decreased by policy administration fees, period payment charges and any withdrawals. Income consists mainly of fees deducted for fund administration and interest credited is treated as an expense in profit or loss.

The annuity fund is included as a part of policyholders' liabilities [note 20 (a)].

(d) Revenue recognition**(i) Premium income**

Gross premiums are recognised as revenue when due. When premiums are recognised, the related actuarial liabilities are computed, resulting in benefits and expenses being matched with revenue. Unearned premiums are those proportions of premiums written in the current year that relate to periods of risk after the reporting date.

(ii) Interest income

Interest income is recognised in profit or loss for all interest earning instruments on the accrual basis using the effective interest method based on the actual purchase price. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset.

The effective interest rate is established on initial recognition of the financial asset and is not revised subsequently. Interest income includes coupons earned on fixed income investments, accretion of discount on discounted instruments, and amortization of premium on instruments bought at a premium.

(iii) Fee and commission income

Fees for retirement planning administration services are recognised as revenue over the period in which the related services are performed.

(iv) Realised gains and losses

Realised gains and losses recorded in profit or loss and relate to gains and losses on the sale of financial and other assets. This is calculated as the difference between net sales proceeds and the current carrying value and is recorded on occurrence of the sale transaction.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(e) Interest expense**

Interest expense is recognised in profit or loss on the accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments through the expected life of the financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial liability.

(f) Reinsurance contracts held

The company enters into contracts with reinsurers under which it is compensated for losses on contracts it issues and which meet the classification requirements for insurance contracts [see note 2(b)]. Reinsurance does not relieve the originating insurer of its liability.

(g) Claims

Death claims are recorded in profit or loss net of reinsurance recoverable.

(h) Taxation

Taxation on the profit or loss for the year comprises current and deferred taxes. Current and deferred taxes are recognised as tax expense or benefit in determining profit or loss and where they relate to items recorded in shareholders' equity, they are charged or credited as other comprehensive income.

(i) Current taxation

Current tax is the expected taxation payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable and tax losses in respect of previous years.

(ii) Deferred tax

Deferred tax liabilities and assets are recognised for temporary differences between the carrying amounts of assets and liabilities and their amounts as measured for tax purposes, which will result in taxable amounts in future periods. Deferred tax assets are recognised for temporary differences which will result in deductible amounts in future periods, but only to the extent it is probable that sufficient taxable profits will be available against which these differences can be utilised. Deferred tax assets are reviewed at each reporting date to determine whether it is probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset will be realised or the liability will be settled based on enacted rates.

Current and deferred tax assets and liabilities are offset when the legal right of set-off exists, and when they relate to income taxes levied by the same tax authority on either the same taxable entity, or different taxable entities which intend to settle current tax liabilities and assets on a net basis.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(i) Financial instruments**

Financial instruments carried on the statement of financial position include cash resources, investment securities, government securities purchased under resale agreements, loans and receivables, other assets, policyholders' liabilities and other liabilities.

The fair values of the company's financial instruments are discussed in Note 27 and 29.

(i) Recognition

The company initially recognises deposits on the date that they are originated. All other financial assets and liabilities are initially recognised on the settlement date, at which the company becomes a party to the contractual provisions of the instrument.

(ii) Derecognition

The company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the company is recognised as a separate asset or liability.

The company derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

The company enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred financial assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

(j) Investment securities

The company classifies its investment securities into the following categories: loans and receivables, held to maturity and available for sale financial assets. Management determines the classification of its investments at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provides money or services directly to a debtor with no intention of trading the receivable.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(j) Investment securities (continued)****(ii) Held to maturity**

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the company's management has the positive intention and ability to hold to maturity. These investments are initially recognised at cost with transaction costs directly attributable included. After initial measurement, held to maturity financial assets are measured at amortised cost using the effective interest rate method. Were the company to sell other than an insignificant amount of held to maturity investments before maturity, the entire category would be compromised and reclassified as available for sale.

(iii) Available for sale

Available for sale investments are those non-derivative financial assets that are designated as available for sale or are not classified in the above two categories, they are intended to be held for an indefinite period of time, and may be sold in response to needs for liquidity or changes in interest rates or market prices. They are remeasured at fair value.

On disposal of these investments, the unrealized gains or losses included in shareholders' equity are included in profit or loss. Interest income, which is calculated using the effective interest method, is recognised in profit and loss. Other unrealized gains and losses arising from changes in fair value are recognised in other comprehensive income.

Purchases and sales of available for sale assets are recognised at the settlement date - the date on which an asset is delivered to or by the company. Financial assets are initially recognized at fair value plus transaction costs.

(k) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase (repurchase agreements) and securities purchased under agreements to resell (reverse repurchase agreements) are treated as collateralised financing transactions. The difference between the sale/purchase and repurchase/resale price is treated as interest and accrued over the life of the agreement using the effective yield method.

(l) Impairment of assets

The carrying amounts of the company's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated at each reporting date. An impairment loss is recognised whenever the carrying amount of an asset exceeds its estimated recoverable amount.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(I) Impairment of assets (continued)**

Indication that a financial asset is impaired includes observable data that comes to the attention of the company about the following events:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments;
- it becoming probable that the issuer will enter bankruptcy or other financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Impairment losses are recognised in the company's profit or loss.

(i) Financial assets carried at amortised cost

The amount of the impairment loss for an asset carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the original effective interest rate. If a held to maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The recoverable amount of the company's assets at amortised cost is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset.

(ii) Financial assets carried at fair value

When a decline in the fair value of an available for sale financial asset has been recognised as other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in other comprehensive income is recognised in profit and loss even though the financial asset has not been derecognized. The amount of the cumulative loss that is recognised in other comprehensive income is the difference between the acquisition cost and current fair value less any impairment loss on that financial asset previously recognised.

The recoverable amount of a financial asset carried at fair value is the present value of expected future cash flows discounted at the current market interest rate for a similar financial asset. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

(iii) Other financial assets

Property, plant and equipment are reviewed periodically for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

In-house assessment of the company's assets revealed no negative material changes and hence, it was not necessary to account for any impairment losses in the company's accounts.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(m) Property, plant and equipment**

Property, plant and equipment are shown at historical cost less accumulated depreciation and, if any, impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Subsequent costs are included in the assets carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other expenditure is classified as repairs and renewals and charged as expenses in profit or loss during the financial period in which it is incurred.

Depreciation and amortisation are calculated on the straight-line method at rates estimated to write off the depreciable amount of the assets over their expected useful lives as follows:

Leasehold improvements	Period of lease
Computer equipment	4 years
Furniture, fixtures and equipment	10 years

Capital work in progress is not depreciated.

The depreciation methods, useful lives and residual values are reassessed at the reporting dates. Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining the profits for the year.

(n) Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

(o) Related parties

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity" in this case the company).

- (a) A person or a close member of that person's family is related to the company if that person:
- (i) has control or joint control over the company;
 - (ii) has significant influence over the company; or
 - (iii) is a member of the key management personnel of the company or of a parent of the company.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(o) Related parties (continued)**

(b) An entity is related to the company if any of the following conditions applies:

- (i) The entity and the company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan established for the benefit of employees of either the company or an entity related to the company.
- (vi) The entity is controlled, or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

(p) Pension scheme

The company participates in a defined benefit pension scheme of its parent company. The company's contribution to the scheme is fixed. Once the contributions have been paid, the company has no further legal or constructive obligations (note 25).

(q) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include cash and bank balances and highly liquid financial assets with original maturities of less than 90 days, which are readily convertible to known amounts of cash, and are subject to insignificant risk of changes in their fair value.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(r) Dividends

Dividends on ordinary shares are recognized in shareholders' equity in the period in which they are approved by the Board of Directors, thereby becoming irrevocably payable.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(s) Fiduciary activities**

The company acts as an administrator of an approved retirement scheme and therefore manages assets on behalf of plan members. These assets are unitised and income earned belongs to the plan members with the company incurring no risk. Therefore, these assets are segregated and presented separately from these financial statements. Income earned from management fees is included in fee and commission income in profit or loss.

(t) Intangible assets

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with acquiring identifiable and unique software products which are expected to generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. However, such costs are expensed where they are considered to be immaterial.

As at the reporting date, the intangible assets were not included in the operations of the company.

3. Critical accounting estimates and judgments in applying accounting policies

The company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Held to maturity investments

The company follows the guidance of IAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires judgement. In making this judgement, the company evaluates its intention and ability to hold such investments to maturity. If the company fails to keep these investments to maturity other than in the specific permissible circumstances - for example, selling other than an insignificant amount close to maturity - it will be required to reclassify the entire class as available for sale. The investments would therefore be measured at fair value, not amortised cost. If the entire class of held to maturity investments is compromised, the carrying value would increase/(decrease) by \$191 (2016: \$16,598) with a corresponding entry in the cumulative re-measurement result from available for sale financial assets reserve.

(ii) Estimate of future payments and premiums arising from long-term insurance contracts

The liabilities under long-term insurance contracts have been determined using the Policy Premium Method of valuation. Under this method explicit allowance is made for all future benefits and expenses under the policies. The premiums, benefits and expenses for each policy are projected and the resultant future cash flows are discounted back to the valuation date to determine the reserves. Any adjustment to the reserves is reflected in the year to which it relates.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)***3. Critical accounting estimates and judgments in applying accounting policies (continued)**

- (ii) Estimate of future payments and premiums arising from long-term insurance contracts (continued)

The process of calculating policy reserves necessarily involves the use of estimates concerning such factors as mortality and morbidity rates, future investment yields and future expense levels. Consequently, these liabilities include reasonable provisions for adverse deviations from the estimates. Estimates are also made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

These estimates are more fully described in Note 20(d).

4. Responsibilities of the appointed actuary and external auditors

The Board of Directors, pursuant to the Insurance Act, appoints the Actuary whose responsibility is to carry out an annual valuation of the company's policyholders' liabilities in accordance with accepted actuarial practice and regulatory requirements and report thereon to the policyholders and shareholders. In performing the valuation using the policy premium method, the Actuary makes assumptions as to the future rates of interest, asset defaults, mortality, morbidity, claims experience, policy termination, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the company and the insurance policies in force. An actuarial valuation is prepared annually.

The shareholders, pursuant to the Companies Act appoint the external auditors. Their responsibility is to conduct an independent and objective audit of the financial statements in accordance with International Standards on Auditing and report thereon to the shareholders. In carrying out their audit, the Auditors also make use of the work of the Appointed Actuary and his report on the policyholders' liabilities.

5. Premium income, net of reinsurance

	<u>2017</u>	<u>2016</u>
Gross written premium		
Individual life	528,246	482,147
Group life	1,285,990	1,261,267
Universal life	<u>19,412</u>	<u>12,430</u>
	1,833,648	1,755,844
Reinsurance	<u>(861)</u>	<u>(1,162)</u>
	<u>1,832,787</u>	<u>1,754,682</u>

6. Investment income

	<u>2017</u>	<u>2016</u>
Investment securities	3,297,942	3,320,472
Certificate of deposits with the Bank of Jamaica	104,940	107,031
Interest on policy loans	117,083	109,125
Government securities purchased under resale agreement	34,943	46,788
Other bank balances	<u>5,383</u>	<u>5,204</u>
	<u>3,560,291</u>	<u>3,588,620</u>

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)*

7. Fee and commission income, net	<u>2017</u>	<u>2016</u>
Management and administration fees	159,033	129,094
Investment commissions paid	(3,362)	(2,929)
Surrender charges and other contract fees	46,656	39,849
Policy administrative fees	<u>313,189</u>	<u>298,248</u>
	<u>515,516</u>	<u>464,262</u>
8. Realised gains, net	<u>2017</u>	<u>2016</u>
Foreign exchange	3,950	232,763
Gain/(loss) on disposal of available for sale securities	<u>469,381</u>	<u>152</u>
	<u>473,331</u>	<u>232,915</u>
9. Policyholders' benefits and reserves	<u>2017</u>	<u>2016</u>
Policyholders' benefit payments	209,359	159,699
Interest credited – policyholders	1,493,158	1,664,096
Interest credited – annuitants	17,741	14,926
Transfer from actuarial reserves	<u>(1,162,386)</u>	<u>(353,251)</u>
	<u>557,872</u>	<u>1,485,470</u>
10. Salaries, pension contributions and other staff benefits	<u>2017</u>	<u>2016</u>
Wages and salaries	378,071	375,760
Statutory contributions	36,808	36,722
Pension cost (note 25)	298	325
Other staff benefits	<u>64,663</u>	<u>63,472</u>
	<u>479,840</u>	<u>476,279</u>
11. Profit before taxation		
In arriving at the profit before taxation, the following are among the items that have been charged:	<u>2017</u>	<u>2016</u>
Auditors' remuneration	7,741	7,940
Depreciation (note 18)	5,163	9,649
Directors' emoluments:		
Fees and expenses	4,422	5,350
Management remuneration	26,243	14,406
Policyholders' fund interest (note 9)	1,493,158	1,664,096
Interest on annuities (note 9)	17,741	14,926
Salaries, pension contributions and other staff benefits (note 10)	<u>479,840</u>	<u>476,279</u>

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)***12. Taxation**

- (a) The tax charge is based on the results for the year, as adjusted for taxation purposes, and is made up as follows:

	<u>2017</u>	<u>2016</u>
Current income tax:		
Income tax at 25%	1,161,194	883,192
Deferred income tax (note 22)	<u>45,561</u>	<u>(27,687)</u>
	<u>1,206,755</u>	<u>855,505</u>

- (b) Reconciliation of effective tax rate:

	<u>2017</u>	<u>2016</u>
Profit before taxation	<u>4,742,288</u>	<u>3,544,155</u>
Tax calculated at 25%	1,185,572	886,039
Adjustment for the effect of:		
Asset tax paid	34,049	33,386
Expenses disallowed/income exempt for tax purposes	4,826	(42,147)
Other charges and allowances	<u>(17,692)</u>	<u>(21,773)</u>
	<u>1,206,755</u>	<u>855,505</u>

13. Deferred income tax effects relating to other comprehensive income

	<u>2017</u>		
	<u>Before tax amount</u>	<u>Tax (expense)</u>	<u>Net of tax</u>
Available for sale financial assets	<u>529,368</u>	<u>(132,342)</u>	<u>397,026</u>
	<u>2016</u>		
	<u>Before tax amount</u>	<u>Tax (expense)</u>	<u>Net of tax</u>
Available for sale financial assets	<u>327,832</u>	<u>(82,038)</u>	<u>245,794</u>

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)***14. Cash and cash equivalents**

	<u>2017</u>	<u>2016</u>
Cash resources	1,894,479	2,005,834
Less amounts not considered cash and cash equivalents:		
Due from banks greater than ninety days	(657,578)	(199,786)
Accrued interest	(3,483)	(2,647)
	<u>1,233,418</u>	<u>1,803,401</u>
Add other cash equivalent balances:		
Government Securities purchased under resale agreement less than ninety days	<u>-</u>	<u>700,000</u>
	<u>1,233,418</u>	<u>2,503,401</u>
Cash and cash equivalent is comprised of:		
Cash and balances with Bank of Jamaica	-	1,301,413
Accounts with parent company	1,233,418	503,316
Government Securities purchased under resale agreement	-	700,000
Accrued interest	<u>-</u>	<u>(1,328)</u>
	<u>1,233,418</u>	<u>2,503,401</u>

15. Government securities purchased under resale agreements

The company entered into reverse repurchase agreements collateralised by the Government of Jamaica securities. These agreements may result in credit exposure in the event that the counterparties to these transactions are unable to fulfill their contractual obligations. Included in this balance is interest receivable of \$Nil (2016: \$1,742).

The fair value of collateral held pursuant to reverse repurchase agreements is \$Nil (2016: \$735,264).

16. Investment securities

	<u>2017</u>	<u>2016</u>
Available for sale:		
Premium Growth Fund	149,956	652,831
Money Market Fund	57,110	56,187
Fixed Income Fund	62,899	59,234
Debt securities	51,275,782	43,336,531
USD Treasury bill	-	2,118,048
Interest receivable	<u>792,483</u>	<u>560,031</u>
	<u>52,338,230</u>	<u>46,782,862</u>
Held to maturity:		
Debt securities	1,017,000	5,249,500
Interest receivable	<u>11,804</u>	<u>58,144</u>
	<u>1,028,804</u>	<u>5,307,644</u>
Financial assets at fair value through profit or loss	<u>-</u>	<u>155,601</u>
	<u>53,367,034</u>	<u>52,246,107</u>

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)***16. Investment securities (continued)**

	Available for sale	Held to maturity	Financial asset at fair value through profit or loss	Total
December 31, 2015	40,804,216	9,298,337	218,560	50,321,113
Purchases	10,071,600	-	-	10,071,600
Maturities	(1,287,644)	(3,879,900)	-	(5,167,544)
Disposals	(3,200,000)	-	-	(3,200,000)
Amortisation adjustment	55,225	-	-	55,225
Accrued interest adjustment	11,785	(110,793)	-	(99,008)
Fair value net gains	<u>327,680</u>	<u>-</u>	<u>(62,959)</u>	<u>264,721</u>
December 31, 2016	46,782,862	5,307,644	155,601	52,246,107
Purchases	24,168,234	-	-	24,168,234
Maturities	(8,358,954)	(4,232,500)	-	(12,591,454)
Disposals	(11,450,000)	-	-	(11,450,000)
Amortisation adjustment	434,373	-	-	434,373
Accrued interest adjustment	232,452	(46,340)	-	186,112
Fair value net gains	<u>529,263</u>	<u>-</u>	<u>(155,601)</u>	<u>373,662</u>
December 31, 2017	<u>52,338,230</u>	<u>1,028,804</u>	<u>-</u>	<u>53,367,034</u>

Included in investment securities are Government of Jamaica local registered stocks valued at \$90,000 (2016: \$90,000) which have been deposited with the Regulator, the Financial Services Commission, pursuant to Section 8 (1) (a) of the Insurance Regulations, 2001.

Available for sale investments include holdings in Scotia Investments Jamaica Limited funds as follows:

	2017		2016	
	Units	Unit price	Units	Unit price
Premium Growth Fund	-	-	7,221,000	75.35
Premium Growth Fund	478,925	313.11	478,925	227.08
Money Market Fund	500,000	114.22	500,000	112.37
Fixed Income Fund	<u>485,667</u>	<u>129.51</u>	<u>485,667</u>	<u>121.97</u>

17. Policy loans

	2017	2016
Principal	1,568,161	1,574,260
Accrued interest	<u>57,204</u>	<u>55,988</u>
	<u>1,625,365</u>	<u>1,630,248</u>

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements
December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)***18. Property, plant and equipment**

	Leasehold improvements	Computer equipment	Furniture fixtures and equipment	Total
Cost:				
December 31, 2015 and December 31, 2016	7,861	36,373	36,051	80,285
Additions	<u>-</u>	<u>765</u>	<u>-</u>	<u>765</u>
December 31, 2017	<u>7,861</u>	<u>37,138</u>	<u>36,051</u>	<u>81,050</u>
Accumulated depreciation:				
December 31, 2015	7,861	28,787	25,389	62,037
Charge for the year	<u>-</u>	<u>5,204</u>	<u>2,110</u>	<u>7,314</u>
December 31, 2016	7,861	33,991	27,499	69,351
Charge for the year	<u>-</u>	<u>1,574</u>	<u>1,588</u>	<u>3,162</u>
December 31, 2017	<u>7,861</u>	<u>35,565</u>	<u>29,087</u>	<u>72,513</u>
Net book values:				
December 31, 2017	<u>-</u>	<u>1,573</u>	<u>6,964</u>	<u>8,537</u>
December 31, 2016	<u>-</u>	<u>2,382</u>	<u>8,552</u>	<u>10,934</u>
December 31, 2015	<u>-</u>	<u>7,586</u>	<u>10,662</u>	<u>18,248</u>

19. Intangible assets

	Software	Software Work in progress	Total
Cost:			
December 31, 2015	-	51,423	51,423
Additions	-	29,708	29,708
Transfers	<u>8,003</u>	<u>(8,003)</u>	<u>-</u>
December 31, 2016	8,003	73,128	81,131
Additions	<u>-</u>	<u>6,686</u>	<u>6,686</u>
December 31, 2017	<u>8,003</u>	<u>79,814</u>	<u>87,817</u>
Accumulated depreciation:			
December 31, 2015	-	-	-
Charge for the year	<u>2,335</u>	<u>-</u>	<u>2,335</u>
December 31, 2016	2,335	-	2,335
Charge for the year	<u>2,001</u>	<u>-</u>	<u>2,001</u>
December 31, 2017	<u>4,336</u>	<u>-</u>	<u>4,336</u>
Net book values:			
December 31, 2017	<u>3,667</u>	<u>79,814</u>	<u>83,481</u>
December 31, 2016	<u>5,668</u>	<u>73,128</u>	<u>78,796</u>
December 31, 2015	<u>-</u>	<u>51,423</u>	<u>51,423</u>

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements
December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)***20. Policyholders' liabilities**

(a)	Composition of policyholders' liabilities:		<u>2017</u>	<u>2016</u>
	Policyholders' fund		51,050,699	50,266,672
	Benefits and claims payable		199,950	155,129
	Unprocessed premiums		12,271	4,667
	Annuities		504,145	386,722
	Insurance risk reserve - Individual life	(7,870,046)		(6,524,957)
	- Individual A&S	305,760		187,544
	- Group life	518,898		519,604
	- Whole life	86,203		39,794
	- Universal life	(27,589)		(46,372)
			<u>44,780,291</u>	<u>44,988,803</u>
(b)	Change in policyholders' liabilities:		<u>2017</u>	<u>2016</u>
	Policyholders' fund:			
	At beginning of the year		50,266,672	48,383,225
	Gross premiums		5,183,003	5,924,056
	Benefits and claims	(5,892,134)		(5,704,705)
	Interest credited		<u>1,493,158</u>	<u>1,664,096</u>
	At end of the year		<u>51,050,699</u>	<u>50,266,672</u>
	Benefits and claims payable:			
	At beginning of the year		155,129	191,596
	Policyholders' claims and benefits		254,180	123,232
	Benefits and claims paid	(209,359)		(159,699)
	At end of the year		<u>199,950</u>	<u>155,129</u>
	Unprocessed premiums:			
	At beginning of the year		4,667	25,998
	Premiums received		7,471,149	8,147,239
	Premiums applied	(7,463,545)		(8,168,570)
	At end of the year		<u>12,271</u>	<u>4,667</u>
			<u>2017</u>	
		<u>Individual</u>	<u>Group</u>	<u>Total</u>
	Insurance risk reserve:			
	At beginning of the year	(6,343,991)	519,604	(5,824,387)
	Changes in product and assumptions	(1,143,826)	(430)	(1,144,256)
	Normal changes	(17,855)	(276)	(18,131)
	At end of the year	<u>(7,505,672)</u>	<u>518,898</u>	<u>(6,986,774)</u>
			<u>2016</u>	
		<u>Individual</u>	<u>Group</u>	<u>Total</u>
	Insurance risk reserve:			
	At beginning of the year	(6,044,956)	573,819	(5,471,137)
	Changes in product and assumptions	(290,698)	(45,647)	(336,345)
	Normal changes	(8,337)	(8,568)	(16,905)
	At end of the year	<u>(6,343,991)</u>	<u>519,604</u>	<u>(5,824,387)</u>

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)***20. Policyholders liabilities (continued)****(c) Investments and other assets supporting policy liabilities:**

	2017				
	<u>Individual Insurance</u>	<u>Group Insurance</u>	<u>Individual Annuities</u>	<u>Capital and Surplus</u>	<u>Total</u>
Debt securities -					
Available for sale	42,109,040	519,264	308,853	9,131,108	52,068,265
Held to maturity	1,028,804	-	-	-	1,028,804
Certificate of deposits with the Bank of Jamaica	458,435	-	202,626	-	661,061
Mutual Funds	-	-	-	269,965	269,965
	<u>43,596,279</u>	<u>519,264</u>	<u>511,479</u>	<u>9,401,073</u>	<u>54,028,095</u>
	2016				
	<u>Individual Insurance</u>	<u>Group Insurance</u>	<u>Individual Annuities</u>	<u>Capital and Surplus</u>	<u>Total</u>
Debt securities -					
Available for sale	36,575,285	533,495	276,086	8,629,744	46,014,610
Held to maturity	5,295,518	-	12,126	-	5,307,644
Financial assets at fair value through profit or loss	-	-	-	155,601	155,601
Certificate of deposits with the Bank of Jamaica	1,401,725	-	100,793	-	1,502,518
Mutual Funds	-	-	-	768,252	768,252
Government securities purchased under resale agreements	701,742	-	-	-	701,742
	<u>43,974,270</u>	<u>533,495</u>	<u>389,005</u>	<u>9,553,597</u>	<u>54,450,367</u>

(d) Policy assumptions

Policy liabilities have two major assumptions, best estimate assumptions and provisions for adverse deviation assumptions.

(a) Best estimate assumptions

Assumptions cover the lifetime of the policies and are made for many variables including mortality, morbidity, investment yields, rates of policy termination, operating expenses and certain taxes.

(i) Mortality and morbidity

Assumptions are based on standard industry tables reflecting recent historical and company experience.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)***20. Policyholders liabilities (continued)**

(d) Policy assumptions (continued)

(a) Best estimate assumptions (continued)

(ii) Investment yields

The company matches assets and liabilities by line of business.

For ScotiaMint and Credit Insurance the Actuary has assumed a portfolio rate of 5.81% in January 2018 decreasing to 5.00% over 20 years.

For Criticare and WholeLife the Actuary has assumed a portfolio rate of 7.34% in January 2018 decreasing to 4.75% by 2045.

Assumed interest rates are net of asset tax and have been decreased by 0.50% as a margin for adverse deviation. The appropriateness of these rates has been tested by projecting asset and liability cash flows under various reinvestment scenarios.

The main source of uncertainty is the fluctuation in the economy.

(iii) Persistency

Persistency assumptions are made in relation to the time since inception that a policy exists before it lapses or is surrendered. Lapses relate to termination of policies due to non-payment of premiums. Surrenders relate to voluntary termination of policies by the policyholders. Policy terminations are based on the company's own experience adjusted for expected future conditions.

Lapse and surrender rates are derived from the company's own experience. A margin for adverse deviation is added by increasing or decreasing the lapse rates, whichever is adverse, by 20%.

The main source of uncertainty derives from changes in policyholder behaviour as it relates to changes in economic conditions.

(iv) Policy expenses and inflation

Policy maintenance expenses are derived from the company's own internal cost studies projected into the future with an allowance for inflation.

Inflation is assumed to be 5.0% in January 2018 decreasing to 2% over 20 years. A margin for adverse deviation is added by increasing the maintenance expenses by 10% of the best estimate assumption.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)***20. Policyholders liabilities (continued)**

(d) Policy assumptions (continued)

(a) Best estimate assumptions (continued)

(v) Partial withdrawal of policy funds

The company's contracts allow policyholders to withdraw a portion of the funds accumulated under the contract without surrendering the entire contract. Partial withdrawal rates are derived from the company's own experience.

(vi) Taxation

It is assumed that current tax legislation and rates continue unaltered.

(b) Provision for adverse deviation assumptions

The basic assumptions made in establishing policy liabilities are best estimates for a range of possible outcomes. To recognise the uncertainty in establishing these best estimates, to allow for possible deterioration in experience and to provide greater comfort that the reserves are adequate to pay future benefits, the appointed actuary is required to include a margin in each assumption.

The impact of these margins is to increase reserves and so decrease the income that would be recognised on inception of the policy. The Canadian Institute of Actuaries prescribes a range of allowable margins. The company uses assumptions at the conservative end of the range, taking into account the risk profiles of the business.

21. Sundry liabilities

	<u>2017</u>	<u>2016</u>
Accrued charges	184,299	97,213
Accrued vacation	21,450	19,548
Statutory deductions	19,788	24,508
Other	<u>1,662</u>	<u>1,375</u>
	<u>227,199</u>	<u>142,644</u>

22. Deferred tax assets and liabilities

Deferred income taxes are calculated on temporary difference between the carrying amounts of assets and liabilities for financial reporting and taxation purposes. The calculation is made using and applicable tax rate of 25%.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)***22. Deferred tax assets and liabilities (continued)**

The movement on the deferred income tax account is as follows:

	<u>2017</u>	<u>2016</u>
Balance at beginning of year	351,176	296,825
Recognised in profit for the year [note 12(a)]	45,561	(27,687)
Recognised in other comprehensive income		
Available for sale investments		
- fair value re-measurement (note 13)	<u>132,342</u>	<u>82,038</u>
Balance at end of year	<u>529,079</u>	<u>351,176</u>

Deferred income tax asset and liabilities are attributable to the following items:

	<u>2017</u>	<u>2016</u>
Deferred income tax asset:		
Accrued vacation	<u>5,363</u>	<u>4,887</u>
Deferred income tax liabilities:		
Accelerated tax depreciation	(534)	(798)
Available for sale investments	(331,966)	(199,624)
Interest receivable	(201,942)	(155,641)
	<u>(534,442)</u>	<u>(356,063)</u>
Net deferred tax liability	<u>(529,079)</u>	<u>(351,176)</u>

The deferred tax charge in determining net profit for the year comprises the following temporary differences:

	<u>2017</u>	<u>2016</u>
Accrued vacation	(476)	(443)
Interest receivable	46,301	(26,993)
Accelerated tax depreciation	(264)	(251)
	<u>45,561</u>	<u>(27,687)</u>

23. Share capital

	<u>2017</u>	<u>2016</u>
Authorised, issued and fully paid:		
150,000,000 ordinary shares of no par value	<u>150,000</u>	<u>150,000</u>

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)***24. Cumulative re-measurement result from available for sale financial assets**

This represents the unrealised surplus or deficit on the revaluation of available for sale investments as follows:

	<u>2017</u>	<u>2016</u>
Balance at beginning of year	598,789	352,995
Net gains from changes in fair value	998,749	327,984
Less: deferred income taxes	<u>(249,687)</u>	<u>(82,076)</u>
	<u>749,062</u>	<u>245,908</u>
Net gains on disposal transferred to income	(469,381)	(152)
Less: deferred income taxes	<u>117,345</u>	<u> 38</u>
	<u>(352,036)</u>	<u>(114)</u>
Balance at end of year	<u>995,815</u>	<u>598,789</u>

25. Pension scheme

The company participates in a defined benefit pension scheme operated by its parent company, the Bank of Nova Scotia Jamaica Limited (The Bank). The Bank has established a defined benefit pension scheme where the assets of the pension scheme are held independently of the Bank's assets in a separate fund administered by Trustees.

The scheme established is valued by independent actuaries annually, using the Projected Unit Credit Method.

The company contributes at a fixed rate of 2% of pensionable earnings. Any funding deficiencies of the plan are absorbed by the Bank. Accordingly, the company is not entitled to any surplus that may arise.

Benefits to members are based on the final pensionable salary (the average of the best of three consecutive years remuneration, with no salary cap), as follows:

- (a) Per year of contributory service – 1¼% of the final pensionable salary
- (b) Per year of non contributory service
 - 1½% of final pensionable salary for employees who started to contribute on November 1, 1971 and
 - 1¼% of final pensionable salary for employees who started to contribute after November 1, 1971.
- (c) Maximum pension is the lesser of 70% of the average of final pensionable salary and ⅔ of salary at retirement.

The employees contribute at 3% of salary up to \$250 per annum, plus 6% of salary thereafter.

The company's contribution for the year totalled \$298 (2016: \$325).

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)***26. Insurance and financial risk management**

The company's activities expose it to a variety of insurance and financial risks. These activities involve the analysis, evaluation and management of some degree of risk or combination of risks. Taking these risks is core to the financial business, and the operational risks are an inevitable consequence of being in business. The company's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the company's financial performance.

The company manages risk through a framework of risk principles, organisational structures and risk measurement and monitoring processes that are closely aligned with the activities of the company's business units. The company's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The company regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Board of Directors is ultimately responsible for the establishment and oversight of the company's risk management framework. The Board has established committees for managing and monitoring risks, as follows:

Investment, Loans and Risk Committee

The Investment, Loans and Risk Committee recommends to the Board for its approval a written Investment Policy. The committee reviews investment activities quarterly, and ensures that the existing policies comprehensively deal with the management and diversification of the company's investment portfolio and that appropriate limits are being adhered to.

The Investment, Loans and Risk Committee has the responsibility of ensuring that risks are managed within the limits established by the Board of Directors and outlined in the Investment Policy. The investment advisory committee meets at least once monthly to review risks, monitor compliance in respect of investment activities, evaluate performance and provide strategic direction.

Audit Committee

The Audit Committee oversees how management monitors compliance with the company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the company. Internal Audit assists the Audit Committee in its oversight role, by performing independent reviews of the risk management and control environment.

The most important types of risk are insurance risk, reinsurance risk, market risk, liquidity risk, credit risk, and other capital risk management. Market risk includes cash flow and fair value interest rate risk, currency risk and other price risk.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)***26. Insurance and financial risk management (continued)****(a) Insurance risk**

The company issues long term contracts that transfer insurance risk or financial risk or both. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur if the frequency or severity of claims and benefits is greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio.

Long term insurance contracts

Long-term contracts are typically for a minimum period of 5 years and a maximum period which is determined by the remaining life of the insured. In addition to the estimated benefits which may be payable under the contract, the insurer has to assess the cash flows which may be attributable to the contract.

The company has developed its insurance underwriting strategy and reinsurance arrangements to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. The company's underwriting strategy includes the use of a medical questionnaire with benefits limited to reflect the health condition of applicants.

(i) Frequency and severity of claims

For contracts where death is the insured risk the most significant factors that could increase the overall frequency and severity of claims are epidemics (such as AIDS) and wide-ranging lifestyle changes such as in eating, smoking and exercise habits resulting in earlier or more claims than expected.

The company charges for mortality risks on a monthly basis for all insurance contracts and has the right to alter these charges to a certain extent based on mortality experience and hence minimize its exposure to mortality risk. Delays in implementing increases in charges and market or regulatory restraints over the extent of the increases may reduce its mitigating effect.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaica dollars unless otherwise stated)***26. Insurance and financial risk management (continued)****(a) Insurance risk (continued)****(i) Frequency and severity of claims (cont'd)**

The tables below indicate the concentration of insured benefits across bands of insured benefits per individual life assured. The amounts at risk are fully retained.

	Total benefits assured			
	2017		2016	
	Before Reinsurance	%	Before Reinsurance	%
Individual life benefits assured per life:				
0 to 250,000	5,266,635	10	5,766,994	11
250,001 to 500,000	2,787,029	5	2,426,784	5
500,001 to 750,000	3,066,149	6	3,305,060	6
750,001 to 1,000,000	3,340,186	6	3,421,091	7
1,000,001 to 1,500,000	9,774,853	19	9,859,660	19
1,500,001 to 2,000,000	6,068,254	12	6,122,419	12
Over 2,000,000	<u>22,117,031</u>	<u>42</u>	<u>21,296,905</u>	<u>40</u>
	<u>52,420,137</u>	<u>100</u>	<u>52,198,913</u>	<u>100</u>

The tables below indicate the concentration of insured benefits across bands of group life insured benefits. The benefit insured figures are shown gross as reinsurance has not been considered due to immateriality.

	Total benefits assured			
	2017		2016	
	Before Reinsurance	%	Before Reinsurance	%
Group life benefits assured per life:				
0 to 250,000	11,246,244	13	12,124,029	14
250,001 to 500,000	4,574,235	5	5,031,489	6
500,001 to 750,000	5,130,951	6	5,695,220	7
750,001 to 1,000,000	4,354,444	5	4,759,146	5
1,000,001 to 1,500,000	15,430,489	18	16,928,535	19
1,500,001 to 2,000,000	13,344,207	16	13,389,118	15
Over 2,000,000	<u>30,499,093</u>	<u>37</u>	<u>29,382,646</u>	<u>34</u>
	<u>84,579,663</u>	<u>100</u>	<u>87,310,183</u>	<u>100</u>

Insurance risk for contracts disclosed in this note is also affected by the policyholders' right to pay reduced or no future premiums or to terminate the contract completely. As a result, the amount of insurance risk is also subject to the policyholders' behaviour. The company has factored the impact of policyholders' behaviour into the assumptions used to measure these liabilities.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaica dollars unless otherwise stated)***26. Insurance and financial risk management (continued)****(a) Insurance risk (continued)****(ii) Sources of uncertainty in the estimation of future benefit payments and premiums**

Uncertainty in the estimation of future benefit payments and premium receipts for long term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality and the variability in policyholder behaviour.

Estimates are made as to the expected number of deaths for each of the years in which the company is exposed to risk. The company bases these estimates on standard industry and international mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the company's own experience.

(iii) Process used in deriving assumptions

The assumptions for long term insurance contracts and the process used in deriving these assumptions have remained substantially unchanged since the previous year.

For long-term contracts with fixed and guaranteed terms, estimates are made in two stages. Estimates of future deaths, voluntary terminations and partial withdrawal of policy funds, investment returns, crediting rates, inflation and administration expenses are made and form the assumptions used for calculating the liabilities at the inception of the contract. A margin for risk and uncertainty is added to these assumptions.

New estimates are made each subsequent year based on updated company experience studies and economic forecasts. The valuation assumptions are altered to reflect these revised best estimates. The margins for risk and uncertainty may also be altered if the underlying level of uncertainty in the updated assumptions have changed. The financial impact of revisions to the valuation assumptions or the related margins is recognised in the accounting period in which the change is made.

See note 20(d) for detailed policy assumptions.

(b) Reinsurance risk

Reinsurance risk is the risk that a reinsurer will default and not honour obligations arising from claims. To limit its exposure of potential loss on an insurance policy, the company cedes certain levels of risk to a reinsurer. Reinsurance ceded does not discharge the company's liability as primary issuer. The company also limits the probable loss in the event of a single catastrophic occurrence by reinsuring this type of risk with reinsurers.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaica dollars unless otherwise stated)***26. Insurance and financial risk management (continued)****(b) Reinsurance risk (continued)**

The company manages reinsurance risk by selecting reinsurers which have established capability to meet their contractual obligations and which generally have favourable credit ratings as determined by a reputable rating agency.

Retention limits represent the level of risk retained by the insurer. Coverage in excess of these limits is ceded to reinsurers up to the treaty limit. The retention programs used by the company are summarized below:

Type of insurance contract	Retention
Individual, group & creditor life catastrophe	Maximum retention of \$420 for a single event; Treaty limits apply;
Group creditor life contracts	Maximum retention of \$15,000 per insured.

Effective July 1, 2017, the coverage was discontinued.

(c) Market risk

Market risk is the risk that the value of the financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security, its issuer or factors affecting all securities traded in the market. The company manages its risk through the establishment of appropriate limits and close monitoring of the financial markets to identify any trends which would impact the value of its portfolio.

There has been no change to the company's exposure to market risks or the manner in which it manages and measures the risk.

(i) Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The company takes on exposure to the effects of fluctuations in market interest rates on its financial position and cash flows. Interest rate risk is managed as part of the risk management practices of the Group of which it forms a part, on a monthly basis. The company's cash flow is monitored daily.

The cash flow and fair value interest rate risk is summarised in note 27(a).

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaica dollars unless otherwise stated)***26. Insurance and financial risk management (continued)****(c) Market risk (continued)****(ii) Currency risk**

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The company only issues insurance contracts in Jamaican dollars and the funds are used to purchase assets in the same currency. These portfolios are not exposed to currency risk.

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in market price (other than those arising from interest rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The company is not exposed to other price risk.

(d) Liquidity risk

Liquidity risk is the risk that company is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay policyholders.

The company is exposed to daily calls on its cash resources from its policyholders. The company does not necessarily maintain cash resources to meet all these needs as experience shows that a minimum level on reinvestment of maturing funds can be predicted with a high level of certainty.

The Board of Directors approves the company's liquidity and funding management policies and establishes limits to control the risk. The company assesses the adequacy of its' liquidity position by analysing its' current liquidity position, present and anticipated funding requirements, and alternative sources of funds. This process includes:

- Projecting day-to-day cash flows;
- Managing the concentration and profile of debt maturities;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring statement of financial position liquidity ratios against internal and regulatory requirements; and
- Maintenance of liquidity and funding contingency plans.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaica dollars unless otherwise stated)***26. Insurance and financial risk management (continued)****(d) Liquidity risk (continued)**

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the company. It is unusual for companies to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of loss.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the company and its exposure to changes in interest rates.

Assets available to meet all of the liabilities include cash balances and government securities. The company would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources.

The liquidity risk is summarised in note 27(b).

(e) Credit risk

Credit risk is the risk that one or both parties to a financial instrument will fail to discharge an obligation resulting in loss to one or both parties.

The company manages the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to any one borrower, or groups of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by issuer are approved annually by the Board of Directors.

Other than exposure on Government of Jamaica securities and concentration of Government of Jamaica securities, there is no significant concentration of liquid funds. For securities purchased under resale agreements, titles to securities are transferred to the company for the duration of the agreement.

The credit risk is summarised in note 27(c).

(f) Capital risk management

Capital risk is the risk that the company fails to comply with mandated regulatory requirements, resulting in a breach of its minimum capital ratios and the possible suspension or loss of its insurance licence.

Regulators are primarily interested in protecting the rights of the policyholders and monitor the company closely to ensure that it is satisfactorily managing affairs for the benefit of the policyholders. At the same time, the regulators are also interested in ensuring that the company maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters. See note 28(b) for details of the Dynamic Capital Adequacy Testing.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaica dollars unless otherwise stated)***26. Insurance and financial risk management (continued)****(f) Capital risk management (continued)**

The operations of the company are subject to regulatory requirements. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions to minimize the risk of default and insolvency to meet unforeseen liabilities as these arise.

The company's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

- to comply with the capital requirements set by the regulators;
- to safeguard the company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong capital base to support the development of its business.

The principal capital resource of the company is its shareholders' equity.

Capital adequacy is calculated by the Appointed Actuary and reviewed by executive management, the audit committee and the board of directors. In addition, the company seeks to maintain internal capital adequacy levels higher than the regulatory requirements. To assist in evaluating the current business and strategic opportunities, a risk-based approach is one of the core measures of financial performance. The risk-based assessment measure which has been adopted is the Minimum Continuing Capital and Surplus Requirement (MCCSR) standard as defined by the Financial Services Commission and dictated by the Insurance Regulations 2001. Under Jamaican regulations, the minimum standard recommended for companies is an MCCSR of 150% in 2010 and later. The MCCSR for the company as of December 31, 2017 and 2016 is set out below:

	<u>2017</u>	<u>2016</u>
Regulatory capital held	<u>8,153,701</u>	<u>8,572,971</u>
Minimum regulatory capital	<u>1,386,439</u>	<u>1,556,336</u>
MCCSR Ratio	<u>588.10%</u>	<u>551.00%</u>

27. Financial instruments**(a) Cash flow and fair value interest rate risk**

The company is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The following tables summarise carrying amounts of statement of financial position assets, liabilities and equity in order to arrive at the company's interest rate gap based on earlier of contractual repricing and maturity dates.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)***27. Financial instruments (continued)**

(a) Cash flow and fair value interest rate risk (continued):

	2017						Total
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive	
Cash resources	1,233,418	-	657,578	-	-	3,483	1,894,479
Investment securities:							
Available for sale	-	31,049,618	333,881	13,560,650	6,331,633	1,062,448	52,338,230
Held to maturity	-	1,017,000	-	-	-	11,804	1,028,804
Loans and receivables	1,623,691	-	-	-	-	1,674	1,625,365
Intangible assets	-	-	-	-	-	83,481	83,481
Property, plant and equipment	-	-	-	-	-	8,537	8,537
Other assets	-	-	-	-	-	1,324	1,324
Taxation recoverable (Withholding Taxes)	-	-	-	-	-	974,831	974,831
Total assets	2,857,109	32,066,618	991,459	13,560,650	6,331,633	2,147,582	57,955,051
Policyholders' liabilities	37,210,822	3,889,362	9,950,515	-	-	(6,270,408)	44,780,291
Taxation payable (Income Taxes)	-	-	-	-	-	281,643	281,643
Sundry liabilities	-	-	-	-	-	227,199	227,199
Deferred tax liabilities	-	-	-	-	-	529,079	529,079
Shareholders' equity	-	-	-	-	-	12,136,839	12,136,839
Total liabilities and shareholders' equity	37,210,822	3,889,362	9,950,515	-	-	6,904,352	57,955,051
Total interest rate sensitivity gap	(34,353,713)	28,177,256	(8,959,056)	13,560,650	6,331,633	(4,756,770)	-
Cumulative gap	(34,353,713)	(6,176,457)	(15,135,513)	(1,574,863)	4,756,770	-	-
	2016						
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive	Total
Total assets	2,131,402	35,133,471	7,356,893	7,870,741	2,698,446	2,293,490	57,484,443
Total liabilities and shareholders' equity	36,108,765	4,022,709	10,521,921	-	-	6,831,048	57,484,443
Total interest rate sensitivity gap	(33,977,363)	31,110,762	(3,165,028)	7,870,741	2,698,446	(4,537,558)	-
Cumulative gap	(33,977,363)	(2,866,601)	(6,031,629)	1,839,112	4,537,558	-	-

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)***27. Financial instruments (continued)****(a) Cash flow and fair value interest rate risk (continued):**

The tables below summarise the average effective yields by the earlier of the contractual repricing or maturity dates.

	2017					Weighted average
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	
	%	%	%	%	%	
Cash resources	0.57	-	7.72	-	-	3.06
Investment securities						
- Available for sale	-	4.97	7.75	7.63	10.53	6.28
- Held to maturity	-	5.23	-	-	-	5.23
Loans and receivables – Policy loans	7.50	-	-	-	-	7.50
Policyholders' liabilities	<u>2.71</u>	<u>3.66</u>	<u>2.97</u>	<u>-</u>	<u>-</u>	<u>2.68</u>

	2016					Weighted average
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	
	%	%	%	%	%	
Cash resources	1.28	4.99	6.26	-	-	3.95
Investment securities						
- Available for sale	-	5.47	7.49	9.23	11.43	6.58
- Held to maturity	-	6.11	7.50	-	-	7.23
Financial assets at fair value through profit or loss	-	-	-	7.25	-	7.25
Government securities purchased under resale agreements	-	5.43	-	-	-	5.43
Loans and receivables – Policy loans	7.50	-	-	-	-	7.50
Policyholders' liabilities	<u>3.07</u>	<u>3.99</u>	<u>3.45</u>	<u>-</u>	<u>-</u>	<u>3.26</u>

(i) Sensitivity

Sensitivity to interest rate risk is considered by the company. The effects of changes in interest rates of assets backing actuarial liabilities are disclosed in note 28.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)***27. Financial instruments (continued)**

(a) Cash flow and fair value interest rate risk (continued):

(ii) Determination of fair value and fair values hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Market price is used to determine fair value where an active market exists as it is the best evidence of the fair value of a financial instrument.

IFRS specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The source of the input parameter for the Jamaica Sovereign yield curve is Bloomberg.

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The company considers relevant and observable market prices in its valuations where possible.

	2017		
	Level 1	Level 2	Total
Available for sale financial assets			
Debt Securities	-	52,068,265	52,068,265
Mutual Funds	-	269,965	269,965
	<u>-</u>	<u>52,338,230</u>	<u>52,338,230</u>
	2016		
	Level 1	Level 2	Total
Available for sale financial assets			
Debt Securities	2,118,048	43,896,562	46,014,610
Mutual Funds	-	768,252	768,252
	<u>2,118,048</u>	<u>44,664,814</u>	<u>46,782,862</u>
Fair value through profit or loss			
Debt securities	<u>-</u>	<u>155,601</u>	<u>155,061</u>

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)***27. Financial instruments (continued)****Valuation techniques and significant unobservable inputs:**

The following table shows the valuation technique used in measuring fair value in the level 2 hierarchy, as well as the significant unobservable input used.

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Government of Jamaica securities (Local and Overseas)	Obtain bid yield from yield curve provided by a recognized pricing source (which uses market-supplied indicative bids) Using this yield, determine price using accepted formula Apply price to estimate fair value.	Not applicable	Not applicable
Mutual Funds Premium Growth Fund (PGF) Regular Premium Growth Fund (PGF) AFFIRM Money Market Fund (MMF) AFFIRM Fixed Income Fund (FIF) AFFIRM	PGF – Regular: The market unit value is determined by the investment house which the Company uses to compute the estimated fair value. AFFIRM unit values: The net asset values (navs) are determined for each Fund on a daily basis. The navs are then divided by the number of existing units to ascertain the unit values which are then used to fair value the investments for each Fund.	Not applicable	Not applicable

Financial assets not carried at fair value, and where carrying amounts approximate fair value, are not shown.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2016***(expressed in thousands of Jamaican dollars unless otherwise stated)***27. Financial instruments (continued)****(b) Liquidity risk**

The tables below present the undiscounted cash flows payable (both interest and principal cash flows) of the company's financial liabilities based on contractual repayment obligations. The company expects that many policyholders will not request repayment on the earliest date the company could be required to pay.

	<u>2017</u>		<u>Total</u>
	<u>Within 3 months</u>	<u>3 to 12 months</u>	
Financial Liabilities			
Policyholders' liabilities	<u>41,747,876</u>	<u>10,250,225</u>	<u>51,998,101</u>
	<u>2016</u>		<u>Total</u>
	<u>Within 3 months</u>	<u>3 to 12 months</u>	
Financial Liabilities			
Policyholders' liabilities	<u>40,293,934</u>	<u>10,933,561</u>	<u>51,227,495</u>

(c) Credit risk

Credit risk exposures relating to the statement of financial position assets are as follows:

Maximum exposure to credit risk

The maximum credit exposure, that is, the amount of loss that would be suffered if every counterparty to the company's financial assets were to default at once, is represented by the carrying amount of financial assets shown on the statement of financial position, without taking account of any collateral held or other credit enhancements.

The table below presents an analysis of debt securities by rating agency designation as at December 31, 2017, and 2016 based on Standard and Poor's ratings or their equivalent:

	<u>2017</u>	<u>2016</u>
AAA to AA+	-	2,118,048
BB to BB-	53,082,283	49,845,998
Unrated	<u>675,847</u>	<u>1,016,329</u>
	<u>53,758,130</u>	<u>52,980,375</u>
Classified as follows:		
Certificate of deposits with the Bank of Jamaica	661,061	1,502,518
Financial assets at fair value through profit or loss	-	155,601
Investment securities:		
Available for sale	52,068,265	46,014,610
Held to maturity	<u>1,028,804</u>	<u>5,307,644</u>
	<u>53,758,130</u>	<u>52,980,375</u>

The company issues policy loans to ScotiaMint policyholders. These loans are fully secured by the outstanding ScotiaMint fund values and as such no credit risk arises.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)***28. Sensitivity analysis of actuarial liabilities and capital adequacy****(a) Sensitivity arising from the valuation of life insurance contracts**

The determination of actuarial liabilities is sensitive to a number of assumptions, and changes in these assumptions could have a significant effect on the valuation results.

In summary, the valuation of actuarial liabilities of life insurance contracts is sensitive to:

- the economic scenario used in the Policy Premium Method (PPM);
- the investments allocated to back the liabilities;
- the underlying assumptions used, and
- the margins for adverse deviations.

Under the PPM methodology, the appointed actuary is required to test the actuarial liability under several economic scenarios. The tests have been done and the results of the valuation provide adequately for liabilities derived from the worst of these different scenarios.

The assumption for future investment yields has a significant impact on actuarial liabilities. The different scenarios tested under the PPM methodology reflect the impact of different yields.

The other assumptions which are most sensitive in determining the actuarial liabilities of the company, are in descending order of impact:

- operating expenses and taxes
- lapses and withdrawals
- mortality and morbidity

The following shows the sensitivity of the liabilities to a change in assumptions:

	<u>Change in assumptions</u>	<u>2017</u>	<u>2016</u>
Interest rates	-1%	17,572	48,474
	+1%	24,667	(6,887)
Mortality	+10%	454,091	433,981
	-10%	(470,071)	(450,026)
Expenses	+10%	492,910	397,437
	-10%	(487,631)	(392,866)
Lapses and withdrawals	+10%	320,620	267,583
	-10%	(347,112)	(288,975)

(b) Dynamic Capital Adequacy Testing (DCAT)

DCAT is a technique used by the company to assess the adequacy of its financial position and financial condition in the light of different future economic and policy experience scenarios. DCAT assesses the impact of the company's financial position and condition over the next 5 years under specific scenarios as required by the Insurance Regulations.

The financial position of the company is reflected by the amount of assets, liabilities and shareholders' equity on the statement of financial position at a given date.

The financial condition of the company at a given date is its prospective ability to meet its future obligations, especially obligations to policyholders, those to whom it owes benefits and to its shareholders.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)***28. Sensitivity analysis of actuarial liabilities and capital adequacy (continued)****(b) Dynamic Capital Adequacy Testing (DCAT) (continued)**

The purpose of the DCAT is:

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

A full DCAT report was completed for March 2017, based on the financial position of the company at December 31, 2016. The results were as follows:

(i) Mortality and morbidity risks

To test this scenario, existing mortality and morbidity rates were increased by 3% per annum for five years starting in 2017. The accumulated deterioration would be 15% by the end of the five-year DCAT period. The results for this scenario show relative insensitivity to the change in assumptions.

(ii) Low lapse rates

The business was tested by applying a factor of 50% to existing lapse and surrender rates. Overall, this scenario produces a higher surplus and a lower MCCR ratio over the 5-year period.

(iii) Higher lapse rates

The business was tested by doubling existing lapses, surrenders and partial withdrawal rates. Under this scenario, the surplus decreases while the MCCR increases.

(iv) Expense risks

Higher unit maintenance expenses were tested by setting the annual inflation at 5% greater than current expenses, starting in 2017, for five years. Overall, this scenario produces a lower MCCR ratio over the 5-year period.

(v) Low interest rate

An assumed decrease in the portfolio rate of 5% over a 5 year period was tested in this scenario. It is assumed that inflation ultimately decreases to .5%. Overall, this scenario produces a relatively unchanged MCCR over the five year period.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)***28. Sensitivity analysis of actuarial liabilities and capital adequacy (continued)****(b) Dynamic Capital Adequacy Testing (DCAT) (continued)****(vi) High interest rate**

This scenario assumed an increase of 5% over a 5 year period in the portfolio rate. It also assumed that inflation increases by the same amount. Overall, this scenario produces a lower MCCR.

(vii) High sales growth

New business was projected to be 20% higher than existing sales over five years. The increased sales result in increased surplus but the MCCR ratio falls.

(viii) Low sales

This scenario assumed sales were 20% less every year starting in 2017. Fees are also lower than under the base scenario. Overall this scenario produces a reduced surplus but the MCCR improves.

The DCAT conducted has not tested any correlation that may exist between assumptions. The following table represents the estimated sensitivity of each of the above scenarios for the next five years to net actuarial liabilities at the end of the projection period, which is 5 years after the relevant financial year end.

	2017		2016	
	Surplus	MCCR	Surplus	MCCR
Base	14,964,882	661%	15,757,936	758%
Variable				
Mortality risks	14,532,000	663%	15,361,488	769%
Low lapse rates	16,269,256	592%	17,286,548	671%
Higher lapse rates	12,696,181	1,016%	13,309,650	1,225%
Expense risks	14,337,672	665%	15,226,680	771%
Low interest rate	14,273,513	590%	15,886,139	752%
High Interest rate	13,589,784	582%	13,641,339	642%
High sales growth	15,510,328	629%	16,183,088	710%
Low sales	<u>13,876,166</u>	<u>691%</u>	<u>14,827,108</u>	<u>808%</u>

29. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Market price is used to determine fair value where an active market exists as it is the best evidence of the fair value of a financial instrument. However, market prices are not available for a significant number of the financial assets held and liabilities issued by the company. Therefore, for financial instruments where no market price is available, the fair values presented have been estimated using present value or other estimation and valuation techniques based on market conditions existing at the reporting date.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)***29. Fair value of financial instruments (continued)**

The values derived from applying these techniques are significantly affected by the underlying assumptions used concerning both the amounts and timing of future cash flows and the discount rates.

The following methods and assumptions have been used:

- financial investments classified as available for sale are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques;
- the fair value of liquid assets and other assets maturing within one year is assumed to approximate their carrying amount. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities;
- the fair value of variable rate financial instruments is assumed to approximate their carrying amounts which is the cost plus accrued interest; and
- the fair value and the carrying value of the policyholders' fund are assumed to be the same based on annual actuarial valuation.

The following table summarises the carrying amount and fair value of financial assets not presented on the company's statement of financial position at their fair value.

	2017		2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Investment securities:				
- Held to maturity	<u>1,028,804</u>	<u>1,028,995</u>	<u>5,307,644</u>	<u>5,324,242</u>

30. Related party transactions and balances

A number of transactions are entered into with related parties including companies connected by virtue of common directorship in the normal course of business.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2017***(expressed in thousands of Jamaican dollars unless otherwise stated)***30. Related party transactions and balances (continued)**

The volumes of related party transactions, outstanding balances at the period end, and related expenses and income for the year are as follows:

	Ultimate parent	Parent company	Fellow subsidiaries	Directors and key management personnel	Total	
					2017	2016
Insurance products	-	-	-	9,785	9,785	17,798
Mortgage back repurchase agreement	-	-	671,223	-	671,223	1,009,587
Securities purchased under resale agreements	-	-	-	-	-	700,000
Interest earned on resale agreements	-	-	(35,981)	-	(35,981)	(46,787)
Interest paid on repurchase Agreement	-	1,038	-	-	1,038	-
Interest earned on mortgage backed repurchase agreement	-	-	(62,702)	-	(62,702)	(76,288)
Due from banks and other financial institutions	-	1,233,418	269,965	-	1,503,383	1,271,569
Interest earned from banks and other financial institutions	-	(5,383)	-	-	(5,383)	(5,203)
Management fees received	-	-	(159,066)	-	(159,066)	(129,124)
Management fees paid	71,205	52,400	-	-	123,605	146,533
Other operating expenses	6,019	11,777	20,129	-	37,925	36,858
Loss on disposal of investment	-	5,578	-	-	5,578	2,777
Commission on securities	-	3,362	-	-	3,362	-
Profit from sale of investments	-	(182)	(476,941)	-	(477,123)	-
					<u>2017</u>	<u>2016</u>

Key management compensation

Salaries and other short term benefits	66,332	61,189
Post-employment benefits and allowances	<u>4,950</u>	<u>5,385</u>

31. Fiduciary activities

The company provides administrative services to an approved retirement scheme. This involves the company making purchase decisions in relation to investments. These assets, which are held in a fiduciary capacity, are not included in these financial statements. At the reporting date, there were assets under management amounting to approximately \$8,446,156 (2016: \$6,623,706).

32. Dividends

	<u>2017</u>	<u>2016</u>
First interim dividend	380,300	804,899
Second interim dividend	456,261	379,043
Third interim dividend	417,884	1,334,674
Fourth interim dividend	451,492	1,251,307
Special dividend	<u>2,001,000</u>	-
	<u>3,706,937</u>	<u>3,769,923</u>

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2016



KPMG
Chartered Accountants
P.O. Box 76
6 Duke Street
Kingston
Jamaica, W.I.
+1 (876) 922 6640
firmmail@kpmg.com.jm

INDEPENDENT AUDITORS' REPORT

To the Members of
SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Scotia Jamaica Life Insurance Company Limited ("the company"), set out on pages 5 to 54, which comprise the statement of financial position as at December 31, 2016, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company as at December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the Jamaican Companies Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



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INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



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INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

Auditor's Responsibilities for the Audit of the Financial Statements (Cont'd)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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



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INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

Report on Additional Matters as Required by the Jamaican Companies Act

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

In our opinion, proper accounting records have been maintained, so far as appears from our examination of those records, and the financial statements, which are in agreement therewith, give the information required by the Jamaican Companies Act, in the manner required.

KPMG

Chartered Accountants
Kingston, Jamaica

February 9, 2017

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Statement of Profit or Loss and Other Comprehensive Income
December 31, 2016***(expressed in thousands of Jamaican dollars unless otherwise stated)*

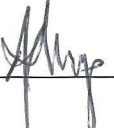
	Notes	2016	2015
Income			
Premium income, net of reinsurance	5	1,754,682	1,781,048
Investment income	6	3,588,620	3,784,276
Fee and commission income, net	7	464,262	475,997
Realised gains, net	8	<u>232,915</u>	<u>9,009</u>
		<u>6,040,479</u>	<u>6,050,330</u>
Policyholders' benefits and expenses			
Policyholders' benefits and reserves	9	1,485,470	756,783
Salaries, pension contributions and other staff benefits	10	476,279	575,767
Property expenses, including depreciation		61,985	61,763
Other operating expenses		<u>472,590</u>	<u>836,385</u>
		<u>2,496,324</u>	<u>2,230,698</u>
Profit before taxation	11	3,544,155	3,819,632
Taxation	12	(855,505)	(861,686)
Net profit		<u>2,688,650</u>	<u>2,957,946</u>
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Realised gain/(losses) on available-for-sale financial assets		152	(88)
Unrealised gains on available-for-sale financial assets		327,680	225,383
Deferred income tax relating to components of other comprehensive income	13	(82,038)	(80,860)
Other comprehensive income for the year, net of tax		<u>245,794</u>	<u>144,435</u>
Total comprehensive income for the year		<u>2,934,444</u>	<u>3,102,381</u>

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

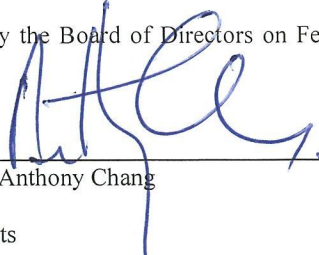
SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Statement of Financial Position
Year ended December 31, 2016***(expressed in thousands of Jamaican dollars unless otherwise stated)*

	Notes	2016	2015
ASSETS			
Cash resources			
Certificate of deposits with the Bank of Jamaica-maturing within 90 days of the original purchase date	14	1,301,413	1,505,966
Accounts with parent company	14	<u>503,316</u>	<u>389,550</u>
		1,804,729	1,895,516
Certificate of deposits with the Bank of Jamaica-maturing in excess of 90 days from the original purchase date		<u>201,105</u>	<u>883,740</u>
		<u>2,005,834</u>	<u>2,779,256</u>
Government securities purchased under resale agreements	15	<u>701,742</u>	<u>803,560</u>
Investment securities	16		
Available for sale		46,782,862	40,804,216
Held to maturity		5,307,644	9,298,337
Financial assets at fair value through profit or loss		<u>155,601</u>	<u>218,560</u>
		<u>52,246,107</u>	<u>50,321,113</u>
Loans and receivables - Policy loans	17	<u>1,630,248</u>	<u>1,398,705</u>
Other assets			
Property, plant and equipment	18	10,934	18,248
Intangible assets, computer software	2(t),19	78,796	51,423
Taxation recoverable		809,973	1,274,964
Other assets		<u>809</u>	<u>494</u>
		<u>900,512</u>	<u>1,345,129</u>
		<u>57,484,443</u>	<u>56,647,763</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Policyholders' liabilities	20	<u>44,988,803</u>	<u>43,331,573</u>
Other liabilities			
Sundry liabilities	21	142,644	141,019
Taxation payable		90,603	131,650
Deferred tax liabilities	22	<u>351,176</u>	<u>296,825</u>
		<u>584,423</u>	<u>569,494</u>
Shareholders' equity			
Share capital	23	150,000	150,000
Cumulative re-measurement result from available for sale financial assets	24	598,789	352,995
Unappropriated profits		<u>11,162,428</u>	<u>12,243,701</u>
		<u>11,911,217</u>	<u>12,746,696</u>
		<u>57,484,443</u>	<u>56,647,763</u>

The financial statements on pages 5 to 54 were approved for issue by the Board of Directors on February 9, 2017 and signed on its behalf by:



Jacqueline Sharp Director



Anthony Chang Director

The accompanying notes form an integral part of the financial statements

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Statement of Changes in Shareholders' Equity****Year ended December 31, 2016***(expressed in thousands of Jamaican dollars unless otherwise stated)*

	<u>Notes</u>	<u>Share capital</u>	<u>Cumulative re-measurement result from available for sale financial assets</u>	<u>Unappropriated profits</u>	<u>Total</u>
		(Note 23)	(Note 24)		
Balances at December 31, 2014		150,000	208,560	10,494,379	10,852,939
Net profit for the year		-	-	2,957,946	2,957,946
Other comprehensive income	13	-	144,435	-	144,435
Dividends	32	<u>-</u>	<u>-</u>	<u>(1,208,624)</u>	<u>(1,208,624)</u>
Balances at December 31, 2015		150,000	352,995	12,243,701	12,746,696
Net profit for the year		-		2,688,650	2,688,650
Other comprehensive income	13	-	245,794		245,794
Dividends	32	<u>-</u>	<u>-</u>	<u>(3,769,923)</u>	<u>(3,769,923)</u>
Balances at December 31, 2016		<u>150,000</u>	<u>598,789</u>	<u>11,162,428</u>	<u>11,911,217</u>

The accompanying notes form an integral part of the financial statements

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Statement of Cash Flows****Year ended December 31, 2016***(expressed in thousands of Jamaican dollars unless otherwise stated)*

	Notes	2016	2015
Cash flows from operating activities			
Net profit for the year		2,688,650	2,957,946
Items not affecting cash:			
Investment income	6	(3,588,620)	(3,784,276)
Interest credited to policyholders and annuitants	9	1,679,022	1,770,492
Transfer from actuarial reserves	9	(353,251)	(1,179,482)
Taxation	12	855,505	861,686
Amortisation	19	2,335	-
Depreciation	18	<u>7,314</u>	<u>10,194</u>
		1,290,955	636,560
Changes in operating assets and liabilities			
Taxation recoverable		464,991	(397,594)
Other assets		(315)	344
Policyholders' liabilities		331,459	(759,525)
Other liabilities		<u>1,625</u>	<u>(37,629)</u>
		2,088,715	(557,844)
Interest received		3,686,646	3,813,355
Income tax paid		<u>(924,239)</u>	<u>(672,171)</u>
Net cash provided by operating activities		<u>4,851,122</u>	<u>2,583,340</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	18	-	(5,108)
Purchase of intangible asset		(29,708)	(10,735)
Investment securities, net		(1,696,321)	(3,836,970)
Loans and receivables – Policy loans		(221,599)	(228,751)
Certificate of deposits with the Bank of Jamaica		<u>680,215</u>	<u>2,906,397</u>
Net cash used in investing activities		<u>(1,267,413)</u>	<u>(1,175,167)</u>
Net cash provided before dividend payments			
Dividends paid	32	<u>(3,769,923)</u>	<u>(1,208,624)</u>
Net (decrease)/increase in cash and cash equivalents		(186,214)	199,549
Cash and cash equivalents at beginning of year		<u>2,689,615</u>	<u>2,490,066</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	14	<u>2,503,401</u>	<u>2,689,615</u>

The accompanying notes form an integral part of the financial statements

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

Notes to the Financial Statements

December 31, 2016

(expressed in thousands of Jamaican dollars unless otherwise stated)

1. Identification, activities and licence

The company is a wholly owned subsidiary of The Bank of Nova Scotia Jamaica Limited, which is in turn a 100% subsidiary of Scotia Group Jamaica Limited. Both these companies are incorporated and domiciled in Jamaica. Scotia Group Jamaica Limited is a 71.78% subsidiary of Scotiabank Caribbean Holdings Limited, which is incorporated and domiciled in Barbados. The Bank of Nova Scotia, which is incorporated and domiciled in Canada, is the ultimate parent. The registered office of the company is located at Scotiabank Centre, Corner of Duke and Port Royal Streets, Kingston.

The company was incorporated in Jamaica on October 26, 1995 and was licensed as an insurance company on January 22, 1998 under the Insurance Act 1971, which was replaced by the Insurance Act 2001 and the Insurance Regulations 2001.

The principal activity of the company is the provision of long term life and health insurance and annuities.

2. Summary of significant accounting policies

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

(a) Basis of preparation

(i) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board, and comply with the Jamaican Companies Act (“the Act”).

New, revised and amended standards and interpretations that became effective during the year:

Certain new, revised and amended standards and interpretations came into effect during the current financial year. The company has assessed them and has adopted those which are relevant to its financial statements. These are as follows:

- IAS 1, *Presentation of Financial Statements*, effective for accounting periods beginning on or after January 1, 2016, has been amended to clarify or state the following:
 - specific single disclosures that are not material do not have to be presented even if they are minimum requirements of a standard;
 - the order of notes to the financial statements is not prescribed;
 - line items on the statement of financial position and the statement of profit or loss and other comprehensive income (OCI) should be disaggregated if this provides helpful information to users. Line items can be aggregated if they are not material;

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

Notes to the Financial Statements

December 31, 2016

(expressed in thousands of Jamaican dollars unless otherwise stated)

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(i) Statement of compliance (continued)

New, revised and amended standards and interpretations that became effective during the year (cont'd):

- IAS 1, *Presentation of Financial Statements*, (cont'd)
 - specific criteria are now provided for presenting subtotals on the statement of financial position and in the statement of profit or loss and OCI, with additional reconciliation requirements for the statement of profit or loss and OCI; and
 - the presentation in the statement of OCI of items of OCI arising from joint ventures and associates accounted for using the equity method follows the IAS 1 approach of splitting items that may, or that will never, be reclassified to profit or loss.
- IAS 16 and IAS 38, *Clarification of Acceptable Methods of Depreciation and Amortisation*, are amended as follows:
 - The amendment to IAS 16, *Property, Plant and Equipment* explicitly states that revenue-based methods of depreciation cannot be used. This is because such methods reflect factors other than the consumption of economic benefits embodied in the assets.
 - The amendment to IAS 38, *Intangible Assets* introduces a rebuttable presumption that the use of revenue-based amortisation methods is inappropriate for intangible assets.
- *Improvements to IFRS 2012-2014* cycle, contain amendments to certain standards and interpretations and are effective for accounting periods beginning on or after January 1, 2016. The main amendments applicable to the company are as follows:
 - IFRS 7, *Financial Instruments: Disclosures*, has been amended to clarify when servicing arrangements are in the scope of its disclosure requirements on continuing involvement in transferred assets in cases when they are derecognized in their entirety. A servicer is deemed to have continuing involvement if it has an interest in the future performance of the transferred asset -e.g. if the servicing fee is dependent on the amount or timing of the cash flows collected from the transferred financial asset; however, the collection and remittance of cash flows from the transferred asset to the transferee is not, in itself, sufficient to be considered 'continuing involvement'.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

Notes to the Financial Statements

December 31, 2016

(expressed in thousands of Jamaican dollars unless otherwise stated)

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(i) Statement of compliance (continued)

New, revised and amended standards and interpretations that became effective during the year (cont'd):

- *Improvements to IFRS, 2012-2014 cycle, (cont'd):*
 - IFRS 7 has also been amended to clarify that the additional disclosures required by *Disclosures: Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)* are not specifically required for inclusion in condensed interim financial statements for all interim periods; however, they are required if the general requirements of IAS 34, *Interim Financial Reporting*, require their inclusion.

New and revised standards and interpretations that are not yet effective:

At the date of authorisation of these financial statements, certain new standards, and amendments to and interpretations of existing standards, which were in issue were not effective at the reporting date and had not been early-adopted by the company. The company is assessing them and has determined that the following are relevant to its financial statements.

- IFRS 9, *Financial Instruments*, which is effective for annual reporting periods beginning on or after January 1, 2018, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial assets and liabilities, including a new expected credit loss model for calculating impairment of financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) - are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different. IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ model, which means that a loss event will no longer need to occur before an impairment allowance is recognized.

The company is assessing the impact that this standard will have on its financial statements upon adoption.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

Notes to the Financial Statements

December 31, 2016

(expressed in thousands of Jamaican dollars unless otherwise stated)

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(i) Statement of compliance (continued)

New and revised standards and interpretations that are not yet effective (cont'd):

- IFRS 15, *Revenue From Contracts With Customers*, effective for accounting periods beginning on or after January 1, 2018, replaces IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfer of Assets from Customers* and SIC-31 *Revenue – Barter Transactions Involving Advertising Services*. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. It also does not apply if two entities in the same line of business exchange non-monetary assets to facilitate sales to other parties.

The Company will apply a five-step model to determine when to recognise revenue, and at what amount. The model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised at a point in time, when control of goods or services is transferred to the customer; or over time, in a manner that best reflects the entity's performance.

There will be new qualitative and quantitative disclosure requirements to describe the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The Company is assessing the impact that this standard will have on its 2018 financial statements.

- Amendments to IAS 7, *Statement of Cash Flows*, effective for accounting periods beginning on or after January 1, 2017, requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows.

The Company is assessing the impact that this amendment will have on its 2017 financial statements.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

Notes to the Financial Statements

December 31, 2016

(expressed in thousands of Jamaican dollars unless otherwise stated)

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(i) Statement of compliance (continued)

New and revised standards and interpretations that are not yet effective (cont'd):

- Amendments to IAS 12, *Income Taxes*, effective for accounting periods beginning on or after January 1, 2017, clarifies the following:
 - The existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.
 - A deferred tax asset can be recognised if the future bottom line of the tax return is expected to be a loss, if certain conditions are met.
 - Future taxable profits used to establish whether a deferred tax can be recognised should be the amount calculated before the effect of reversing temporary differences.
 - An entity can assume that it will recover an asset for more than its carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.
 - Deductible temporary differences related to unrealised losses should be assessed on a combined basis for recognition unless a tax law restricts the use of losses to deductions against income of a specific type.

The Company is assessing the impact that this amendment will have on its 2017 financial statements.

- Amendments to IFRS 4, *Insurance Contracts*, provide two optional solutions to reduce the impact of the differing effective dates of IFRS 9, *Financial Instruments* (effective January 1, 2018), and IFRS 4, *Insurance Contracts* (expected to be effective in 2020 or later) as follows:
 - (i) Temporary exemption from IFRS 9:
 - Rather than having to implement IFRS 9 in 2018, some companies will be permitted to continue to apply IAS 39 *Financial Instruments: Recognition and Measurement*.
 - To qualify, a reporting company's activities need to be predominantly connected with insurance.

Entities applying the temporary exemption will need to disclose fair value information separately for financial assets that meet the exemption criteria and for all other financial assets.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2016***(expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(a) Basis of preparation (continued)****(i) Statement of compliance (continued)****New and revised standards and interpretations that are not yet effective (cont'd):**

- Amendments to IFRS 4, *Insurance Contracts*, (continued)

(ii) Overlay approach:

For designated financial assets, a company is permitted to reclassify between profit or loss and other comprehensive income (OCI), the difference between the amounts recognised in profit or loss under IFRS 9 and those that would have been reported under IAS 39.

There will be new qualitative and quantitative disclosure requirements to describe how the adjustment is calculated and the effect on the financial statements.

The Company is assessing the impact that this standard will have on its 2018 financial statements.

- IFRS 16, *Leases*, which is effective for annual reporting periods beginning on or after January 1, 2019, eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Entities will be required to bring all major leases on-balance sheet, recognising new assets and liabilities. The on-balance sheet liability will attract interest; the total lease expense will be higher in the early years of a lease even if a lease has fixed regular cash rentals. Optional lessee exemption will apply to short-term leases and for low-value items with value of US\$5,000 or less.

Lessor accounting remains similar to current practice as the lessor will continue to classify leases as finance and operating leases.

The Company is assessing the impact that this standard will have on its 2019 financial statements.

(ii) Basis of measurement

The financial statements have been prepared on the historical cost basis as modified for the revaluation of available-for-sale financial assets.

(iii) Use of estimates and judgements

The preparation of financial statements to conform to IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

Notes to the Financial Statements

December 31, 2016

(expressed in thousands of Jamaican dollars unless otherwise stated)

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(iv) Functional and presentation currency

These financial statements are presented in Jamaican dollars, which is the company's functional currency. Except where indicated to be otherwise, financial information presented is shown in thousands of Jamaican dollars.

(b) Insurance contracts – recognition and measurement

(i) Classification

The company issues contracts that transfer insurance risk or financial risk or both.

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. The company defines insurance risk as significant if an insured event could cause an insurer to pay significant additional benefits in a scenario that has a discernible effect on the economics of the transactions. As a general guideline, the company defines as significant insurance risk, the possibility of having to pay benefits, at the occurrence of an insured event that is at least 10% more than the benefits payable if the insured event did not occur.

(ii) Recognition and measurement

Insurance contracts insure human life events (for example death or permanent disability) over a long duration. The accounting treatment differs according to whether the contract bears investment options or not. Under contracts that do not bear investment options, premiums are recognised as income when they are due and benefits are recorded as an expense when they are incurred.

Under contracts that bear an investment option, insurance premiums received are initially recognised directly as liabilities. These liabilities are increased by credited interest and are decreased by policy administration fees, mortality and surrender charges and any withdrawals; the resulting liability is the policyholders' fund. Income consists of fees deducted for mortality, policy administration and surrenders. Interest credited to the account and benefit claims in excess of the account balances incurred in the period are recorded as expenses in profit or loss.

Insurance contract liabilities are determined by an independent actuary using the Policy Premium Method of valuation as discussed in Note 3(ii). These liabilities are, on valuation, adjusted through profit or loss to reflect the valuation determined under the Policy Premium Method.

(c) Annuities

Annuities are immediate payouts of fixed and variable amounts for a guaranteed period and recognised on the date that they originate.

Benefits are recognised as liabilities until the end of the guaranteed period. These liabilities are increased by credited interest and are decreased by policy administration fees, period payment charges and any withdrawals. Income consists mainly of fees deducted for fund administration and interest credited is treated as an expense in profit or loss.

The annuity fund is included as a part of policyholders' liabilities [note 20 (a)].

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2016***(expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(d) Revenue recognition****(i) Premium income**

Gross premiums are recognised as revenue when due. When premiums are recognised, the related actuarial liabilities are computed, resulting in benefits and expenses being matched with revenue. Unearned premiums are those proportions of premiums written in the current year that relate to periods of risk after the reporting date.

(ii) Interest income

Interest income is recognised in profit or loss for all interest earning instruments on the accrual basis using the effective interest method based on the actual purchase price. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset.

The effective interest rate is established on initial recognition of the financial asset and is not revised subsequently. Interest income includes coupons earned on fixed income investments, accretion of discount on discounted instruments, and amortization of premium on instruments bought at a premium.

(iii) Fee and commission income

Fees for retirement planning administration services are recognised as revenue over the period in which the related services are performed.

(iv) Realised gains and losses

Realised gains and losses recorded in profit or loss and relate to gains and losses on the sale of financial and other assets. This is calculated as the difference between net sales proceeds and the current carrying value and is recorded on occurrence of the sale transaction.

(e) Interest expense

Interest expense is recognised in profit or loss on the accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments through the expected life of the financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial liability.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2016***(expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(f) Reinsurance contracts held**

The company enters into contracts with reinsurers under which it is compensated for losses on contracts it issues and which meet the classification requirements for insurance contracts [see note 2(b)]. Reinsurance does not relieve the originating insurer of its liability.

(g) Claims

Death claims are recorded in profit or loss net of reinsurance recoverable.

(h) Taxation

Taxation on the profit or loss for the year comprises current and deferred taxes. Current and deferred taxes are recognised as tax expense or benefit in determining profit or loss and where they relate to items recorded in shareholders' equity, they are charged or credited as other comprehensive income.

(i) Current taxation

Current tax is the expected taxation payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable and tax losses in respect of previous years.

(ii) Deferred tax

Deferred tax liabilities and assets are recognised for temporary differences between the carrying amounts of assets and liabilities and their amounts as measured for tax purposes, which will result in taxable amounts in future periods. Deferred tax assets are recognised for temporary differences which will result in deductible amounts in future periods, but only to the extent it is probable that sufficient taxable profits will be available against which these differences can be utilised. Deferred tax assets are reviewed at each reporting date to determine whether it is probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset will be realised or the liability will be settled based on enacted rates.

Current and deferred tax assets and liabilities are offset when the legal right of set-off exists, and when they relate to income taxes levied by the same tax authority on either the same taxable entity, or different taxable entities which intend to settle current tax liabilities and assets on a net basis.

(i) Financial instruments

Financial instruments carried on the statement of financial position include cash resources, investment securities, government securities purchased under resale agreements, loans and receivables, other assets, policyholders' liabilities and other liabilities.

The fair values of the company's financial instruments are discussed in Note 27 and 29.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2016***(expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(i) Financial instruments (continued)****(i) Recognition**

The company initially recognises deposits on the date that they are originated. All other financial assets and liabilities are initially recognised on the settlement date, at which the company becomes a party to the contractual provisions of the instrument.

(ii) Derecognition

The company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the company is recognised as a separate asset or liability.

The company derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

The company enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred financial assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

(j) Investment securities

The company classifies its investment securities into the following categories: loans and receivables, held to maturity and available for sale financial assets. Management determines the classification of its investments at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provides money or services directly to a debtor with no intention of trading the receivable.

(ii) Held to maturity

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the company's management has the positive intention and ability to hold to maturity. These investments are initially recognised at cost with transaction costs directly attributable included. After initial measurement, held to maturity financial assets are measured at amortised cost using the effective interest rate method. Were the company to sell other than an insignificant amount of held to maturity investments before maturity, the entire category would be compromised and reclassified as available for sale.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2016***(expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(j) Investment securities (continued)****(iii) Available for sale**

Available for sale investments are those non-derivative financial assets that are designated as available for sale or are not classified in the above two categories, they are intended to be held for an indefinite period of time, and may be sold in response to needs for liquidity or changes in interest rates or market prices. They are remeasured at fair value.

On disposal of these investments, the unrealized gains or losses included in shareholders' equity are included in profit or loss. Interest income, which is calculated using the effective interest method, is recognised in profit and loss. Other unrealized gains and losses arising from changes in fair value are recognised in other comprehensive income.

Purchases and sales of available for sale assets are recognised at the settlement date - the date on which an asset is delivered to or by the company. Financial assets are initially recognized at fair value plus transaction costs.

(k) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase (repurchase agreements) and securities purchased under agreements to resell (reverse repurchase agreements) are treated as collateralised financing transactions. The difference between the sale/purchase and repurchase/resale price is treated as interest and accrued over the life of the agreement using the effective yield method.

(l) Impairment of assets

The carrying amounts of the company's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated at each reporting date. An impairment loss is recognised whenever the carrying amount of an asset exceeds its estimated recoverable amount.

Indication that a financial asset is impaired includes observable data that comes to the attention of the company about the following events:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments;
- it becoming probable that the issuer will enter bankruptcy or other financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Impairment losses are recognised in the company's profit or loss.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2016***(expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(l) Impairment of assets (continued)****(i) Financial assets carried at amortised cost**

The amount of the impairment loss for an asset carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the original effective interest rate. If a held to maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The recoverable amount of the company's assets at amortised cost is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset.

(ii) Financial assets carried at fair value

When a decline in the fair value of an available for sale financial asset has been recognised as other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in other comprehensive income is recognised in profit and loss even though the financial asset has not been derecognized. The amount of the cumulative loss that is recognised in other comprehensive income is the difference between the acquisition cost and current fair value less any impairment loss on that financial asset previously recognised.

The recoverable amount of a financial asset carried at fair value is the present value of expected future cash flows discounted at the current market interest rate for a similar financial asset. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

(iii) Other financial assets

Property, plant and equipment are reviewed periodically for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

In-house assessment of the company's assets revealed no negative material changes and hence, it was not necessary to account for any impairment losses in the company's accounts.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2016***(expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(m) Property, plant and equipment**

Property, plant and equipment are shown at historical cost less accumulated depreciation and, if any, impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Subsequent costs are included in the assets carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other expenditure is classified as repairs and renewals and charged as expenses in profit or loss during the financial period in which it is incurred.

Depreciation and amortisation are calculated on the straight-line method at rates estimated to write off the depreciable amount of the assets over their expected useful lives as follows:

Leasehold improvements	Period of lease
Computer equipment	4 years
Furniture, fixtures and equipment	10 years

Capital work in progress is not depreciated.

The depreciation methods, useful lives and residual values are reassessed at the reporting dates. Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining the profits for the year.

(n) Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

(o) Related parties

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the “reporting entity” in this case the company).

- (a) A person or a close member of that person’s family is related to the company if that person:
- (i) has control or joint control over the company;
 - (ii) has significant influence over the company; or
 - (iii) is a member of the key management personnel of the company or of a parent of the company.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

Notes to the Financial Statements

December 31, 2016

(expressed in thousands of Jamaican dollars unless otherwise stated)

2. Summary of significant accounting policies (continued)

(o) Related parties (cont'd)

- (b) An entity is related to the company if any of the following conditions applies:
- (i) The entity and the company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan established for the benefit of employees of either the company or an entity related to the company.
 - (vi) The entity is controlled, or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

(p) Pension scheme

The company participates in a defined benefit pension scheme of its parent company. The company's contribution to the scheme is fixed. Once the contributions have been paid, the company has no further legal or constructive obligations (note 25).

(q) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include cash and bank balances and highly liquid financial assets with original maturities of less than 90 days, which are readily convertible to known amounts of cash, and are subject to insignificant risk of changes in their fair value.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(r) Dividends

Dividends on ordinary shares are recognized in shareholders' equity in the period in which they are approved by the Board of Directors, thereby becoming irrevocably payable.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2016***(expressed in thousands of Jamaican dollars unless otherwise stated)***2. Summary of significant accounting policies (continued)****(s) Fiduciary activities**

The company acts as an administrator of an approved retirement scheme and therefore manages assets on behalf of plan members. These assets are unitised and income earned belongs to the plan members with the company incurring no risk. Therefore, these assets are segregated and presented separately from these financial statements. Income earned from management fees is included in fee and commission income in profit or loss.

(t) Intangible assets

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with acquiring identifiable and unique software products which are expected to generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. However, such costs are expensed where they are considered to be immaterial.

As at the reporting date, the intangible assets were not included in the operations of the company.

3. Critical accounting estimates and judgments in applying accounting policies

The company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Held to maturity investments

The company follows the guidance of IAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires judgement. In making this judgement, the company evaluates its intention and ability to hold such investments to maturity. If the company fails to keep these investments to maturity other than in the specific permissible circumstances - for example, selling other than an insignificant amount close to maturity - it will be required to reclassify the entire class as available for sale. The investments would therefore be measured at fair value, not amortised cost. If the entire class of held to maturity investments is compromised, the carrying value would increase/(decrease) by \$16,598 (2015: \$12,947) with a corresponding entry in the cumulative re-measurement result from available for sale financial assets reserve.

(ii) Estimate of future payments and premiums arising from long-term insurance contracts

The liabilities under long-term insurance contracts have been determined using the Policy Premium Method of valuation. Under this method explicit allowance is made for all future benefits and expenses under the policies. The premiums, benefits and expenses for each policy are projected and the resultant future cash flows are discounted back to the valuation date to determine the reserves. Any adjustment to the reserves is reflected in the year to which it relates.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2016***(expressed in thousands of Jamaican dollars unless otherwise stated)***3. Critical accounting estimates and judgments in applying accounting policies (cont'd)**

- (ii) Estimate of future payments and premiums arising from long-term insurance contracts (cont'd)

The process of calculating policy reserves necessarily involves the use of estimates concerning such factors as mortality and morbidity rates, future investment yields and future expense levels. Consequently, these liabilities include reasonable provisions for adverse deviations from the estimates. Estimates are also made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

These estimates are more fully described in Note 20(d).

4. Responsibilities of the appointed actuary and external auditors

The Board of Directors, pursuant to the Insurance Act, appoints the Actuary whose responsibility is to carry out an annual valuation of the company's policyholders' liabilities in accordance with accepted actuarial practice and regulatory requirements and report thereon to the policyholders and shareholders. In performing the valuation using the policy premium method, the Actuary makes assumptions as to the future rates of interest, asset defaults, mortality, morbidity, claims experience, policy termination, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the company and the insurance policies in force. An actuarial valuation is prepared annually.

The shareholders, pursuant to the Companies Act appoint the external auditors. Their responsibility is to conduct an independent and objective audit of the financial statements in accordance with International Standards on Auditing and report thereon to the shareholders. In carrying out their audit, the Auditors also make use of the work of the Appointed Actuary and his report on the policyholders' liabilities.

5. Premium income, net of reinsurance

	<u>2016</u>	<u>2015</u>
Gross written premium		
Individual life	482,147	538,018
Group life	1,261,267	1,231,269
Universal life	<u>12,430</u>	<u>12,714</u>
	1,755,844	1,782,001
Reinsurance	<u>(1,162)</u>	<u>(953)</u>
	<u>1,754,682</u>	<u>1,781,048</u>

6. Investment income

	<u>2016</u>	<u>2015</u>
Investment securities	3,320,472	3,392,903
Certificate of deposits with the Bank of Jamaica	107,031	230,942
Interest on policy loans	109,125	92,521
Government securities purchased under resale agreement	46,788	63,042
Other bank balances	<u>5,204</u>	<u>4,868</u>
	<u>3,588,620</u>	<u>3,784,276</u>

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2016***(expressed in thousands of Jamaican dollars unless otherwise stated)***7. Fee and commission income, net**

	<u>2016</u>	<u>2015</u>
Management and administration fees	129,094	135,623
Investment commissions paid	(2,929)	(595)
Third party commissions earned	-	524
Surrender charges and other contract fees	39,849	45,783
Policy administrative fees	<u>298,248</u>	<u>294,662</u>
	<u>464,262</u>	<u>475,997</u>

8. Realised gains, net

	<u>2016</u>	<u>2015</u>
Foreign exchange	232,763	9,097
Gain/(loss) on disposal of available for sale securities	<u>152</u>	<u>(88)</u>
	<u>232,915</u>	<u>9,009</u>

9. Policyholders' benefits and reserves

	<u>2016</u>	<u>2015</u>
Policyholders' benefit payments	159,699	165,773
Interest credited – policyholders	1,664,096	1,761,419
Interest credited – annuitants	14,926	9,073
Transfer from actuarial reserves	<u>(353,251)</u>	<u>(1,179,482)</u>
	<u>1,485,470</u>	<u>756,783</u>

10. Salaries, pension contributions and other staff benefits

	<u>2016</u>	<u>2015</u>
Wages and salaries	375,760	493,557
Statutory contributions	36,722	39,164
Pension cost (note 25)	325	-
Other staff benefits	<u>63,472</u>	<u>43,046</u>
	<u>476,279</u>	<u>575,767</u>

11. Profit before taxation

In arriving at the profit before taxation, the following are among the items that have been charged:

	<u>2016</u>	<u>2015</u>
Auditors' remuneration - current year	7,940	7,611
- prior year	-	355
Depreciation (note 18)	7,314	10,194
Directors' emoluments:		
Fees and expenses	5,350	3,705
Management remuneration	19,756	25,970
Policyholders' fund interest (note 9)	1,664,096	1,761,419
Interest on annuities (note 9)	14,926	9,073
Salaries, pension contributions and other staff benefits (note 10)	<u>476,279</u>	<u>575,767</u>

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2016***(expressed in thousands of Jamaican dollars unless otherwise stated)***12. Taxation**

- (a) The tax charge is based on the results for the year, as adjusted for taxation purposes, and is made up as follows:

	<u>2016</u>	<u>2015</u>
Current income tax:		
Income tax at 25%	883,192	795,285
Deferred income tax (note 22)	(27,687)	<u>66,401</u>
	<u>855,505</u>	<u>861,686</u>

- (b) Reconciliation of effective tax rate:

	<u>2016</u>	<u>2015</u>
Profit before taxation	<u>3,544,155</u>	<u>3,819,632</u>
Tax calculated at 25%	886,039	954,908
Adjustment for the effect of:		
Asset tax paid	33,386	130,833
Tax free actuarial releases	-	(317,430)
Expenses allowed for tax purposes	(42,147)	(20,578)
Other charges and allowances	(21,773)	<u>113,953</u>
	<u>855,505</u>	<u>861,686</u>

13. Deferred income tax effects relating to other comprehensive income

	<u>2016</u>		
	Before tax amount	Tax (expense)	Net of tax
Available for sale financial assets	<u>327,832</u>	<u>(82,038)</u>	<u>245,794</u>

	<u>2015</u>		
	Before tax amount	Tax (expense)	Net of tax
Available for sale financial assets	<u>225,295</u>	<u>(80,860)</u>	<u>144,435</u>

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2016***(expressed in thousands of Jamaican dollars unless otherwise stated)***14. Cash and cash equivalents**

	<u>2016</u>	<u>2015</u>
Cash resources	2,005,834	2,779,256
Less amounts not considered cash and cash equivalents:		
Due from banks greater than ninety days	(199,786)	(880,000)
Accrued interest	(2,647)	(9,641)
	1,803,401	1,889,615
Add other cash equivalent balances:		
Government Securities purchased under resale agreement less than ninety days	<u>700,000</u>	<u>800,000</u>
	<u>2,503,401</u>	<u>2,689,615</u>
Cash and cash equivalent is comprised of:		
Cash and balances with Bank of Jamaica	1,301,413	1,505,966
Accounts with parent company	503,316	389,550
Government Securities purchased under resale agreement	700,000	800,000
Accrued interest	(1,328)	(5,901)
	<u>2,503,401</u>	<u>2,689,615</u>

15. Government securities purchased under resale agreements

The company entered into reverse repurchase agreements collateralised by the Government of Jamaica securities. These agreements may result in credit exposure in the event that the counterparties to these transactions are unable to fulfill their contractual obligations. Included in this balance is interest receivable of \$1,742 (2015: \$3,560).

The fair value of collateral held pursuant to reverse repurchase agreements is \$735,264 (2015: \$841,337).

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2016***(expressed in thousands of Jamaican dollars unless otherwise stated)***16. Investment securities**

	<u>2016</u>	<u>2015</u>
Available for sale:		
Premium Growth Fund	652,831	522,296
Money Market Fund	56,187	54,372
Fixed Income Fund	59,234	55,818
Debt securities	43,336,531	39,623,333
USD Treasury bill	2,118,048	-
Interest receivable	<u>560,031</u>	<u>548,397</u>
	<u>46,782,862</u>	<u>40,804,216</u>
Held to maturity:		
Debt securities	5,249,500	9,129,400
Interest receivable	<u>58,144</u>	<u>168,937</u>
	<u>5,307,644</u>	<u>9,298,337</u>
Financial assets at fair value through profit or loss	<u>155,601</u>	<u>218,560</u>
	<u>52,246,107</u>	<u>50,321,113</u>

	Available for sale	Held to maturity	Financial asset at fair value through profit or loss	Total
December 31, 2014	36,556,425	9,300,182	368,120	46,224,727
Purchases	4,245,044	-	-	4,245,044
Disposals	(331,500)	-	-	(331,500)
Amortisation adjustment	72,986	-	-	72,986
Accrued interest adjustment	35,966	(1,845)	-	34,121
Fair value net gains	<u>225,295</u>	<u>-</u>	<u>(149,560)</u>	<u>75,735</u>
December 31, 2015	40,804,216	9,298,337	218,560	50,321,113
Purchases	10,071,600	-	-	10,071,600
Maturities	(1,287,644)	(3,879,900)	-	(5,167,544)
Disposals	(3,200,000)	-	-	(3,200,000)
Amortisation adjustment	55,225	-	-	55,225
Accrued interest adjustment	11,785	(110,793)	-	(99,008)
Fair value net gains	<u>327,680</u>	<u>-</u>	<u>(62,959)</u>	<u>264,721</u>
December 31, 2016	<u>46,782,862</u>	<u>5,307,644</u>	<u>155,601</u>	<u>52,246,107</u>

Included in investment securities are Government of Jamaica local registered stocks valued at \$90,000 (2015: \$90,000) which have been deposited with the Regulator, the Financial Services Commission, pursuant to Section 8 (1) (a) of the Insurance Regulations, 2001.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2016***(expressed in thousands of Jamaican dollars unless otherwise stated)***16. Investment securities (cont'd)**

Available for sale investments include holdings in Scotia Investments Jamaica Limited funds as follows:

	2016		2015	
	Units	Unit price	Units	Unit price
Premium Growth Fund	7,221,000	75.35	7,221,000	60.31
Premium Growth Fund	478,925	227.08	478,925	181.35
Money Market Fund	500,000	112.37	500,000	108.75
Fixed Income Fund	<u>485,667</u>	<u>121.97</u>	<u>485,667</u>	<u>114.93</u>

17. Policy loans

	2016	2015
Principal	1,574,260	1,352,661
Accrued interest	<u>55,988</u>	<u>46,044</u>
	<u>1,630,248</u>	<u>1,398,705</u>

18. Property, plant and equipment

	Leasehold improvements	Computer equipment	Furniture fixtures and equipment	Total
Cost:				
December 31, 2014	7,861	34,176	35,919	77,956
Additions	-	4,950	158	5,108
Disposals	<u>-</u>	<u>(2,753)</u>	<u>(26)</u>	<u>(2,779)</u>
December 31, 2015 and December 31, 2016	<u>7,861</u>	<u>36,373</u>	<u>36,051</u>	<u>80,285</u>
Accumulated depreciation:				
December 31, 2014	7,364	24,417	22,841	54,622
Charge for the year	497	7,123	2,574	10,194
Eliminated on disposal	<u>-</u>	<u>(2,753)</u>	<u>(26)</u>	<u>(2,779)</u>
December 31, 2015 Charge for the year	<u>7,861</u>	<u>28,787</u>	<u>25,389</u>	<u>62,037</u>
December 31, 2016	<u>-</u>	<u>5,204</u>	<u>2,110</u>	<u>7,314</u>
	<u>7,861</u>	<u>33,991</u>	<u>27,499</u>	<u>69,351</u>
Net book values:				
December 31, 2016	<u>-</u>	<u>2,382</u>	<u>8,552</u>	<u>10,934</u>
December 31, 2015	<u>-</u>	<u>7,586</u>	<u>10,662</u>	<u>18,248</u>
December 31, 2014	<u>497</u>	<u>9,759</u>	<u>13,078</u>	<u>23,334</u>

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2016***(expressed in thousands of Jamaican dollars unless otherwise stated)***19. Intangible assets**

	<u>Software</u>	<u>Software Work in progress</u>	<u>Total</u>
Cost:			
December 31, 2014	-	40,688	40,688
Additions	<u>-</u>	<u>10,735</u>	<u>10,735</u>
December 31, 2015	-	51,423	51,423
Additions	-	29,708	29,708
Transfers	<u>8,003</u>	<u>(8,003)</u>	<u>-</u>
December 31, 2016	<u>8,003</u>	<u>73,128</u>	<u>81,131</u>
Accumulated depreciation:			
December 31, 2014	-	-	-
Charge for the year	<u>-</u>	<u>-</u>	<u>-</u>
December 31, 2015	-	-	-
Charge for the year	<u>2,335</u>	<u>-</u>	<u>2,335</u>
December 31, 2016	<u>2,335</u>	<u>-</u>	<u>2,335</u>
Net book values:			
December 31, 2016	<u>5,668</u>	<u>73,128</u>	<u>78,796</u>
December 31, 2015	<u>-</u>	<u>51,423</u>	<u>51,423</u>

20. Policyholders' liabilities

(a) Composition of policyholders' liabilities:

	<u>2016</u>	<u>2015</u>
Policyholders' fund	50,266,672	48,383,225
Benefits and claims payable	155,129	191,596
Unprocessed premiums	4,667	25,998
Annuities	386,722	201,891
Insurance risk reserve - Individual life	(6,524,957)	(6,272,094)
- Individual A&S	187,544	268,737
- Group life	519,604	573,819
- Whole life	39,794	(6,006)
- Universal life	<u>(46,372)</u>	<u>(35,593)</u>
	<u>44,988,803</u>	<u>43,331,573</u>

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2016***(expressed in thousands of Jamaican dollars unless otherwise stated)***20. Policyholders liabilities (continued)**

(b) Change in policyholders' liabilities:		<u>2016</u>	<u>2015</u>
Policyholders' fund:			
At beginning of the year		48,383,225	47,444,354
Gross premiums		5,924,056	5,238,244
Benefits and claims		(5,704,705)	(6,060,792)
Interest credited		<u>1,664,096</u>	<u>1,761,419</u>
At end of the year		<u>50,266,672</u>	<u>48,383,225</u>
Benefits and claims payable:			
At beginning of the year		191,596	166,780
Policyholders' claims and benefits		123,232	190,589
Benefits and claims paid		(159,699)	(165,773)
At end of the year		<u>155,129</u>	<u>191,596</u>
Unprocessed premiums:			
At beginning of the year		25,998	12,565
Premiums received		8,147,239	7,513,184
Premiums applied		(8,168,570)	(7,499,751)
At end of the year		<u>4,667</u>	<u>25,998</u>
		<u>2016</u>	
	<u>Individual</u>	<u>Group</u>	<u>Total</u>
Insurance risk reserve:			
At beginning of the year	(6,044,956)	573,819	(5,471,137)
Changes in product and assumptions	(290,698)	(45,647)	(336,345)
Normal changes	<u>(8,337)</u>	<u>(8,568)</u>	<u>(16,905)</u>
At end of the year	<u>(6,343,991)</u>	<u>519,604</u>	<u>(5,824,387)</u>
		<u>2015</u>	
	<u>Individual</u>	<u>Group</u>	<u>Total</u>
Insurance risk reserve:			
At beginning of the year	(4,849,095)	557,419	(4,291,676)
Changes in product and assumptions	(1,288,813)	(3,119)	(1,291,932)
Normal changes	<u>92,952</u>	<u>19,519</u>	<u>112,471</u>
At end of the year	<u>(6,044,956)</u>	<u>573,819</u>	<u>(5,471,137)</u>

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2016***(expressed in thousands of Jamaican dollars unless otherwise stated)***20. Policyholders liabilities (continued)**

(c) Investments and other assets supporting policy liabilities:

	2016				
	<u>Individual Insurance</u>	<u>Group Insurance</u>	<u>Individual Annuities</u>	<u>Capital and Surplus</u>	<u>Total</u>
Debt securities -					
Available for sale	36,575,285	533,495	276,086	8,629,744	46,014,610
Held to maturity	5,295,518	-	12,126	-	5,307,644
Financial assets at fair value through profit or loss	-	-	-	155,601	155,601
Certificate of deposits with the Bank of Jamaica	1,401,725	-	100,793	-	1,502,518
Mutual Funds	-	-	-	768,252	768,252
Government securities purchased under resale agreements	<u>701,742</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>701,742</u>
	<u>43,974,270</u>	<u>533,495</u>	<u>389,005</u>	<u>9,553,597</u>	<u>54,450,367</u>
	2015				
	<u>Individual Insurance</u>	<u>Group Insurance</u>	<u>Individual Annuities</u>	<u>Capital and Surplus</u>	<u>Total</u>
Debt securities -					
Available for sale	30,194,282	576,870	152,753	9,247,825	40,171,730
Held to maturity	9,055,317	-	-	243,020	9,298,337
Financial assets at fair value through profit or loss	-	-	-	218,560	218,560
Certificate of deposits with the Bank of Jamaica	2,338,976	-	50,730	-	2,389,706
Mutual Funds	-	-	-	632,486	632,486
Government securities purchased under resale agreements	<u>803,560</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>803,560</u>
	<u>42,392,135</u>	<u>576,870</u>	<u>203,483</u>	<u>10,341,891</u>	<u>53,514,379</u>

(d) Policy assumptions

Policy liabilities have two major assumptions, best estimate assumptions and provisions for adverse deviation assumptions.

(a) Best estimate assumptions

Assumptions cover the lifetime of the policies and are made for many variables including mortality, morbidity, investment yields, rates of policy termination, operating expenses and certain taxes.

(i) Mortality and morbidity

Assumptions are based on standard industry tables reflecting recent historical and company experience.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

Notes to the Financial Statements

December 31, 2016

(expressed in thousands of Jamaican dollars unless otherwise stated)

20. Policyholders liabilities (continued)

(d) Policy assumptions (continued)

(a) Best estimate assumptions (continued)

(ii) Investment yields

The company matches assets and liabilities by line of business.

For ScotiaMint and Credit Insurance the Actuary has assumed a portfolio rate of 5.90% in January 2017 decreasing to 5.00% over 20 years.

For Criticare and WholeLife the Actuary has assumed a portfolio rate of 7.44% in January 2017 decreasing to 4.75% by 2045.

Assumed interest rates are net of asset tax and have been decreased by 0.50% as a margin for adverse deviation. The appropriateness of these rates has been tested by projecting asset and liability cash flows under various reinvestment scenarios.

The main source of uncertainty is the fluctuation in the economy.

(iii) Persistency

Persistency assumptions are made in relation to the time since inception that a policy exists before it lapses or is surrendered. Lapses relate to termination of policies due to non-payment of premiums. Surrenders relate to voluntary termination of policies by the policyholders. Policy terminations are based on the company's own experience adjusted for expected future conditions.

Lapse and surrender rates are derived from the company's own experience. A margin for adverse deviation is added by increasing or decreasing the lapse rates, whichever is adverse, by 20%.

The main source of uncertainty derives from changes in policyholder behaviour as it relates to changes in economic conditions.

(iv) Policy expenses and inflation

Policy maintenance expenses are derived from the company's own internal cost studies projected into the future with an allowance for inflation.

Inflation is assumed to be 5.0% in January 2017 decreasing to 2% over 20 years. A margin for adverse deviation is added by increasing the maintenance expenses by 10% of the best estimate assumption.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2016***(expressed in thousands of Jamaican dollars unless otherwise stated)***20. Policyholders liabilities (continued)**

(d) Policy assumptions (continued)

(a) Best estimate assumptions (continued)

(v) Partial withdrawal of policy funds

The company's contracts allow policyholders to withdraw a portion of the funds accumulated under the contract without surrendering the entire contract. Partial withdrawal rates are derived from the company's own experience.

(vi) Taxation

It is assumed that current tax legislation and rates continue unaltered.

(b) Provision for adverse deviation assumptions

The basic assumptions made in establishing policy liabilities are best estimates for a range of possible outcomes. To recognise the uncertainty in establishing these best estimates, to allow for possible deterioration in experience and to provide greater comfort that the reserves are adequate to pay future benefits, the appointed actuary is required to include a margin in each assumption.

The impact of these margins is to increase reserves and so decrease the income that would be recognised on inception of the policy. The Canadian Institute of Actuaries prescribes a range of allowable margins. The company uses assumptions at the conservative end of the range, taking into account the risk profiles of the business.

21. Sundry liabilities

	<u>2016</u>	<u>2015</u>
Accrued charges	97,213	102,809
Accrued vacation	19,548	17,776
Statutory deductions	24,508	18,486
Other	<u>1,375</u>	<u>1,948</u>
	<u>142,644</u>	<u>141,019</u>

22. Deferred tax assets and liabilities

Deferred income taxes are calculated on temporary difference between the carrying amounts of assets and liabilities for financial reporting and taxation purposes. The calculation is made using an applicable tax rate of 25%.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2016***(expressed in thousands of Jamaican dollars unless otherwise stated)***22. Deferred tax assets and liabilities (continued)**

The movement on the deferred income tax account is as follows:

	<u>2016</u>	<u>2015</u>
Balance at beginning of year	296,825	149,564
Recognised in profit for the year [note 12(a)]	(27,687)	66,401
Recognised in other comprehensive income		
Available for sale investments		
- fair value re-measurement (note 13)	<u>82,038</u>	<u>80,860</u>
Balance at end of year	<u>351,176</u>	<u>296,825</u>

Deferred income tax asset and liabilities are attributable to the following items:

	<u>2016</u>	<u>2015</u>
Deferred income tax asset:		
Accrued vacation	<u>4,887</u>	<u>4,445</u>
Deferred income tax liabilities:		
Accelerated tax depreciation	(798)	(971)
Available for sale investments	(199,624)	(117,665)
Interest receivable	<u>(155,641)</u>	<u>(182,634)</u>
	<u>(356,063)</u>	<u>(301,270)</u>
Net deferred tax liability	<u>(351,176)</u>	<u>(296,825)</u>

The deferred tax charge in determining net profit for the year comprises the following temporary differences:

	<u>2016</u>	<u>2015</u>
Accrued vacation	(443)	(1,135)
Interest receivable	(26,993)	67,105
Accelerated tax depreciation	<u>(251)</u>	<u>431</u>
	<u>(27,687)</u>	<u>66,401</u>

23. Share capital

	<u>2016</u>	<u>2015</u>
Authorised, issued and fully paid:		
150,000,000 ordinary shares of no par value	<u>150,000</u>	<u>150,000</u>

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2016***(expressed in thousands of Jamaican dollars unless otherwise stated)***24. Cumulative re-measurement result from available for sale financial assets**

This represents the unrealised surplus or deficit on the revaluation of available for sale investments as follows:

	<u>2016</u>	<u>2015</u>
Balance at beginning of year	352,995	208,560
Net gains from changes in fair value	327,680	225,383
Less: deferred income taxes	(82,000)	(80,882)
	<u>245,680</u>	<u>144,501</u>
Net losses on disposal transferred to income	152	(88)
Less: deferred income taxes	(38)	22
	<u>114</u>	<u>(66)</u>
Balance at end of year	<u>598,789</u>	<u>352,995</u>

25. Pension scheme

The company participates in a defined benefit pension scheme operated by its parent company, the Bank of Nova Scotia Jamaica Limited (The Bank). The Bank has established a defined benefit pension scheme where the assets of the pension scheme are held independently of the Bank's assets in a separate fund administered by Trustees.

The scheme established is valued by independent actuaries annually, using the Projected Unit Credit Method.

The company contributes at a fixed rate of 2% of pensionable earnings. Any funding deficiencies of the plan are absorbed by the Bank. Accordingly, the company is not entitled to any surplus that may arise.

Benefits to members are based on the final pensionable salary (the average of the best of three consecutive years remuneration, with no salary cap), as follows:

- (a) Per year of contributory service – 1¾% of the final pensionable salary
- (b) Per year of non contributory service
 - 1½% of final pensionable salary for employees who started to contribute on November 1, 1971 and
 - 1¼% of final pensionable salary for employees who started to contribute after November 1, 1971.
- (c) Maximum pension is the lesser of 70% of the average of final pensionable salary and ⅔ of salary at retirement.

The employees contribute at 3% of salary up to \$250 per annum, plus 6% of salary thereafter.

The company's contribution for the year totalled \$325 (2015: \$Nil).

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2016***(expressed in thousands of Jamaican dollars unless otherwise stated)***26. Insurance and financial risk management**

The company's activities expose it to a variety of insurance and financial risks. These activities involve the analysis, evaluation and management of some degree of risk or combination of risks. Taking these risks is core to the financial business, and the operational risks are an inevitable consequence of being in business. The company's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the company's financial performance.

The company manages risk through a framework of risk principles, organisational structures and risk measurement and monitoring processes that are closely aligned with the activities of the company's business units. The company's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to date information systems. The company regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Board of Directors is ultimately responsible for the establishment and oversight of the company's risk management framework. The Board has established committees for managing and monitoring risks, as follows:

Investment, loans and risk committee

The Investment, loans and risk committee recommends to the Board for its approval a written Investment Policy. The committee reviews investment activities quarterly, and ensures that the existing policies comprehensively deal with the management and diversification of the company's investment portfolio and that appropriate limits are being adhered to.

The Investment, loans and risk committee has the responsibility of ensuring that risks are managed within the limits established by the Board of Directors and outlined in the Investment policy. The investment advisory committee meets at least once monthly to review risks, monitor compliance in respect of investment activities, evaluate performance and provide strategic direction.

Audit Committee

The Audit Committee oversees how management monitors compliance with the company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the company. Internal Audit assists the Audit Committee in its oversight role, by performing independent reviews of the risk management and control environment.

The most important types of risk are insurance risk, reinsurance risk, market risk, liquidity risk, credit risk, and other capital risk management. Market risk includes cash flow and fair value interest rate risk, currency risk and other price risk.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2016***(expressed in thousands of Jamaican dollars unless otherwise stated)***26. Insurance and financial risk management (continued)****(a) Insurance risk**

The company issues long term contracts that transfer insurance risk or financial risk or both. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur if the frequency or severity of claims and benefits is greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio.

Long term insurance contracts

Long-term contracts are typically for a minimum period of 5 years and a maximum period which is determined by the remaining life of the insured. In addition to the estimated benefits which may be payable under the contract, the insurer has to assess the cash flows which may be attributable to the contract.

The company has developed its insurance underwriting strategy and reinsurance arrangements to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. The company's underwriting strategy includes the use of a medical questionnaire with benefits limited to reflect the health condition of applicants.

(i) Frequency and severity of claims

For contracts where death is the insured risk the most significant factors that could increase the overall frequency and severity of claims are epidemics (such as AIDS) and wide-ranging lifestyle changes such as in eating, smoking and exercise habits resulting in earlier or more claims than expected.

The company charges for mortality risks on a monthly basis for all insurance contracts and has the right to alter these charges to a certain extent based on mortality experience and hence minimize its exposure to mortality risk. Delays in implementing increases in charges and market or regulatory restraints over the extent of the increases may reduce its mitigating effect.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2016***(expressed in thousands of Jamaica dollars unless otherwise stated)***26. Insurance and financial risk management (continued)****(a) Insurance risk (continued)****(i) Frequency and severity of claims (cont'd)**

The tables below indicate the concentration of insured benefits across bands of insured benefits per individual life assured. The amounts at risk are fully retained.

	Total benefits assured			
	2016		2015	
	Before Reinsurance	%	Before Reinsurance	%
Individual life benefits assured per life:				
0 to 250,000	5,766,994	11	5,795,095	11
250,001 to 500,000	2,426,784	5	2,432,883	5
500,001 to 750,000	3,305,060	6	3,362,631	6
750,001 to 1,000,000	3,421,091	7	3,400,209	6
1,000,001 to 1,500,000	9,859,660	19	12,182,776	23
1,500,001 to 2,000,000	6,122,419	12	3,625,207	7
Over 2,000,000	<u>21,296,905</u>	<u>40</u>	<u>21,775,798</u>	<u>42</u>
	<u>52,198,913</u>	<u>100</u>	<u>52,574,599</u>	<u>100</u>

The tables below indicate the concentration of insured benefits across bands of group life insured benefits. The benefit insured figures are shown gross as reinsurance has not been considered due to immateriality.

	Total benefits assured			
	2016		2015	
	Before Reinsurance	%	Before Reinsurance	%
Group life benefits assured per life:				
0 to 250,000	12,124,029	14	11,328,932	14
250,001 to 500,000	5,031,489	6	5,143,704	6
500,001 to 750,000	5,695,220	7	6,005,970	8
750,001 to 1,000,000	4,759,146	5	4,943,798	6
1,000,001 to 1,500,000	16,928,535	19	16,845,087	21
1,500,001 to 2,000,000	13,389,118	15	11,069,533	14
Over 2,000,000	<u>29,382,646</u>	<u>34</u>	<u>25,360,116</u>	<u>31</u>
	<u>87,310,183</u>	<u>100</u>	<u>80,697,140</u>	<u>100</u>

Insurance risk for contracts disclosed in this note is also affected by the policyholders' right to pay reduced or no future premiums or to terminate the contract completely. As a result, the amount of insurance risk is also subject to the policyholders' behaviour. The company has factored the impact of policyholders' behaviour into the assumptions used to measure these liabilities.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2016***(expressed in thousands of Jamaica dollars unless otherwise stated)***26. Insurance and financial risk management (continued)****(a) Insurance risk (continued)****(ii) Sources of uncertainty in the estimation of future benefit payments and premiums**

Uncertainty in the estimation of future benefit payments and premium receipts for long term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality and the variability in policyholder behaviour.

Estimates are made as to the expected number of deaths for each of the years in which the company is exposed to risk. The company bases these estimates on standard industry and international mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the company's own experience.

(iii) Process used in deriving assumptions

The assumptions for long term insurance contracts and the process used in deriving these assumptions have remained substantially unchanged since the previous year.

For long-term contracts with fixed and guaranteed terms, estimates are made in two stages. Estimates of future deaths, voluntary terminations and partial withdrawal of policy funds, investment returns, crediting rates, inflation and administration expenses are made and form the assumptions used for calculating the liabilities at the inception of the contract. A margin for risk and uncertainty is added to these assumptions.

New estimates are made each subsequent year based on updated company experience studies and economic forecasts. The valuation assumptions are altered to reflect these revised best estimates. The margins for risk and uncertainty may also be altered if the underlying level of uncertainty in the updated assumptions have changed. The financial impact of revisions to the valuation assumptions or the related margins is recognised in the accounting period in which the change is made.

See note 20(d) for detailed policy assumptions.

(b) Reinsurance risk

Reinsurance risk is the risk that a reinsurer will default and not honour obligations arising from claims. To limit its exposure of potential loss on an insurance policy, the company cedes certain levels of risk to a reinsurer. Reinsurance ceded does not discharge the company's liability as primary issuer. The company also limits the probable loss in the event of a single catastrophic occurrence by reinsuring this type of risk with reinsurers.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2016***(expressed in thousands of Jamaica dollars unless otherwise stated)***26. Insurance and financial risk management (continued)****(b) Reinsurance risk (continued)**

The company manages reinsurance risk by selecting reinsurers which have established capability to meet their contractual obligations and which generally have favourable credit ratings as determined by a reputable rating agency.

Retention limits represent the level of risk retained by the insurer. Coverage in excess of these limits is ceded to reinsurers up to the treaty limit. The retention programs used by the company are summarized below:

Type of insurance contract	Retention
Individual, group & creditor life catastrophe	Maximum retention of \$420 for a single event; Treaty limits apply;
Group creditor life contracts	Maximum retention of \$15,000 per insured;

(c) Market risk

Market risk is the risk that the value of the financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security, its issuer or factors affecting all securities traded in the market. The company manages its risk through the establishment of appropriate limits and close monitoring of the financial markets to identify any trends which would impact the value of its portfolio.

There has been no change to the company's exposure to market risks or the manner in which it manages and measures the risk.

(i) Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The company takes on exposure to the effects of fluctuations in market interest rates on its financial position and cash flows. Interest rate risk is managed as part of the risk management practices of the Group of which it forms a part, on a monthly basis. The company's cash flow is monitored daily.

The cash flow and fair value interest rate risk is summarised in note 27(a).

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2016***(expressed in thousands of Jamaica dollars unless otherwise stated)***26. Insurance and financial risk management (continued)****(c) Market risk (continued)****(ii) Currency risk**

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The company only issues insurance contracts in Jamaican dollars and the funds are used to purchase assets in the same currency. These portfolios are not exposed to currency risk.

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in market price (other than those arising from interest rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The company is not exposed to other price risk.

(d) Liquidity risk

Liquidity risk is the risk that company is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay policyholders.

The company is exposed to daily calls on its cash resources from its policyholders. The company does not necessarily maintain cash resources to meet all these needs as experience shows that a minimum level on reinvestment of maturing funds can be predicted with a high level of certainty.

The Board of Directors approves the company's liquidity and funding management policies and establishes limits to control the risk. The company assesses the adequacy of its' liquidity position by analysing its' current liquidity position, present and anticipated funding requirements, and alternative sources of funds. This process includes:

- Projecting day-to-day cash flows;
- Managing the concentration and profile of debt maturities;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring statement of financial position liquidity ratios against internal and regulatory requirements; and
- Maintenance of liquidity and funding contingency plans.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2016***(expressed in thousands of Jamaica dollars unless otherwise stated)***26. Insurance and financial risk management (continued)****(d) Liquidity risk (continued)**

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the company. It is unusual for companies to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of loss.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the company and its exposure to changes in interest rates.

Assets available to meet all of the liabilities include cash balances and government securities. The company would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources.

The liquidity risk is summarised in note 27(b).

(e) Credit risk

Credit risk is the risk that one or both parties to a financial instrument will fail to discharge an obligation resulting in loss to one or both parties.

The company manages the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to any one borrower, or groups of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by issuer are approved annually by the Board of Directors.

Other than exposure on Government of Jamaica securities and concentration of Government of Jamaica securities, there is no significant concentration of liquid funds. For securities purchased under resale agreements, titles to securities are transferred to the company for the duration of the agreement.

The credit risk is summarised in note 27(c).

(f) Capital risk management

Capital risk is the risk that the company fails to comply with mandated regulatory requirements, resulting in a breach of its minimum capital ratios and the possible suspension or loss of its insurance licence.

Regulators are primarily interested in protecting the rights of the policyholders and monitor the company closely to ensure that it is satisfactorily managing affairs for the benefit of the policyholders. At the same time, the regulators are also interested in ensuring that the company maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters. See note 28(b) for details of the Dynamic Capital Adequacy Testing.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2016***(expressed in thousands of Jamaica dollars unless otherwise stated)***26. Insurance and financial risk management (continued)****(f) Capital risk management (continued)**

The operations of the company are subject to regulatory requirements. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions to minimize the risk of default and insolvency to meet unforeseen liabilities as these arise.

The company's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

- to comply with the capital requirements set by the regulators
- to safeguard the company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong capital base to support the development of its business.

The principal capital resource of the company is its shareholders' equity.

Capital adequacy is calculated by the Appointed Actuary and reviewed by executive management, the audit committee and the board of directors. In addition, the company seeks to maintain internal capital adequacy levels higher than the regulatory requirements. To assist in evaluating the current business and strategic opportunities, a risk-based approach is one of the core measures of financial performance. The risk-based assessment measure which has been adopted is the Minimum Continuing Capital and Surplus Requirement (MCCSR) standard as defined by the Financial Services Commission and dictated by the Insurance Regulations 2001. Under Jamaican regulations, the minimum standard recommended for companies is an MCCSR of 150% in 2010 and later. The MCCSR for the company as of December 31, 2016 and 2015 is set out below:

	<u>2016</u>	<u>2015</u>
Regulatory capital held	8,572,971	9,563,575
Minimum regulatory capital	1,556,336	1,407,042
MCCSR Ratio	<u>551.00%</u>	<u>680.00%</u>

27. Financial instruments**(a) Cash flow and fair value interest rate risk**

The company is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The following tables summarise carrying amounts of statement of financial position assets, liabilities and equity in order to arrive at the company's interest rate gap based on earlier of contractual repricing and maturity dates.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2016***(expressed in thousands of Jamaican dollars unless otherwise stated)***27. Financial instruments (continued)**

(a) Cash flow and fair value interest rate risk (continued):

	2016						
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive	Total
Cash resources	503,316	1,400,016	99,855	-	-	2,647	2,005,834
Investment securities:							
Available for sale	-	32,016,455	3,024,538	7,715,140	2,698,446	1,328,283	46,782,862
Held to maturity	-	1,017,000	4,232,500	-	-	58,144	5,307,644
Financial assets at fair value through profit or loss	-	-	-	155,601	-	-	155,601
Government Securities purchased under resale agreements	-	700,000	-	-	-	1,742	701,742
Loans and receivables	1,628,086	-	-	-	-	2,162	1,630,248
Intangible assets	-	-	-	-	-	78,796	78,796
Property, plant and equipment	-	-	-	-	-	10,934	10,934
Other assets	-	-	-	-	-	809	809
Taxation recoverable (Withholding Taxes)	-	-	-	-	-	809,973	809,973
Total assets	2,131,402	35,133,471	7,356,893	7,870,741	2,698,446	2,293,490	57,484,443
Policyholders' liabilities	36,108,765	4,022,709	10,521,921	-	-	(5,664,592)	44,988,803
Taxation payable (Income Taxes)	-	-	-	-	-	90,603	90,603
Sundry liabilities	-	-	-	-	-	142,644	142,644
Deferred tax liabilities	-	-	-	-	-	351,176	351,176
Shareholders' equity	-	-	-	-	-	11,911,217	11,911,217
Total liabilities and shareholders' equity	36,108,765	4,022,709	10,521,921	-	-	6,831,048	57,484,443
Total interest rate sensitivity gap	<u>(33,977,363)</u>	<u>31,110,762</u>	<u>(3,165,028)</u>	<u>7,870,741</u>	<u>2,698,446</u>	<u>(4,537,558)</u>	<u>-</u>
Cumulative gap	<u>(33,977,363)</u>	<u>(2,866,601)</u>	<u>(6,031,629)</u>	<u>1,839,112</u>	<u>4,537,558</u>	<u>-</u>	<u>-</u>
	2015						
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive	Total
Total assets	1,742,211	33,787,279	726,822	12,732,132	4,905,125	2,754,194	56,647,763
Total liabilities and shareholders' equity	33,524,544	4,083,993	10,774,687	-	-	8,264,539	56,647,763
Total interest rate sensitivity gap	<u>(31,782,333)</u>	<u>29,703,286</u>	<u>(10,047,865)</u>	<u>12,732,132</u>	<u>4,905,125</u>	<u>(5,510,345)</u>	<u>-</u>
Cumulative gap	<u>(31,782,333)</u>	<u>(2,079,047)</u>	<u>(12,126,912)</u>	<u>605,220</u>	<u>5,510,345</u>	<u>-</u>	<u>-</u>

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2016***(expressed in thousands of Jamaican dollars unless otherwise stated)***27. Financial instruments (continued)**

(a) Cash flow and fair value interest rate risk (continued):

The tables below summarise the average effective yields by the earlier of the contractual repricing or maturity dates.

	2016					
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Weighted average
	%	%	%	%	%	%
Cash resources	1.28	4.99	6.26	-	-	3.95
Investment securities						
- Available for sale	-	5.47	7.49	9.23	11.43	6.58
- Held to maturity	-	6.11	7.50	-	-	7.23
Financial assets at fair value through profit or loss	-	-	-	7.25	-	7.25
Government securities purchased under resale agreements	-	5.43	-	-	-	5.43
Loans and receivables – Policy loans	7.50	-	-	-	-	7.50
Policyholders' liabilities	<u>3.07</u>	<u>3.99</u>	<u>3.45</u>	<u>-</u>	<u>-</u>	<u>3.26</u>

	2015					
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Weighted average
	%	%	%	%	%	%
Cash resources	1.02	5.54	-	-	-	4.90
Investment securities						
- Available for sale	-	6.48	7.36	8.03	11.22	7.42
- Held to maturity	-	7.09	-	7.50	-	7.28
Financial assets at fair value through profit or loss	-	-	-	7.25	-	7.25
Government securities purchased under resale agreements	-	6.23	-	-	-	6.23
Loans and receivables – Policy loans	7.50	-	-	-	-	7.50
Policyholders' liabilities	<u>3.31</u>	<u>4.23</u>	<u>4.18</u>	<u>-</u>	<u>-</u>	<u>3.57</u>

(i) Sensitivity

Sensitivity to interest rate risk is considered by the company. The effects of changes in interest rates of assets backing actuarial liabilities are disclosed in note 28.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2016***(expressed in thousands of Jamaican dollars unless otherwise stated)***27. Financial instruments (continued)**

(a) Cash flow and fair value interest rate risk (continued):

(ii) Determination of fair value and fair values hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Market price is used to determine fair value where an active market exists as it is the best evidence of the fair value of a financial instrument.

IFRS specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The source of the input parameter for the Jamaica Sovereign yield curve is Bloomberg.

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The company considers relevant and observable market prices in its valuations where possible.

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Available for sale financial assets			
Debt Securities	2,118,048	43,896,562	46,014,610
Mutual Funds	<u>-</u>	<u>768,252</u>	<u>768,252</u>
	<u>2,118,048</u>	<u>44,664,814</u>	<u>46,782,862</u>
Fair value through profit or loss			
Debt securities	<u>-</u>	<u>155,601</u>	<u>155,601</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Available for sale financial assets			
Debt Securities	-	40,171,730	40,171,730
Mutual Funds	<u>-</u>	<u>632,486</u>	<u>632,486</u>
	<u>-</u>	<u>40,804,216</u>	<u>40,804,216</u>
Fair value through profit or loss			
Debt securities	<u>-</u>	<u>218,560</u>	<u>218,560</u>

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2016***(expressed in thousands of Jamaican dollars unless otherwise stated)***27. Financial instruments (continued)****Valuation techniques and significant unobservable inputs:**

The following table shows the valuation technique used in measuring fair value in the level 2 hierarchy, as well as the significant unobservable input used.

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Government of Jamaica securities (Local and Overseas)	Obtain bid yield from yield curve provided by a recognized pricing source (which uses market-supplied indicative bids) Using this yield, determine price using accepted formula Apply price to estimate fair value.	Not applicable	Not applicable
Mutual Funds Premium Growth Fund (PGF) Regular Premium Growth Fund (PGF) AFFIRM Money Market Fund (MMF) AFFIRM Fixed Income Fund (FIF) AFFIRM	PGF – Regular: The market unit value is determined by the investment house which the Company uses to compute the estimated fair value. AFFIRM unit values: The net asset values (navs) are determined for each Fund on a daily basis. The navs are then divided by the number of existing units to ascertain the unit values which are then used to fair value the investments for each Fund.	Not applicable	Not applicable

Financial assets not carried at fair value, and where carrying amounts approximate fair value, are not shown.

(b) Liquidity risk

The tables below present the undiscounted cash flows payable (both interest and principal cash flows) of the company's financial liabilities based on contractual repayment obligations. The company expects that many policyholders will not request repayment on the earliest date the company could be required to pay.

	2016		
	Within 3 months	3 to 12 months	Total
Financial Liabilities			
Policyholders' liabilities	<u>40,293,934</u>	<u>10,933,561</u>	<u>51,227,495</u>

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2016***(expressed in thousands of Jamaican dollars unless otherwise stated)***27. Financial instruments (continued)**

(b) Liquidity risk (continued)

	<u>2015</u>		<u>Total</u>
	<u>Within 3 months</u>	<u>3 to 12 months</u>	
Financial Liabilities			
Policyholders' liabilities	<u>39,887,894</u>	<u>9,106,722</u>	<u>48,994,616</u>

(c) Credit risk

Credit risk exposures relating to the statement of financial position assets are as follows:

Maximum exposure to credit risk

The maximum credit exposure, that is, the amount of loss that would be suffered if every counterparty to the company's financial assets were to default at once, is represented by the carrying amount of financial assets shown on the statement of financial position, without taking account of any collateral held or other credit enhancements.

The table below presents an analysis of debt securities by rating agency designation as at 31 December 2016, and 2015 based on Standard and Poor's ratings or their equivalent:

	<u>2016</u>	<u>2015</u>
AAA to AA+	2,118,048	-
BB to BB-	49,845,998	50,349,039
Unrated	<u>1,016,329</u>	<u>1,729,294</u>
	<u>52,980,375</u>	<u>52,078,333</u>
Classified as follows:		
Certificate of deposits with the Bank of Jamaica	1,502,518	2,389,706
Financial assets at fair value through profit or loss	155,601	218,560
Investment securities:		
Available for sale	46,014,610	40,171,730
Held to maturity	<u>5,307,644</u>	<u>9,298,337</u>
	<u>52,980,373</u>	<u>52,078,333</u>

The company issues policy loans to ScotiaMint policyholders. These loans are fully secured by the outstanding ScotiaMint fund values and as such no credit risk arises.

28. Sensitivity analysis of actuarial liabilities and capital adequacy

(a) Sensitivity arising from the valuation of life insurance contracts

The determination of actuarial liabilities is sensitive to a number of assumptions, and changes in these assumptions could have a significant effect on the valuation results.

In summary, the valuation of actuarial liabilities of life insurance contracts is sensitive to:

- the economic scenario used in the Policy Premium Method (PPM);
- the investments allocated to back the liabilities;
- the underlying assumptions used, and
- the margins for adverse deviations.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2016***(expressed in thousands of Jamaican dollars unless otherwise stated)***28. Sensitivity analysis of actuarial liabilities and capital adequacy (continued)****(a) Sensitivity arising from the valuation of life insurance contracts (continued)**

Under the PPM methodology, the appointed actuary is required to test the actuarial liability under several economic scenarios. The tests have been done and the results of the valuation provide adequately for liabilities derived from the worst of these different scenarios.

The assumption for future investment yields has a significant impact on actuarial liabilities. The different scenarios tested under the PPM methodology reflect the impact of different yields.

The other assumptions which are most sensitive in determining the actuarial liabilities of the company, are in descending order of impact:

- operating expenses and taxes
- lapses and withdrawals
- mortality and morbidity

The following shows the sensitivity of the liabilities to a change in assumptions:

	<u>Change in assumptions</u>	<u>2016</u>	<u>2015</u>
Interest rates	-1%	48,474	60,650
	+1%	(6,887)	(15,804)
Mortality	+10%	433,981	420,538
	-10%	(450,026)	(434,990)
Expenses	+10%	397,437	349,251
	-10%	(392,866)	(345,216)
Lapses and withdrawals	+10%	267,583	276,041
	<u>-10%</u>	<u>(288,975)</u>	<u>(299,906)</u>

(b) Dynamic Capital Adequacy Testing (DCAT)

DCAT is a technique used by the company to assess the adequacy of its financial position and financial condition in the light of different future economic and policy experience scenarios. DCAT assesses the impact of the company's financial position and condition over the next 5 years under specific scenarios as required by the Insurance Regulations.

The financial position of the company is reflected by the amount of assets, liabilities and shareholders' equity on the statement of financial position at a given date.

The financial condition of the company at a given date is its prospective ability to meet its future obligations, especially obligations to policyholders, those to whom it owes benefits and to its shareholders.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2016***(expressed in thousands of Jamaican dollars unless otherwise stated)***28. Sensitivity analysis of actuarial liabilities and capital adequacy (continued)****(b) Dynamic Capital Adequacy Testing (DCAT) (continued)**

The purpose of the DCAT is:

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

A full DCAT report was completed for March 2016, based on the financial position of the company at December 31, 2015. The results were as follows:

(i) Mortality and morbidity risks

To test this scenario, existing mortality and morbidity rates were increased by 3% per annum for five years starting in 2016. The accumulated deterioration would be 15% by the end of the five-year DCAT period. The results for this scenario show relative insensitivity to the change in assumptions.

(ii) Low lapse rates

The business was tested by applying a factor of 50% to existing lapse and surrender rates. Overall, this scenario produces a higher surplus and a lower MCCR ratio over the 5-year period.

(iii) Higher lapse rates

The business was tested by doubling existing lapses, surrenders and partial withdrawal rates. Under this scenario, the surplus decreases while the MCCR increases.

(iv) Expense risks

Higher unit maintenance expenses were tested by setting the annual inflation at 5% greater than current expenses, starting in 2016, for five years. Overall, this scenario produces a lower MCCR ratio over the 5-year period.

(v) Low interest rate

An assumed decrease in the portfolio rate of 5% over a 5 year period was tested in this scenario. It is assumed that inflation ultimately decreases to .5%. Overall, this scenario produces a relatively unchanged MCCR over the five year period.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2016***(expressed in thousands of Jamaican dollars unless otherwise stated)***28. Sensitivity analysis of actuarial liabilities and capital adequacy (continued)****(b) Dynamic Capital Adequacy Testing (DCAT) (continued)****(vi) High interest rate**

This scenario assumed an increase of 5% over a 5 year period in the portfolio rate. It also assumed that inflation increases by the same amount. Overall, this scenario produces a lower MCCSR.

(vii) High sales growth

New business was projected to be 20% higher than existing sales over five years. The increased sales result in increased surplus but the MCCSR ratio falls.

(viii) Low sales

This scenario assumed sales were 20% less every year starting in 2016. Fees are also lower than under the base scenario. Overall this scenario produces a reduced surplus but the MCCSR improves.

The DCAT conducted has not tested any correlation that may exist between assumptions. The following table represents the estimated sensitivity of each of the above scenarios for the next five years to net actuarial liabilities at the end of the projection period, which is 5 years after the relevant financial year end.

	<u>2016</u>		<u>2015</u>	
	Surplus	MCCSR	Surplus	MCCSR
Base	15,757,936	758%	15,471,745	902%
Variable				
Mortality risks	15,361,488	769%	15,053,254	892%
Low lapse rates	17,286,548	671%	16,771,483	793%
Higher lapse rates	13,309,650	1,225%	13,657,621	1,493%
Expense risks	15,226,680	771%	14,867,526	889%
Low interest rate	15,886,139	752%	15,746,911	906%
High Interest rate	13,641,339	642%	14,663,263	781%
High sales growth	16,183,088	710%	15,908,048	860%
Low sales	<u>14,827,108</u>	<u>808%</u>	<u>14,360,101</u>	<u>915%</u>

29. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Market price is used to determine fair value where an active market exists as it is the best evidence of the fair value of a financial instrument. However, market prices are not available for a significant number of the financial assets held and liabilities issued by the company. Therefore, for financial instruments where no market price is available, the fair values presented have been estimated using present value or other estimation and valuation techniques based on market conditions existing at the reporting date.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2016***(expressed in thousands of Jamaican dollars unless otherwise stated)***29. Fair value of financial instruments (continued)**

The values derived from applying these techniques are significantly affected by the underlying assumptions used concerning both the amounts and timing of future cash flows and the discount rates.

The following methods and assumptions have been used:

- financial investments classified as available for sale are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques;
- the fair value of liquid assets and other assets maturing within one year is assumed to approximate their carrying amount. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities;
- the fair value of variable rate financial instruments is assumed to approximate their carrying amounts which is the cost plus accrued interest; and
- the fair value and the carrying value of the policyholders' fund are assumed to be the same based on annual actuarial valuation.

The following table summarises the carrying amount and fair value of financial assets not presented on the company's statement of financial position at their fair value.

	2016		2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Investment securities:				
- Held to maturity	<u>5,307,644</u>	<u>5,324,242</u>	<u>9,298,337</u>	<u>9,311,284</u>

30. Related party transactions and balances

A number of transactions are entered into with related parties including companies connected by virtue of common directorship in the normal course of business.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**Notes to the Financial Statements****December 31, 2016***(expressed in thousands of Jamaican dollars unless otherwise stated)***30. Related party transactions and balances (continued)**

The volumes of related party transactions, outstanding balances at the period end, and related expenses and income for the year are as follows:

	Ultimate parent	Parent company	Fellow subsidiaries	Directors and key management personnel	Total	
					2016	2015
Insurance products	-	-	-	17,798	17,798	33,483
Mortgage back repurchase agreement	-	-	1,009,587	-	1,009,587	995,730
Securities purchased under resale agreements	-	-	700,000	-	700,000	800,000
Interest earned on resale agreements	-	(3,850)	(42,937)	-	(46,787)	(63,042)
Interest earned on mortgage backed repurchase agreement	-	-	(76,288)	-	(76,288)	(72,945)
Due from banks and other financial institutions	-	503,316	768,253	-	1,271,569	1,022,036
Interest earned from banks and other financial institutions	-	(5,203)	-	-	(5,203)	(4,868)
Management fees received	-	-	(129,124)	-	(129,124)	(135,875)
Management fees paid	94,133	52,400	-	-	146,533	138,497
Other operating expenses	4,787	10,795	21,276	-	36,858	15,791
Loss on disposal of investment	-	<u>2,777</u>	-	-	<u>2,777</u>	<u>683</u>
					<u>2016</u>	<u>2015</u>
Key management compensation						
Salaries and other short term benefits					61,189	77,013
Post-employment benefits and allowances					<u>5,385</u>	<u>8,230</u>

31. Fiduciary activities

The company provides administrative services to an approved retirement scheme. This involves the company making purchase decisions in relation to investments. These assets, which are held in a fiduciary capacity, are not included in these financial statements. At the reporting date, there were assets under management amounting to approximately \$6,623,706 (2015: \$5,524,184).

32. Dividends

	2016	2015
First interim dividend	804,899	534,549
Second interim dividend	379,043	221,281
Third interim dividend	1,334,674	220,412
Fourth interim dividend	<u>1,251,307</u>	<u>232,382</u>
	<u>3,769,923</u>	<u>1,208,624</u>

Financial Statements of

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

October 31, 2018

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

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October 31, 2018

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**Statement of Management's Responsibilities
ScotiaLife Trinidad And Tobago Limited**


Management is responsible for the following:


- Preparing and fairly presenting the accompanying financial statements of ScotiaLife Trinidad and Tobago Limited (the Company), which comprise the statement of financial position as at October 31, 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information;
- Ensuring that ScotiaLife Trinidad and Tobago Limited keeps proper accounting records;
- Selecting appropriate accounting policies and applying them in a consistent manner;
- Implementing, monitoring and evaluating the system of internal control that assures security of ScotiaLife Trinidad and Tobago's assets, detection/prevention of fraud, and the achievement of ScotiaLife Trinidad and Tobago's operational efficiencies;
- Ensuring that the system of internal control operated effectively during the reporting period;
- Producing reliable financial reporting that complies with laws and regulations, including the Insurance Act; and
- Using reasonable and prudent judgement in the determination of estimates.

In preparing these financial statements, management utilised the International Financial Reporting Standards, as issued by the International Accounting Standards Board and adopted by the Institute of Chartered Accountants of Trinidad and Tobago. Where International Financial Reporting Standards presented alternative accounting treatments, management chose those considered most appropriate in the circumstances.

Nothing has come to the attention of management to indicate that ScotiaLife Trinidad and Tobago will not remain a going concern for the next twelve months from the reporting date, or up to the date the accompanying financial statements have been authorised for issue, if later.

Management affirms that it has carried out its responsibilities as outlined above.


Robert Soverall
Managing Director
Date: November 27, 2018


Tricia De La Rosa
Chief Financial Officer, Caribbean South
Date: November 27, 2018



KPMG
Chartered Accountants
Savannah East
11 Queen's Park East
P.O. Box 1328
Port of Spain
Trinidad and Tobago, W.I.

Tel.: (868) 612-KPMG
(868) 623-1081
Fax: (868) 623-1084
Email: kpmg@kpmg.co.tt
Web: www.kpmg.com/tt

Independent Auditors' Report to the Shareholder of ScotiaLife Trinidad and Tobago Limited

Opinion

We have audited the financial statements of ScotiaLife Trinidad and Tobago Limited ("the Company"), which comprise the statement of financial position as at October 31, 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Trinidad and Tobago, and we have fulfilled our other ethical responsibilities in accordance with these requirements and with the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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



Responsibilities of Management and Those Charged with Governance for the Financial Statements (continued)

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

A handwritten signature in black ink, appearing to read 'KPMG'.

Chartered Accountants
Port of Spain
Trinidad and Tobago
November 27, 2018

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

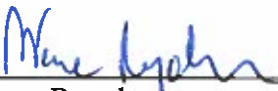
Statement of Financial Position

October 31, 2018


	Notes	2018 \$	2017 \$
ASSETS			
Investment securities	3	1,012,135,445	953,470,749
Loans	4	991,966,984	859,187,498
Reinsurance asset	14	15,087,352	13,853,811
Other assets		95,262,020	9,467,363
Cash in hand and at bank		<u>105,432,645</u>	<u>165,999,048</u>
Total assets		<u>2,219,884,446</u>	<u>2,001,978,469</u>
LIABILITIES AND EQUITY			
Liabilities			
Provision for future policy benefits	5	1,396,161,659	1,317,100,032
Other policyholders' liabilities	6	16,566,913	15,522,658
Deferred tax	10	26,811,242	20,762,840
Accrued charges and other payables		19,805,180	8,276,745
Provision for taxation		<u>2,933,784</u>	<u>2,015,589</u>
		<u>1,462,278,778</u>	<u>1,363,677,864</u>
Equity			
Stated capital	7	60,000,000	60,000,000
Investment revaluation reserve		5,800,240	1,615,559
Retained earnings		<u>691,805,428</u>	<u>576,685,046</u>
		<u>757,605,668</u>	<u>638,300,605</u>
Total liabilities and equity		<u>2,219,884,446</u>	<u>2,001,978,469</u>

The notes on pages 9 to 45 are an integral part of these financial statements.

These financial statements were approved for issue by the Board of Directors on November 27, 2018 and signed on its behalf:



Steve Ragobar
Director



Savon Persad
Director

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Statement of Profit or Loss and Other Comprehensive Income

For the year ended October 31, 2018

	Notes	2018 \$	2017 \$
INCOME			
Gross premium income		445,338,974	463,439,709
Premium ceded to reinsurer		<u>(54,093,534)</u>	<u>(52,645,942)</u>
Net premium income		391,245,440	410,793,767
Investment income	8	99,324,372	84,015,699
Other income		<u>1,914,084</u>	<u>1,632,335</u>
Total income		<u>492,483,896</u>	<u>496,441,801</u>
POLICYHOLDERS' EXPENSES			
Provision for future policy benefits	5	79,061,627	103,687,903
Policyholders' benefits		<u>239,171,564</u>	<u>230,478,439</u>
Total policyholders' expenses		<u>318,233,191</u>	<u>334,166,342</u>
ADMINISTRATIVE EXPENSES			
Salaries and personnel costs		15,303,378	14,778,996
Premises and technology		5,898,277	6,532,464
Communications and marketing		623,033	998,698
Management expenses		11,699,626	10,417,994
Professional fees		2,445,217	3,059,570
Loan loss expense	4.4	(402,663)	355,122
Other		<u>4,370,973</u>	<u>2,534,071</u>
Total administrative expenses		<u>39,937,841</u>	<u>38,676,915</u>
INCOME BEFORE TAXATION			
Income tax expense	9	<u>(19,192,482)</u>	<u>(28,305,375)</u>
NET INCOME FOR THE YEAR, ATTRIBUTABLE TO EQUITY HOLDER			
		115,120,382	95,293,169
OTHER COMPREHENSIVE INCOME			
<i>Items that are or may be reclassified to profit or loss</i>			
Revaluation of available-for-sale investments, net of tax		<u>4,184,681</u>	<u>5,092,586</u>
TOTAL COMPREHENSIVE INCOME, ATTRIBUTABLE TO EQUITY HOLDER			
		<u>119,305,063</u>	<u>100,385,755</u>

The notes on pages 9 to 45 are an integral part of these financial statements.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Statement of Changes in Equity

For the year ended October 31, 2018

	Stated Capital	Investment Revaluation Reserve	Retained Earnings	Total Equity
	\$	\$	\$	\$
Balance as at October 31, 2016	<u>60,000,000</u>	<u>(3,477,027)</u>	<u>481,391,877</u>	<u>537,914,850</u>
Net income for the year	-	-	95,293,169	95,293,169
<i>Other comprehensive income, net of tax</i>				
Revaluation of available-for-sale investments	<u>-</u>	<u>5,092,586</u>	<u>-</u>	<u>5,092,586</u>
	<u>-</u>	<u>5,092,586</u>	<u>95,293,169</u>	<u>100,385,755</u>
Balance as at October 31, 2017	<u>60,000,000</u>	<u>1,615,559</u>	<u>576,685,046</u>	<u>638,300,605</u>
Net income for the year	-	-	115,120,382	115,120,382
<i>Other comprehensive income, net of tax</i>				
Revaluation of available-for-sale investments	<u>-</u>	<u>4,184,681</u>	<u>-</u>	<u>4,184,681</u>
	<u>-</u>	<u>4,184,681</u>	<u>115,120,382</u>	<u>119,305,063</u>
Balance as at October 31, 2018	<u>60,000,000</u>	<u>5,800,240</u>	<u>691,805,428</u>	<u>757,605,668</u>

The notes on pages 9 to 45 are an integral part of these financial statements.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Statement of Cash Flows

For the year ended October 31, 2018

	2018	2017
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before taxation	134,312,864	123,598,542
Adjustments to reconcile income before taxation to net cash from operating activities:		
Provision for loan loss	(402,663)	355,122
Investment income	(97,042,783)	(83,955,390)
Unrealised investment gain	(2,281,588)	(60,309)
Foreign exchange gain	(11,311)	(47,149)
Changes in:		
- Other assets	(1,352,363)	1,535,307
- Reinsurance assets	(1,233,541)	856,181
- Accrued charges and other payables	11,528,435	(2,210,363)
- Provision for future policy benefits	79,061,627	103,687,903
- Policyholders' liabilities	1,044,255	1,777,306
Taxation paid	(13,056,829)	(79,131,926)
Net cash from operating activities	<u>110,566,103</u>	<u>66,405,224</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(845,418,284)	(690,746,990)
Repayment of investments	595,893,186	643,741,420
Interest received	77,280,673	82,994,821
Dividends received	<u>1,111,919</u>	<u>1,039,002</u>
Net cash (used in) from investing activities	<u>(171,132,506)</u>	<u>37,028,253</u>
Net (decrease) increase in cash and cash equivalents	(60,566,403)	103,433,477
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	<u>165,999,048</u>	<u>62,565,571</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<u>105,432,645</u>	<u>165,999,048</u>
Cash and cash equivalents represented by:		
Cash in hand and at bank	<u>105,432,645</u>	<u>165,999,048</u>

The notes on pages 9 to 45 are an integral part of these financial statements.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2018

1. Incorporation and Business Activities

ScotiaLife Trinidad and Tobago Limited (ScotiaLife) was incorporated and domiciled in the Republic of Trinidad and Tobago on May 23, 2000 and was registered to conduct ordinary long-term insurance business under the Insurance Act, 1980 on December 3, 2001. ScotiaLife commenced insurance operations in April 2004. It is a wholly owned subsidiary of Scotiabank Trinidad and Tobago Limited (Scotiabank), which is also incorporated and domiciled in the Republic of Trinidad and Tobago. Its ultimate holding company is the Bank of Nova Scotia, which is incorporated and domiciled in Canada. ScotiaLife's registered office is located at 56-58 Richmond Street, Port of Spain.

2. Significant Accounting Policies

The significant accounting policies adopted in the preparation of these financial statements have been applied consistently to all periods presented in the financial statements and are set out below:

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and are presented in Trinidad and Tobago dollars, which is the functional currency, rounded to the nearest dollar.

The financial statements are prepared on the historical cost basis modified for the inclusion of investments at fair value through profit or loss, available-for-sale investments at fair value and policyholders' funds calculated using the policy premium method of valuation.

(b) Insurance – recognition and measurement

Insurance contracts

These contracts insure human life events (for example, death or permanent disability) over a long duration. The accounting treatment differs according to whether the contract bears investment options or not. Under contracts that do not bear investment options, premiums are recognised as income when they become payable by the contract holder and benefits are recorded as an expense when they are incurred.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2018

2. Significant Accounting Policies (continued)

(b) Insurance – recognition and measurement (continued)

Insurance contracts (continued)

Under contracts that bear an investment option, insurance premiums received are initially recognised directly as liabilities. These liabilities are increased by credited interest and are decreased by policy administration fees, mortality and surrender charges and any withdrawals; the resulting liability is included in the Provision for Future Policy Benefits and Other Policyholders' Liabilities which are disclosed in Notes 5 and 6. Income consists of fees deducted for mortality, policy administration, and surrenders.

Insurance contract liabilities are determined by an independent actuary using the Policy Premium Method of valuation as discussed in accounting policy 2(f). These liabilities are, on valuation, adjusted through profit or loss to reflect the valuation determined under the Policy Premium Method.

Reinsurance contracts held

Contracts entered into by ScotiaLife with reinsurers under which ScotiaLife is compensated for losses on one or more contracts issued by ScotiaLife and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets.

The benefits to which ScotiaLife is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of balances due from reinsurers. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

ScotiaLife assesses its reinsurance assets for impairment on an annual basis. If there is objective evidence that the reinsurance asset is impaired, ScotiaLife reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in profit or loss. ScotiaLife gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is calculated following the same method used for financial assets. These processes are described in accounting policy 2(j).

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2018

2. Significant Accounting Policies (continued)

(c) Loans

All loans are backed by real estate and are stated net of any unearned income and of any specific provisions established to recognise anticipated losses. Individual loans are subject to ongoing reviews. Specific provisions for losses are determined as a result of these reviews.

(d) Revenue recognition

Premium income

Premiums are recognised on the accruals basis in accordance with the terms of the underlying contracts as outlined in Note 2 (b).

Investment income

This consists of interest from investments and real estate backed loans, dividends and realised and unrealised investment gains and losses.

Interest income is accounted for on the accruals basis using the effective interest rate method except on non-accrual loans. When a loan is classified as non-accrual, accrued but uncollected interest is reversed against income of the current period, unless the loan, including accrued interest, is fully secured and in the process of collection. Thereafter, interest income is recognised only after the loan reverts to performing status.

Dividends are recognised when received.

(e) Foreign currency

Transactions in foreign currencies are translated at the rate of exchange ruling at the transaction date. Foreign currency monetary assets and liabilities are translated at the rate of exchange ruling at the reporting date. Resulting translation differences and profits and losses from trading activities are included in profit or loss.

(f) Provision for future policy benefits

Provision for future policy benefits is calculated using the Policy Premium Method (PPM) of valuation. Under this method explicit allowance is made for all future benefits and expenses under the policies. The premiums, benefits and expenses for each policy are projected and the resultant future cash flows are discounted back to the valuation date to determine the reserves.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2018

2. Significant Accounting Policies (continued)

(f) Provision for future policy benefits (continued)

The process of calculating policy reserves involves the use of estimates concerning such factors as mortality and morbidity rates, future investment yields and future expense levels. Consequently, these liabilities include reasonable provision for adverse deviations from the estimates.

Actuarial valuations are prepared monthly, with adjustments to reserves shown in the year to which it relates.

(g) Taxation

Income tax expense for the year comprises current tax and the change in deferred tax. Deferred tax is recognized in profit or loss except to the extent that it relates to items recognized directly in other comprehensive income (OCI). Current tax comprises tax payable, calculated on the basis of the expected taxable income for the year, using the tax rate enacted by the reporting date, and any adjustment of tax payable for previous years.

Deferred tax is provided using the liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes, except differences relating to the initial recognition of assets or liabilities which affect neither accounting nor taxable profit or loss. Net deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is calculated on the basis of the tax rate that is expected to apply to the period when the asset is realised or the liability is settled. The effect on deferred tax of any changes in the tax rate is charged to the statement of profit or loss and statement of other comprehensive income, except to the extent that it relates to items previously charged or credited directly to equity.

(h) Financial instruments

Financial instruments carried on the statement of financial position include cash resources, investments securities, loans, other assets, policyholders' funds and other liabilities. The standard treatment for recognition, derecognition, classification and measurement of financial instruments is described in notes (i) – (v) below.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2018

2. Significant Accounting Policies (continued)

(h) *Financial instruments* (continued)

(i) *Recognition*

Financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are recognised on the date at which ScotiaLife becomes a party to the contractual provisions of the instrument.

(ii) *Derecognition*

Financial assets are derecognised when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferring financial assets that is created or retained by ScotiaLife is recognised as a separate asset or liability.

ScotiaLife derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

(iii) *Classification*

ScotiaLife classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans; held-to-maturity; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

Financial assets at fair value through profit or loss

This category includes financial assets held-for-trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Loans

Loans are financial assets with fixed or determinable payments that are not quoted in an active market.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2018

2. Significant Accounting Policies (continued)

(h) *Financial instruments* (continued)

(iii) *Classification* (continued)

Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that ScotiaLife's management has the positive intention and ability to hold to maturity. If ScotiaLife were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be compromised and reclassified as available-for-sale.

Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, and may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

(iv) *Measurement*

Financial instruments are measured initially at fair value, plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Subsequent to initial recognition all financial assets at fair value through profit or loss and available-for-sale assets are measured at fair value, based on their quoted market price at the reporting date without any deduction for transaction costs. Where the instrument is not actively traded or quoted on recognised exchanges, fair value is determined using discounted cash flow analysis. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions.

Any available-for-sale asset that does not have a quoted market price in an active market and where fair value cannot be reliably measured, is stated at cost, including transaction costs, less impairment losses.

Gains and losses arising from the change in the fair value of available-for-sale investments subsequent to initial recognition are accounted for as changes in the investment revaluation reserve and are recognised in other comprehensive income.

Gains and losses, both realised and unrealised, arising from the change in the financial assets at fair value through profit or loss are reported in investment income.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2018

2. Significant Accounting Policies (continued)

(h) *Financial instruments* (continued)

(iv) *Measurement* (continued)

All non-trading financial liabilities, purchased loans and held-to-maturity assets are measured at amortised costs less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(v) *Specific instruments*

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and in-transit, deposits with banks and related companies and short-term highly liquid investments with maturities of three months or less when purchased, including treasury bills and other bills eligible for rediscounting with the Central Bank. The carrying value approximates the fair value due to its highly liquid nature and the fact that it is readily converted to known amounts of cash in hand and is subject to insignificant risk of change in value.

Investment securities

Debt investments that ScotiaLife has the intent and ability to hold to maturity are classified as held-to-maturity assets. All other investments are classified as available-for-sale or fair value through profit or loss.

On disposal or on maturity of an investment, the difference between the net proceeds and the carrying amount is included in profit or loss. When available-for-sale assets are sold, converted or otherwise disposed of, the cumulative gain or loss recognised in equity is reclassified to profit or loss.

Loans

All loans are backed by real estate and are stated at cost (amortised cost) net of allowances to reflect the estimated recoverable amounts.

A loan is classified as non-accrual when principal or interest is 90 days past due or when, in the opinion of management, there is reasonable doubt as to the ultimate collectability of principal or interest.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2018

2. Significant Accounting Policies (continued)

(h) *Financial instruments* (continued)

(v) *Specific instruments* (continued)

Loans (continued)

Non-accrual loans may revert to performing status when all payments become fully current or when management has determined there is no reasonable doubt of ultimate collectability.

A loan is classified as impaired when, in management's opinion, there has been a deterioration in credit quality to the extent that there is no longer reasonable assurance of timely collection of the full amount of principal and interest. If a payment on a loan is contractually 90 days in arrears the loan will be classified as impaired.

When a loan is classified as impaired, recognition of interest in accordance with the terms of the original loan ceases, and interest is taken into account on the cash basis. This differs from IFRS which requires that interest on the impaired asset continues to be recognised through the unwinding of the discount that was applied to the estimated future cash flows. The difference is not considered material.

Loans are written off after all the necessary legal procedures have been completed and the amount of the loss is finally determined.

ScotiaLife maintains a loan loss provision, which in management's opinion, is adequate to absorb all incurred credit-related losses in its loan portfolio. The loan loss provision is done on a portfolio basis and reflects the associated estimated loss. Provisions are calculated using a formula taking into account recent loss experience.

The provision for the year, less recoveries of amounts previously written off and the reversal of provisions no longer required, is disclosed in profit or loss as loan loss expense.

(i) *Employee benefits*

Employee benefits that are earned as a result of past or current service are recognised in the following manner: short-term employee benefits are recognised as a liability, net of payments made, and charged as expense. The expected cost of vacation leave that accumulates is recognised when the employee becomes entitled to the leave. Post-employment benefits are accounted for as described below.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2018

2. Significant Accounting Policies (continued)

(i) *Employee benefits* (continued)

Post-employment benefits have no financial effect in these financial statements as all employees are employed by Scotiabank of Trinidad and Tobago Limited (the immediate parent company) who accounts for the IAS 19 adjustments.

(j) *Impairment*

The carrying amounts of ScotiaLife's assets, other than deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) *Insurance and investment contracts – classification*

ScotiaLife issues policy contracts that transfer insurance and/or financial risk from the policyholder. Insurance risk is defined as an insured event that could cause an insurer to pay significant additional benefits in a scenario that has a discernable effect on the economics of the transaction.

Insurance contracts transfer insurance risk and may also transfer financial risk. Investment contracts transfer financial risk and no insurance risk. Financial risk includes credit risk, liquidity risk and market risk.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2018

2. Significant Accounting Policies (continued)

(l) *Critical accounting estimates and judgements*

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and income and expenses during the reporting period. Actual results could differ from these estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next financial year are discussed below:

- *Determining fair values with significant unobservable inputs*

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 2(h)(iv).

A number of accounting policies and disclosures require the measurement of fair values. ScotiaLife has an established control framework with respect to the measurement of fair values which represents the amount at which a financial instrument could be exchanged in an arm's length transaction between willing parties under no compulsion to act and is best evidenced by a quoted market price. If no quoted market prices are available, the fair values presented are estimates derived using present value or other valuation techniques and may not be indicative of net realisable value. When measuring the fair value of an asset or a liability ScotiaLife uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as referenced in Note 13. If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. ScotiaLife recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

- *Financial asset and liability classification*

ScotiaLife's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2018

2. Significant Accounting Policies (continued)

(l) *Critical accounting estimates and judgements* (continued)

- *Financial asset and liability classification* (continued)

In classifying financial assets or liabilities as “fair value through profit or loss”, ScotiaLife has determined that it meets the description of trading assets and liabilities set out in accounting policy 2(h)(iii).

In designating financial assets or liabilities as available-for-sale, ScotiaLife has determined that it has met one of the criteria for this designation set out in accounting policy 2(h)(iii).

In classifying financial assets as held-to-maturity, ScotiaLife has determined that it has both the positive intention and ability to hold the assets until maturity date as required by accounting policy 2(h)(iii).

- *Taxation*

Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. ScotiaLife recognises liabilities for possible tax issues based on the likelihood of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

- *Estimate of future payments and premiums arising from long-term insurance contracts*

The determination of liabilities under long-term insurance contracts is dependent on estimates made by the appointed actuary. Estimates are made as to the expected number of deaths for each of the years in which ScotiaLife is exposed to risk. The appointed actuary bases these estimates on standard industry and international mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect ScotiaLife’s own experience. For contracts that insure the risk of longevity, appropriate but not excessively prudent allowance is made for expected mortality improvements. The estimated number of deaths determines the value of the benefit payments and the value of the valuation premiums. The main source of uncertainty is that epidemics such as AIDS, and wide-ranging lifestyle changes, such as eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which ScotiaLife has significant exposure to mortality risk. However, continuing improvements in medical care and social conditions could result in improvements in longevity in excess of those allowed for in estimates used to determine the liability for contracts where ScotiaLife is exposed to longevity risk.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2018

2. Significant Accounting Policies (continued)

(l) Critical accounting estimates and judgements (continued)

- *Estimate of future payments and premiums arising from long-term insurance contracts (continued)*

The following shows the sensitivity of the liabilities to a change in assumptions:

	<u>2018</u>	<u>2017</u>
	\$	\$
Interest rates decrease by 1%	(3,586,612)	(3,632,798)
Interest rates increase by 1%	4,074,816	4,363,356
Mortality increases by 10%	11,439,937	10,882,134
Mortality decreases by 10%	(11,853,321)	(11,243,400)
Expenses increase by 10%	7,259,482	7,621,598
Expenses decrease by 10%	(7,248,025)	(7,608,341)
Lapses and withdrawals increase by 10%	15,881,353	15,424,779
Lapses and withdrawals decrease by 10%	(17,949,183)	(17,442,057)

For contracts without fixed terms, it is assumed that ScotiaLife will be able to increase mortality risk charges in future years in line with emerging mortality experience.

Estimates are also made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

For long-term contracts with fixed and guaranteed terms, estimates are made in two stages. Estimates of future deaths, voluntary terminations and partial withdrawal of policy funds, investment returns and administration expenses are made at the inception of the contract and form the assumptions used for calculating the liabilities at the inception of the contract. A margin of risk and uncertainty is added to these assumptions. New estimates are made each subsequent year based on updated company and intercompany experience studies and updated economic forecasts. The valuation assumptions are altered to reflect these revised best estimate assumptions. The margins for risk and uncertainty may also be altered if the underlying level of uncertainty in the updated assumption has changed. The financial impact of revisions to best estimate assumptions or the related margins is recognised in the accounting period in which the change is made.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2018

2. Significant Accounting Policies (continued)

(m) New, revised and amended standards and interpretations that became effective during the year:

Certain new, revised and amended standards and interpretations came into effect during the current financial year. The Company assessed them and adopted those relevant to its financial statements.

- Amendments to IAS 7, *Statement of Cash Flows*, effective for accounting periods beginning on or after January 1, 2017, requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows.
- Amendments to IAS 12, *Income Taxes*, effective for accounting periods beginning on or after January 1, 2017, clarifies the following:
 - The existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.
 - A deferred tax asset can be recognised if the future bottom line of the tax return is expected to be a loss, if certain conditions are met.
 - Future taxable profits used to establish whether a deferred tax can be recognised should be the amount calculated before the effect of reversing temporary differences.
 - An entity can assume that it will recover an asset for more than its carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.
 - Deductible temporary differences related to unrealised losses should be assessed on a combined basis for recognition unless a tax law restricts the use of losses to deductions against income of a specific type.

The adoption of these amendments did not result in any change to the presentation and disclosures in the ScotiaLife's financial statements.

(n) New, revised and amended standards and interpretations not yet effective:

Certain new, revised and amended standards and interpretations have been issued which are not yet effective for the current year and which the Company has not early-adopted. ScotiaLife has assessed the relevance of all such new standards, amendments and interpretations with respect to ScotiaLife's operations and has determined that the following are likely to have an effect on the financial statements.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2018

2. Significant Accounting Policies (continued)

(n) *New, revised and amended standards and interpretations not yet effective:* (continued)

- IFRS 9, *Financial Instruments*, which is effective for annual reporting periods beginning on or after January 1, 2018, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. The standard covers three broad topics: Classification and Measurement, Impairment and Hedging.

The standard requires the Company to consider two criteria when determining the measurement basis for debt instruments (e.g. securities) held as financial assets; (i) its business model for managing those financial assets and (ii) the cash flow characteristics of the assets. Based on these criteria, debt instruments are measured at amortized cost, fair value through OCI, or fair value through profit or loss.

Equity instruments are measured at fair value through profit or loss. However, the Company may, at initial recognition of a non-trading equity instrument, irrevocably elect to designate the instrument as fair value through OCI, with no subsequent recycling to profit and loss, while recognizing dividend income in profit and loss. This designation is also available to non-trading equity instrument holdings on date of transition.

In addition, the Company may, at initial recognition, irrevocably elect to designate a financial asset as fair value through profit or loss, if doing so eliminates or significantly reduces an accounting mismatch which would otherwise arise.

The standard introduces a new single model for the measurement of impairment losses on all financial assets including loans and debt securities measured at amortized cost or at fair value through OCI. The IFRS 9 expected credit loss (ECL) model replaces the current “incurred loss” model of IAS 39.

The ECL model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition. Under Stage 1, where there has not been a significant increase in credit risk since initial recognition, an amount equal to 12 months ECL will be recorded. Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded. Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2018

2. Significant Accounting Policies (continued)

(n) *New, revised and amended standards and interpretations not yet effective:* (continued)

- IFRS 9, *Financial Instruments* (continued)

The ECL model is forward looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL.

IFRS 9 also incorporates new hedge accounting rules that intend to align hedge accounting with risk management practices. ScotiaLife is not currently a party to any hedge contracts.

ScotiaLife estimates the IFRS 9 transition amount will reduce shareholders' equity by approximately \$4,210,428 after tax.

- IFRS 16, *Leases*, which is effective for annual reporting periods beginning on or after January 1, 2019, eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Companies will be required to bring all major leases on-balance sheet, recognising new assets and liabilities. The on-balance sheet liability will attract interest; the total lease expense will be higher in the early years of a lease even if a lease has fixed regular cash rentals. Optional lessee exemption will apply to short-term leases and for low-value items with value of US\$5,000 or less.

Lessor accounting remains similar to current practice as the lessor will continue to classify leases as finance and operating leases. Finance lease accounting will be based on IAS 17 lease accounting, with recognition of net investment in lease comprising lease receivable and residual asset. Operating lease accounting will be based on IAS 17 operating lease accounting.

Early adoption is permitted if IFRS 15, *Revenue from Contracts with Customers* is also adopted.

ScotiaLife is assessing the impact that this amendment will have on its 2020 financial statements.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2018

2. Significant Accounting Policies (continued)

(n) *New, revised and amended standards and interpretations not yet effective:* (continued)

- IFRS 17, *Insurance Contracts*, which is effective for annual reporting periods beginning on or after January 1, 2022, provides a comprehensive principle-based framework for the measurement and presentation of all insurance contracts. The new standard will replace IFRS 4 *Insurance Contracts* and requires insurance contracts to be measured using current fulfillment cash flows and for revenue to be recognized as the service is provided over the coverage period.

ScotiaLife is assessing the impact that this new standard will have on its 2023 financial statements.

(o) *Dividends*

Dividends that are proposed and declared by the Company during the period are accounted for as an appropriation of retained earnings in the statement of changes in equity. Dividends that are proposed after the reporting date are not shown on the statement of financial position but are disclosed as a note to the financial statements.

(p) *Comparative information*

Where necessary, comparatives have been adjusted to conform to changes in presentation in the current year.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2018

	<u>2018</u>	<u>2017</u>
	\$	\$
3. Investment Securities		
Securities at fair value through profit or loss		
- Equities	<u>25,810,480</u>	<u>20,981,111</u>
Securities available-for-sale		
- Government and state enterprises debt securities	928,783,188	876,001,086
- Mutual Funds	<u>11,023,759</u>	<u>10,922,074</u>
	<u>939,806,947</u>	<u>886,923,160</u>
Securities held-to-maturity		
- Government and state enterprises debt securities	<u>46,518,018</u>	<u>45,566,478</u>
Total investments	<u>1,012,135,445</u>	<u>953,470,749</u>
	<u>2018</u>	<u>2017</u>
	\$	\$
4. Loans		
4.1 Principal neither past due nor impaired	884,817,928	751,660,384
Principal which is past due but not impaired	97,095,751	92,372,894
Principal which is impaired	<u>11,205,559</u>	<u>16,709,137</u>
Gross loans	993,119,238	860,742,415
Loan loss provision	<u>(1,152,254)</u>	<u>(1,554,917)</u>
Total loans net of provision	<u>991,966,984</u>	<u>859,187,498</u>
Current portion	3,472,679	3,045,485
Long-term portion	<u>988,494,305</u>	<u>856,142,013</u>
Total loans net of provision	<u>991,966,984</u>	<u>859,187,498</u>
Interest receivable (included in other assets)	<u>6,301,954</u>	<u>4,362,993</u>

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2018

4. Loans (continued)**4.2 Financial assets past due but not impaired**

	2018			Total
	Less than 30 days	30 - 60 days	61 - 90 days	
	\$	\$	\$	
Loans	73,434,700	12,717,781	10,943,270	97,095,751

	2017			Total
	Less than 30 days	30 - 60 days	61 - 90 days	
	\$	\$	\$	
Loans	69,013,496	17,003,387	6,356,011	92,372,894

	2018	2017
	\$	\$
4.3 Analysis of movement of loan loss provision		
Provision, beginning of year	1,554,917	1,199,795
Loan loss charge for the year	<u>(402,663)</u>	<u>355,122</u>
Provision, end of year	<u>1,152,254</u>	<u>1,554,917</u>
4.4 Loan loss expense		
Loan loss (credit) charge for the year	<u>(402,663)</u>	<u>355,122</u>

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2018

	<u>2018</u>	<u>2017</u>
	\$	\$
5. Provision for Future Policy Benefits		
TT\$ Ordinary Life – Non-participating policies	681,359,808	638,015,104
TT\$ Individual Annuities	676,826,822	642,556,802
US\$ Individual Annuities	13,579,092	13,040,691
TT\$ Group Life – Creditor Life	<u>24,395,937</u>	<u>23,487,435</u>
	<u>1,396,161,659</u>	<u>1,317,100,032</u>

The movements in provision for future policy benefits are as follows:

Balance at beginning of year	1,317,100,032	1,213,412,129
Increase in reserves	<u>79,061,627</u>	<u>103,687,903</u>
Balance at end of year	<u>1,396,161,659</u>	<u>1,317,100,032</u>

	<u>2018</u>	<u>2017</u>
	\$	\$
6. Other Policyholders' Liabilities		
Claims admitted but not paid	11,199,638	10,702,456
Premium suspense	826,527	162,679
Premiums paid in advance	1,406,247	1,501,528
Provision for claims incurred but not reported	<u>3,134,501</u>	<u>3,155,995</u>
	<u>16,566,913</u>	<u>15,522,658</u>

	<u>2018</u>	<u>2017</u>
	\$	\$
7. Stated Capital		
<i>Authorised</i>		
Authorised capital consists of an unlimited number of ordinary shares		
<i>Issued and fully paid</i>		
60,000,000 ordinary shares of no par value	<u>60,000,000</u>	<u>60,000,000</u>

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2018

	<u>2018</u>	<u>2017</u>
	\$	\$
8. Investment Income		
Available-for-sale	29,427,286	23,596,926
Held-to-maturity	4,662,153	3,293,647
Securities at fair value	1,111,919	1,039,002
Loans	61,841,426	56,025,815
Unrealised (loss) gain on investment	<u>2,281,588</u>	<u>60,309</u>
	<u>99,324,372</u>	<u>84,015,699</u>

	<u>2018</u>	<u>2017</u>
	\$	\$
9. Income Tax Expense		
Current tax provision	13,889,144	12,310,485
Deferred tax	<u>5,303,338</u>	<u>15,994,890</u>
	<u>19,192,482</u>	<u>28,305,375</u>

Taxation reconciliation

The following is a reconciliation of the application of the effective tax rate with the income tax expense:

Net income before taxation	<u>134,312,864</u>	<u>123,598,544</u>
Prima facie tax calculated at domestic corporation tax rate of 30% (2017: 25%/30%)	34,791,030	37,522,219
Effect of difference on tax rate on life insurance companies	(15,677,784)	(10,147,679)
Tax effect of non-taxable income and deductible investment expenses	<u>79,236</u>	<u>930,835</u>
Tax expense	<u>19,192,482</u>	<u>28,305,375</u>

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2018

10. Deferred Taxation

10.1 The net deferred tax liability is attributable to the following items:

	Opening Balance	Recognised in OCI	Recognised in Profit or Loss	Total
	\$	\$	\$	\$
Available for sale securities	300,293	745,064	-	1,045,357
Non-Statutory Fund Assets	<u>20,462,547</u>	<u>-</u>	<u>5,303,338</u>	<u>25,765,885</u>
	<u>20,762,840</u>	<u>745,064</u>	<u>5,303,338</u>	<u>26,811,242</u>

	2018	2017
	\$	\$

10.2 The movement in the deferred tax account comprised:

Balance at beginning of year	20,762,840	3,865,759
Available-for-sale securities fair value re-measurement	745,064	902,191
Current year's deferred tax charge	<u>5,303,338</u>	<u>15,994,890</u>
Balance at end of year	<u>26,811,242</u>	<u>20,762,840</u>

11. Financial Risk Management

Introduction and overview

ScotiaLife has adopted risk management policies and has set appropriate limits and controls to manage and mitigate against financial risk. ScotiaLife has exposure to the following risks arising from its use of financial instruments and from foreign currency transactions.

- Credit risk
- Market risk
- Liquidity risk
- Operational risk.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2018

11. Financial Risk Management (continued)

Credit risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to ScotiaLife. ScotiaLife's exposure to credit risk resides in its investment in loans purchased from Scotiabank, investment securities available for sales and investment securities held to maturity.

Credit risk is managed through a number of strategies, policies and limits that are approved by the Board of Directors and include the following processes:

- A centralised credit review system that is independent of the customer relationship function;
- Senior management which considers all major risk exposures; and
- An independent review by the Internal Audit Department.

Relationship managers develop and structure individual proposals at branches and commercial centres. A full financial review is performed for each customer at least annually, so that Scotiabank remains fully aware of customers' risk profiles. The Credit Risk Management department analyses and adjudicates on commercial and corporate credits over a certain size and exceptions to established credit policies. In assessing credit proposals, Scotiabank is particularly sensitive to the risks posed to credit quality by environmental exposures.

Retail credits are normally authorised by Scotiabank within established criteria using a credit scoring system. Scotiabank's Credit Risk Management department adjudicates on those retail credits that do not conform to the established criteria. The retail portfolios are reviewed regularly for early signs of possible difficulties.

ScotiaLife as part of its credit risk management strategy employs the practice of taking security in respect of funds advanced to its clients. The Group through its ALCO and its Credit Risk department develops and reviews policies related to the categories of security and their valuation that are acceptable to the Group as collateral. The principal collateral types are as follows:

- Mortgages over residential property
- Charges over business assets such as premises, inventory and accounts receivable
- Charges over debt instruments and equity instruments.

ScotiaLife does not routinely update the valuation of collateral held. Valuation of collateral is updated when the credit risk of a loan deteriorates significantly.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2018

11. Financial Risk Management (continued)

Credit risk (continued)

Repossessed collateral

ScotiaLife enforces its power of sale agreements over various types of collateral (as noted above) as a consequence of failure by borrowers or counterparties to honour their financial obligations. Appraisals are obtained for the current value of the collateral as an input to the impairment measurement, and once repossessed, the collateral is sold as soon as practicable. The proceeds net of disposal cost are applied to the outstanding debt.

Market risk

Market risk refers to the risk of loss resulting from changes in market prices such as interest rates, foreign exchange market prices and other price risks. ScotiaLife invests in financial instruments in the ordinary course of business whilst managing and controlling these exposures within acceptable parameters.

ScotiaLife has more than 80% of its investments denominated in Trinidad and Tobago currency thus hedging against exchange rate fluctuations; also it maintains a mix of fixed rate bonds and short-term deposits that allows it to mitigate the effects of interest rate fluctuations.

All market limits are reviewed at least annually. The key sources of ScotiaLife's market risk are as follows:

- Currency risk
- Interest rate risk

Currency risk

ScotiaLife has no significant foreign exchange exposure with the majority of ScotiaLife's assets being denominated in the local currency. Foreign currency transactions have not required the use of interest rate swaps and foreign currency options and other derivative instruments which all carry inherent risks.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2018

11. Financial Risk Management (continued)*Market risk* (continued)*Currency risk* (continued)**Concentration of assets and liabilities**

ScotiaLife has the following currency denominated positions:

	2018			
	TT	US	Other	Total
	\$	\$	\$	\$
Assets				
Cash	101,033,020	4,364,984	34,641	105,432,645
Investments securities:				
Fair value through profit or loss				
- Equities	25,810,480	-	-	25,810,480
Held-to-maturity				
- Bonds	44,780,408	1,737,610	-	46,518,018
Available-for-sale				
- Government and state enterprises debt securities	924,145,172	4,638,016	-	928,783,188
- Mutual Funds	5,152,104	5,871,655	-	11,023,759
Other assets	110,349,372	-	-	110,349,372
Loans	<u>991,966,984</u>	-	-	<u>991,966,984</u>
Total assets	<u>2,203,237,540</u>	<u>16,612,265</u>	<u>34,641</u>	<u>2,219,884,446</u>
Liabilities				
Other liabilities	19,805,180	-	-	19,805,180
Policyholders' liabilities	<u>1,399,149,479</u>	<u>13,579,092</u>	-	<u>1,412,728,571</u>
Total liabilities	<u>1,418,954,659</u>	<u>13,579,092</u>	-	<u>1,432,533,751</u>
Net financial position	<u>784,282,881</u>	<u>3,033,173</u>	<u>34,641</u>	<u>787,350,695</u>

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2018

11. Financial Risk Management (continued)

Market risk (continued)

Currency risk (continued)

Concentration of Assets and Liabilities

	2017			
	TT \$	US \$	Other \$	Total \$
Assets				
Cash	162,897,695	3,065,933	35,420	165,999,048
Investments securities:				
Fair value through profit or loss				
- Equities	20,981,111	-	-	20,981,111
Held-to-maturity				
- Bonds	43,604,182	1,962,296	-	45,566,478
Available-for-sale				
- Government and state enterprises debt securities	871,386,738	4,614,348	-	876,001,086
- Mutual Funds	5,089,215	5,832,859	-	10,922,074
Other assets	23,321,174	-	-	23,321,174
Loans	859,187,498	-	-	859,187,498
Total assets	1,986,467,613	15,475,436	35,420	2,001,978,469
Liabilities				
Other liabilities	8,276,745	-	-	8,276,745
Policyholders' liabilities	1,319,581,999	13,040,691	-	1,332,622,690
Total liabilities	1,327,858,744	13,040,691	-	1,340,899,435
Net financial position	658,608,869	2,434,745	35,420	661,079,034

Interest rate risk

ScotiaLife is exposed to interest rate risk where, due to changes in market interest rates, fluctuations arise in the value and the future cash flows of ScotiaLife's financial instruments.

Interest rate risk is managed through the matching of financial liabilities with investment activities, regular review of structural gaps and monitoring market conditions. The interest rates on a material amount of ScotiaLife's liabilities can be repriced as and when required.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2018

11. Financial Risk Management (continued)

Market risk (continued)

Interest rate risk (continued)

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of change in market interest rates.

Interest sensitivity of assets, liabilities and equity

The following table summarises carrying amounts of assets, liabilities and equity in order to arrive at ScotiaLife's interest rate gap on the earlier of contractual repricing or maturity dates:

	2018					Total
	Due on demand	Due in one year	Due in two to five years	Over five years	Non-interest bearing	
	\$	\$	\$	\$	\$	\$
Assets						
Cash	105,432,645	-	-	-	-	105,432,645
Investments:						
Fair value through profit or loss						
- Equities	-	-	-	-	25,810,480	25,810,480
Held-to-maturity						
- Bonds	-	-	24,518,018	22,000,000	-	46,518,018
Available-for-sale						
- Government and state enterprises debt securities	-	306,170,348	102,509,430	520,103,411	-	928,783,189
- Mutual Funds	11,023,759	-	-	-	-	11,023,760
Other assets	-	-	-	-	110,349,371	110,349,371
Loans	-	3,472,679	62,242,832	926,251,473	-	991,966,984
	<u>116,456,404</u>	<u>309,643,027</u>	<u>189,270,280</u>	<u>1,468,354,884</u>	<u>136,159,851</u>	<u>2,219,884,446</u>
Liabilities						
Other liabilities	-	-	-	-	19,805,180	19,805,180
Policyholders' liabilities	82,139,935	69,144,391	239,203,628	1,022,240,619	-	1,412,728,573
Equity	-	-	-	-	757,605,668	757,605,668
	<u>82,139,935</u>	<u>69,144,391</u>	<u>239,203,628</u>	<u>1,022,240,619</u>	<u>777,410,848</u>	<u>2,190,139,421</u>
Net Gap	<u>34,316,469</u>	<u>240,498,636</u>	<u>(49,933,349)</u>	<u>446,114,265</u>		
Cumulative Gap	<u>34,316,469</u>	<u>274,815,105</u>	<u>224,881,756</u>	<u>670,996,021</u>		

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2018

11. Financial Risk Management (continued)

Market Risk (continued)

Interest rate risk (continued)

Interest sensitivity of assets, liabilities and equity

	2017					Total
	Due on demand	Due in one year	Due in two to five years	Over five years	Non-interest bearing	
	\$	\$	\$	\$	\$	\$
Assets						
Cash	165,999,048	-	-	-	-	165,999,048
Investments:						
Fair value through profit or loss						
- Equities	-	-	-	-	20,981,111	20,981,111
Held-to-maturity						
- Bonds	-	202,045	23,364,433	22,000,000	-	45,566,478
Available-for-sale						
- Government and state enterprises debt securities	-	482,402,500	137,638,519	255,960,067	-	876,001,086
- Mutual Funds	10,922,074	-	-	-	-	10,922,074
Other assets	-	-	-	-	23,321,174	23,321,174
Loans	-	3,045,484	51,271,091	804,870,923	-	859,187,498
	<u>176,921,122</u>	<u>485,650,029</u>	<u>212,274,043</u>	<u>1,082,830,990</u>	<u>44,302,285</u>	<u>2,001,978,469</u>
Liabilities						
Other liabilities	-	-	-	-	8,276,745	8,276,745
Policyholders' liabilities	77,699,099	44,889,212	206,330,644	1,003,703,735	-	1,332,622,690
Equity	-	-	-	-	638,300,605	638,300,605
	<u>77,699,099</u>	<u>44,889,212</u>	<u>206,330,644</u>	<u>1,003,703,735</u>	<u>646,577,350</u>	<u>1,979,200,040</u>
Net Gap	<u>99,222,023</u>	<u>440,760,817</u>	<u>5,943,399</u>	<u>79,127,255</u>		
Cumulative Gap	<u>99,222,023</u>	<u>539,982,840</u>	<u>545,926,239</u>	<u>625,053,494</u>		

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2018

11. Financial Risk Management (continued)

Liquidity risk

Liquidity risk is the risk that ScotiaLife is unable to meet its financial obligations in a timely manner. ScotiaLife is exposed to daily calls on its cash resources from its policyholders. The liquidity risk management process ensures that ScotiaLife is able to honour all of its financial commitments as they fall due. ScotiaLife's liquidity strategy includes measuring and forecasting cash commitments and ensuring sufficient cash and marketable instruments such as treasury bills and government securities are available to meet short-term requirements.

The table below shows the maturity analysis of financial instruments using discounted cash flows of financial assets and financial liabilities based on their contractual maturity dates as at October 31.

	2018				Total
	Due on demand	Due in one year	Due in two to five years	Over five years	
	\$	\$	\$	\$	\$
Assets					
Cash	105,432,645	-	-	-	105,432,645
Investments:					
Fair value through profit or loss					
- Equities	25,810,480	-	-	-	25,810,480
Held-to-maturity					
- Bonds	-	-	24,518,018	22,000,000	46,518,018
Available-for-sale					
- Government and state enterprises debt securities	-	306,170,348	102,509,430	520,103,411	928,783,189
- Mutual Funds	11,023,759	-	-	-	11,023,759
Other assets		-	-	110,349,371	110,349,371
Loans	-	3,472,679	62,242,832	926,251,471	991,966,982
	<u>142,266,884</u>	<u>309,643,027</u>	<u>189,270,280</u>	<u>1,578,704,253</u>	<u>2,219,884,444</u>
Liabilities					
Policyholders' Liabilities	82,139,935	69,144,391	239,203,628	1,022,240,619	1,412,728,573
Accrued charges and other payables	-	19,805,180	-	-	19,805,180
	<u>82,139,935</u>	<u>88,949,571</u>	<u>239,203,628</u>	<u>1,022,240,619</u>	<u>1,432,533,753</u>
Net Gap	<u>60,126,949</u>	<u>220,693,456</u>	<u>(49,933,348)</u>	<u>556,463,634</u>	<u>787,350,691</u>
Cumulative Gap	<u>60,126,949</u>	<u>280,820,405</u>	<u>230,887,057</u>	<u>787,350,691</u>	

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2018

11. Financial Risk Management (continued)

Liquidity Risk (continued)

The table below shows the maturity analysis of financial instruments using discounted cash flows of financial assets and financial liabilities based on their contractual maturity dates as at October 31.

	2017				Total
	Due on demand	Due in one year	Due in two to five years	Over five years	
	\$	\$	\$	\$	\$
Assets					
Cash	165,999,048	-	-	-	165,999,048
Investments:					
Fair value through profit or loss					
- Equities	20,981,111	-	-	-	20,981,111
Held-to-maturity					
- Bonds	-	202,045	23,364,433	22,000,000	45,566,478
Available-for-sale					
- Government and state enterprises debt securities	-	482,402,500	137,638,519	255,960,067	876,001,086
- Mutual Funds	10,922,074	-	-	-	10,922,074
Other assets	-	-	-	23,321,174	23,321,174
Loans	-	3,045,484	51,271,091	804,870,923	859,187,498
	<u>197,902,233</u>	<u>485,650,029</u>	<u>212,274,043</u>	<u>1,106,152,164</u>	<u>2,001,978,469</u>
Liabilities					
Policyholders' Liabilities	77,699,099	44,889,212	206,330,644	1,003,703,735	1,332,622,690
Accrued charges and other payables	-	8,276,745	-	-	8,276,745
	<u>77,699,099</u>	<u>53,165,957</u>	<u>206,330,644</u>	<u>1,003,703,735</u>	<u>1,340,899,435</u>
Net Gap	<u>120,203,134</u>	<u>432,484,072</u>	<u>5,943,399</u>	<u>102,448,429</u>	<u>661,079,034</u>
Cumulative Gap	<u>120,203,134</u>	<u>552,687,206</u>	<u>558,630,605</u>	<u>661,079,034</u>	

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2018

11. Financial Risk Management (continued)

Liquidity risk (continued)

The table below summarises the maturity profile of financial liabilities based on their undiscounted cash flows at October 31. The balances include both principal and interest cash flows over the remaining term to maturity and therefore would differ from the carrying amounts in the statement of financial position.

	2018					
	Due on demand	Due in one year	Due in two to five years	Over five years	Total contractual cash flows	Total carrying value
	\$	\$	\$	\$	\$	\$
Liabilities and Equity Policyholders' liabilities	65,573,022	70,959,903	263,772,603	1,811,822,909	2,212,128,437	1,412,728,572

	2017					
	Due on demand	Due in one year	Due in two to five years	Over five years	Total contractual cash flows	Total carrying value
	\$	\$	\$	\$	\$	\$
Liabilities and Equity Policyholders' liabilities	77,699,099	46,026,791	228,186,884	1,816,981,777	2,168,894,551	1,332,622,690

Capital management

ScotiaLife's capital management policy seeks to achieve several objectives:

- Compliance with capital requirements as set by the Insurance Act 1980 and Central Bank of Trinidad and Tobago
- Ensure ScotiaLife's ability to continue as a going concern
- To maintain a strong capital base to support the development of its business.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2018

11. Financial Risk Management (continued)

Capital management (continued)

ScotiaLife employs techniques derived from the guidelines developed by the Central Bank of Trinidad and Tobago. The required information is filed with the regulatory authority on an annual basis.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with ScotiaLife's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of ScotiaLife's operations.

The objective is to manage operational risk so as to balance the avoidance of financial losses and damage to ScotiaLife's reputation with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of overall Scotiabank Group's standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective

Compliance is supported by a programme of periodic review undertaken by the Bank's Internal Audit department. The results of such audits are discussed with the ScotiaLife Management Team with summaries submitted to ScotiaLife's Audit Committee and senior management of the Scotiabank Group.

12. Management of Insurance Risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2018

12. Management of Insurance Risk (continued)

For a portfolio of insurance contracts where the theory of probability is applied to provisioning, the principal risk ScotiaLife faces under their insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the policyholder benefits and other liabilities. This may occur in the event the frequency or severity of claims and benefits are greater than that estimated. Insurance events are random and therefore the actual number and amount of claims and benefits will vary from year to year from the levels established.

Assumptions about mortality, expenses and inflation, interest rates, interest spreads and policyholder behavior that are used in estimating future cash flows are developed by product type, reflecting recent experience and the profiles of policyholders within the insurance contracts. The assumptions are generally developed using a blend of mortality data, industry trends and the Company's experience since inception. During the year, management changed the assumptions based on the past 13 years. The change in assumptions resulted in a reduction in actuarial reserves by \$15,901,000.

ScotiaLife pledges assets to the Statutory Fund at the Central Bank of Trinidad & Tobago. This strategy is used to mitigate the risk associated with the possibility of insufficient funds to cover policyholder benefits. ScotiaLife pledges assets in excess of its policyholders' liabilities to ensure coverage at any given point in time.

To limit its exposure of potential loss on an insurance policy, reinsurance contracts for a portion of certain products are utilised as a strategy to mitigate risks. However, the Company as the writer of the policies is directly responsible for all claims made.

	<u>2018</u>	<u>2017</u>
	\$	\$
Statutory fund assets	1,913,981,544	1,724,279,001
Policyholders' liabilities	<u>(1,412,728,572)</u>	<u>(1,332,622,690)</u>
Surplus	<u>501,252,972</u>	<u>391,656,311</u>

13. Fair Value of Financial Instruments

The fair values of on and off-balance sheet financial instruments are based on the valuation methods and assumptions set out in the significant accounting policies Note 2(h).

Fair value represents the amount at which a financial instrument could be exchanged in an arm's length transaction between willing parties under no compulsion to act and is best evidenced by a quoted market price. If no quoted market prices are available, the fair values presented are estimates derived using present value or other valuation techniques and may not be indicative of net realisable value.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2018

13. Fair Value of Financial Instruments (continued)

ScotiaLife is consistent with Scotiabank Group's methodology of measuring fair values using the following fair value hierarchy which reflects the significance of the inputs used in making the measurements:

- Level 1 - Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2 - Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3 - Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique included inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Due to the judgement used in applying a wide range of acceptable valuation techniques and estimations in the calculation of fair value amounts, fair values are not necessarily comparable among financial institutions. The calculation of estimated fair values is based upon market conditions at a specific point in time and may not be reflective of future fair values.

The table below analyses financial instruments measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorised:

	2018			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Assets				
Equities	25,810,480	-	-	25,810,480
Securities available-for-sale				
- Government and state enterprises debt securities	-	928,783,188	-	928,783,188
Mutual funds	11,023,759	-	-	11,023,759
	<u>36,834,239</u>	<u>928,783,188</u>	<u>-</u>	<u>965,617,427</u>
Liabilities				
Provision for future policy benefits	-	(1,396,161,659)	-	(1,396,161,659)
	<u>36,834,239</u>	<u>(467,378,471)</u>	<u>-</u>	<u>(430,544,232)</u>

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2018

13. Fair Value of Financial Instruments (continued)

	2017			Total \$
	Level 1 \$	Level 2 \$	Level 3 \$	
Assets				
Equities	20,981,111	-	-	20,981,111
Securities available-for-sale				
- Government and state enterprises debt securities	-	876,001,086	-	876,001,086
Mutual funds	10,922,074	-		10,922,074
	31,903,185	876,001,086	-	907,904,271
Liabilities				
Provision for future policy benefits	-	(1,317,100,032)	-	(1,317,100,032)
	31,903,185	(441,098,946)	-	(409,195,761)

The table below summarises the carrying amounts and fair values of those financial assets and liabilities that are not presented on ScotiaLife's statement of financial position at fair value.

	Carrying Value		Fair Value	
	2018 \$	2017 \$	2018 \$	2017 \$
Financial assets				
Cash	105,432,645	165,999,048	105,432,645	165,999,048
Loans	991,966,984	859,187,498	991,966,984	859,187,498
Securities held-to-maturity				
- Government securities	46,518,018	45,566,478	53,199,999	54,678,708
	1,143,917,647	1,070,753,024	1,150,599,628	1,079,865,254
Financial liabilities				
Accrued charges and other payables	19,805,180	8,276,745	19,805,180	8,276,745
Other policyholders' liabilities	16,566,913	15,522,658	16,566,913	15,522,658
	36,372,093	23,799,403	36,372,093	23,799,403

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2018

13. Fair Value of Financial Instruments (continued)

The fair values of these financial assets and liabilities have been determined on the following basis:

(a) Cash in hand and due to banks

These amounts are short-term in nature and are taken to be equivalent to fair value.

(b) Net loans to customers

Loans and advances to customers are granted at market rates and their values are not adversely affected by unusual terms. The estimated future cash flows are discounted using a discount rate based on market rates for similar type facilities.

(c) Government and state enterprises debt securities

The fair value of these instruments was determined using discounted cash flow analysis. The estimated future cash flows are discounted using a discount rate based on quoted market prices for securities with similar credit, maturity and yield characteristics.

(d) Policyholder Benefits and Other Liabilities

Policyholder benefits and liabilities are based on actuarial projections and assumptions based on a number of factors including but not limited to mortality and morbidity tables, lapse studies, company experience, market trends and interest rate assumptions.

Other liabilities are short-term and are equivalent to fair value.

14. Related Party Transactions and Balances

Parties are considered related if one party has the ability to control or exert significant influence over the other's decision-making process. A number of banking transactions have been entered into with related parties in the normal course of business. These transactions were conducted at market rates, on commercial terms and conditions.

Related party transactions include but are not limited to the following:

- Data processing and information technology support
- Technical and management services
- Operations support
- Transaction processing support
- Delinquent account collection services.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2018

	<u>2018</u>	<u>2017</u>
	\$	\$
14. Related Party Transactions and Balances (continued)		
Outstanding balances		
Assets		
Bank of Nova Scotia and its related entities	111,734,099	170,126,947
Reinsurance asset	<u>15,087,352</u>	<u>13,853,811</u>
Liabilities		
Bank of Nova Scotia and its related entities	<u>15,914,552</u>	<u>4,537,496</u>
Income		
Bank of Nova Scotia and its related entities	1,996,292	1,701,149
Reinsurance – claims recoveries	<u>9,564,711</u>	<u>5,977,571</u>
Expenses		
Bank of Nova Scotia and its related entities	19,491,181	17,698,296
Reinsurance	<u>54,093,534</u>	<u>52,645,942</u>

In the normal course of business, ScotiaLife purchases loans from Scotiabank at book value. Loans purchased during the year ended October 31, 2018 totaled \$291,447,165 (2017: \$144,900,154). The loans are with parties unrelated to ScotiaLife and are purchased without recourse.

Key management comprises individuals responsible for planning, directing and controlling the activities of ScotiaLife.

	<u>2018</u>	<u>2017</u>
	\$	\$
Key management compensation		
Short-term benefits	3,373,798	3,414,497
Share based payment	<u>166,412</u>	<u>135,117</u>
	<u>3,540,210</u>	<u>3,549,614</u>

15. Responsibilities of the Appointed Actuary and External Auditors

The Board of Directors pursuant to the Insurance Act appoints the Actuary. The Actuary's responsibility is to carry out an annual valuation of ScotiaLife's policyholders' liabilities in accordance with accepted actuarial practice and regulatory requirements and report thereon to the policyholders and shareholders. In performing the valuation, the Actuary makes assumptions as to the future rates of interest, asset defaults, mortality, morbidity, claims experience, policy termination, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of ScotiaLife and the insurance policies in force.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2018

15. Responsibilities of the Appointed Actuary and External Auditors (continued)

The shareholders, pursuant to the Companies Act, appoint the external auditors. Their responsibility is to conduct an independent and objective audit of the financial statements in accordance with International Standards on Auditing and report thereon to the shareholders. In carrying out their audit, the auditors also make use of the work of the appointed Actuary and his report on the policyholders' liabilities.

16. Subsequent Events

On November 27, 2018, Scotiabank Trinidad and Tobago Limited (SBTT) announced its intention to enter into agreement with Sagicor Financial Corporation Limited and Alignvest Acquisition II Corporation for the proposed acquisition of ScotiaLife Trinidad and Tobago Limited (SLTT) to obtain 100% of the Company's ordinary shares subject to receipt of all applicable regulatory approvals.

Financial Statements of

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

October 31, 2017

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

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October 31, 2017

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**Statement of Management's Responsibilities
ScotiaLife Trinidad And Tobago Limited**


Management is responsible for the following:

- Preparing and fairly presenting the accompanying financial statements of ScotiaLife Trinidad and Tobago Limited (the Company), which comprise the statement of financial position as at October 31, 2017, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information;
- Ensuring that ScotiaLife Trinidad and Tobago Limited keeps proper accounting records;
- Selecting appropriate accounting policies and applying them in a consistent manner;
- Implementing, monitoring and evaluating the system of internal control that assures security of Scotia ScotiaLife Trinidad and Tobago's assets, detection/prevention of fraud, and the achievement of ScotiaLife Trinidad and Tobago's operational efficiencies;
- Ensuring that the system of internal control operated effectively during the reporting period;
- Producing reliable financial reporting that complies with laws and regulations, including the Insurance Act; and
- Using reasonable and prudent judgement in the determination of estimates.

In preparing these financial statements, management utilised the International Financial Reporting Standards, as issued by the International Accounting Standards Board and adopted by the Institute of Chartered Accountants of Trinidad and Tobago. Where International Financial Reporting Standards presented alternative accounting treatments, management chose those considered most appropriate in the circumstances.

Nothing has come to the attention of management to indicate that ScotiaLife Trinidad and Tobago will not remain a going concern for the next twelve months from the reporting date, or up to the date the accompanying financial statements have been authorised for issue, if later.

Management affirms that it has carried out its responsibilities as outlined above.


Robert Soverall
Managing Director


Samanta Saugh
Chief Accountant & Comptroller (Insurance)

November 30, 2017
Date

November 30, 2017
Date



**KPMG
Chartered Accountants**

Savannah East
11 Queen's Park East
P.O. Box 1328
Port of Spain
Trinidad and Tobago, W.I.

Tel.: (868) 612-KPMG
(868) 623-1081
Fax: (868) 623-1084
Email: kpmg@kpmg.co.tt
Web: www.kpmg.com/tt

**Independent Auditors' Report to the Shareholder of
ScotiaLife Trinidad and Tobago Limited**

Opinion

We have audited the financial statements of ScotiaLife Trinidad and Tobago Limited ("the Company"), which comprise the statement of financial position as at October 31, 2017, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Trinidad and Tobago, and we have fulfilled our other ethical responsibilities in accordance with these requirements and with the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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



Responsibilities of Management and Those Charged with Governance for the Financial Statements (continued)

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

A handwritten signature of the KPMG firm, written in dark ink, appearing as 'KPMG' in a cursive, stylized font.

Chartered Accountants
Port of Spain
Trinidad and Tobago
November 30, 2017

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

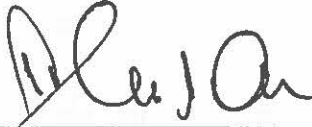
Statement of Financial Position

October 31, 2017

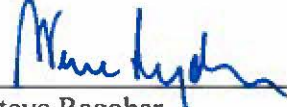
	Notes	2017	2016
		\$	\$
ASSETS			
Investment securities	3	953,470,749	922,394,960
Loans	4	859,187,498	833,226,045
Reinsurance asset	14	13,853,811	14,709,992
Other assets		9,467,363	15,365,662
Cash in hand and at bank		165,999,048	62,565,571
Total Assets		<u>2,001,978,469</u>	<u>1,848,262,230</u>
LIABILITIES AND EQUITY			
Liabilities			
Provision for future policy benefits	5	1,317,100,032	1,213,412,129
Other policyholders' liabilities	6	15,522,658	13,745,352
Deferred tax	10	20,762,840	3,865,759
Accrued charges and other payables		8,276,745	10,487,108
Provision for taxation		2,015,589	68,837,032
		<u>1,363,677,864</u>	<u>1,310,347,380</u>
Equity			
Stated capital	7	60,000,000	60,000,000
Investment revaluation reserve		1,615,559	(3,477,027)
Retained earnings		576,685,046	481,391,877
		<u>638,300,605</u>	<u>537,914,850</u>
Total liabilities and equity		<u>2,001,978,469</u>	<u>1,848,262,230</u>

The notes on pages 9 to 43 are an integral part of these financial statements.

These financial statements were approved for issue by the Board of Directors on November 30, 2017 and signed on its behalf:



 George Janoura
 Director



 Steve Ragobar
 Director

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Statement of Profit or Loss and Other Comprehensive Income

For the year ended October 31, 2017

	Notes	2017 \$	2016 \$
INCOME			
Gross premium income		463,439,709	445,089,106
Premium ceded to reinsurer		<u>(52,645,942)</u>	<u>(50,868,642)</u>
Net premium income		410,793,767	394,220,464
Investment income	8	84,015,699	80,010,996
Other income		<u>1,632,335</u>	<u>1,944,764</u>
Total income		<u>496,441,801</u>	<u>476,176,224</u>
POLICYHOLDERS' EXPENSES			
Provision for future policy benefits	5	103,687,903	125,200,189
Policyholders' benefits		<u>230,478,439</u>	<u>189,516,891</u>
Total policyholders' expenses		<u>334,166,342</u>	<u>314,717,080</u>
ADMINISTRATIVE EXPENSES			
Salaries and personnel costs		14,778,996	15,053,792
Premises and technology		6,532,464	7,180,869
Communications and marketing		998,698	816,106
Management expenses		10,417,994	8,575,516
Professional fees		3,059,570	3,280,977
Loan loss expense	4.4	355,122	1,050,798
Other		<u>891,886</u>	<u>1,062,853</u>
Total administrative expenses		<u>37,034,730</u>	<u>37,020,911</u>
INCOME BEFORE TAXATION			
Income tax expense	9	<u>(29,947,560)</u>	<u>(30,050,844)</u>
NET INCOME FOR THE YEAR, ATTRIBUTABLE TO EQUITY HOLDER		95,293,169	94,387,389
OTHER COMPREHENSIVE INCOME			
<i>Items that are or may be reclassified to profit or loss</i>			
Revaluation of available-for-sale investments, net of tax		<u>5,092,586</u>	<u>(3,896,260)</u>
TOTAL COMPREHENSIVE INCOME, ATTRIBUTABLE TO EQUITY HOLDER		<u>100,385,755</u>	<u>90,491,129</u>

The notes on pages 9 to 43 are an integral part of these financial statements.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Statement of Changes in Equity

For the year ended October 31, 2017

	Stated Capital	Investment Revaluation Reserve	Retained Earnings	Total Equity
	\$	\$	\$	\$
Balance as at October 31, 2015	<u>60,000,000</u>	<u>419,233</u>	<u>647,268,792</u>	<u>707,688,025</u>
Net income for the year	-	-	94,387,389	94,387,389
<i>Other comprehensive income, net of tax</i>				
Revaluation of available-for-sale investments	<u>-</u>	<u>(3,896,260)</u>	<u>-</u>	<u>(3,896,260)</u>
Total comprehensive income	<u>-</u>	<u>(3,896,260)</u>	<u>(94,387,389)</u>	<u>(90,491,129)</u>
<i>Transaction with owners of the company</i>				
Dividends paid	<u>-</u>	<u>-</u>	<u>(260,264,304)</u>	<u>(260,264,304)</u>
Balance as at October 31, 2016	<u>60,000,000</u>	<u>(3,477,027)</u>	<u>481,391,877</u>	<u>537,914,850</u>
Net income for the year	-	-	95,293,169	95,293,169
<i>Other comprehensive income, net of tax</i>				
Revaluation of available-for-sale investments	<u>-</u>	<u>5,092,586</u>	<u>-</u>	<u>5,092,586</u>
	<u>-</u>	<u>5,092,586</u>	<u>95,293,169</u>	<u>100,385,755</u>
Balance as at October 31, 2017	<u>60,000,000</u>	<u>1,615,559</u>	<u>576,685,046</u>	<u>638,300,605</u>

The notes on pages 9 to 43 are an integral part of these financial statements.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Statement of Cash Flows

For the year ended October 31, 2017

	2017	2016
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before taxation	125,240,729	124,438,233
Adjustments to reconcile income before taxation to net cash from operating activities:		
Provision for loan loss	355,122	1,050,798
Investment income	(83,955,390)	(80,977,947)
Unrealised investment gain	(60,309)	966,951
Foreign exchange gain	(47,149)	(970,363)
Change in other assets	1,535,307	(1,804,513)
Change in reinsurance assets	856,181	(426,531)
Change in accrued charges and other payables	(2,210,363)	4,271,022
Change in provision for future policy benefits	103,687,903	125,200,189
Change in other policyholders' liabilities	1,777,306	1,872,808
Taxation paid	(80,774,113)	(14,092,544)
Net cash from operating activities	<u>66,405,224</u>	<u>159,528,103</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(690,746,990)	(911,395,471)
Repayment of investments	643,741,420	793,413,731
Interest received	82,994,821	76,575,032
Dividends received	<u>1,039,002</u>	<u>1,135,354</u>
Net cash from (used in) investing activities	<u>37,028,253</u>	<u>(40,271,354)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	<u>-</u>	<u>(260,264,304)</u>
Net cash used in financing activities	<u>-</u>	<u>(260,264,304)</u>
Net increase (decrease) in cash and cash equivalents	103,433,477	(141,007,555)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	<u>62,565,571</u>	<u>203,573,126</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<u>165,999,048</u>	<u>62,565,571</u>
Cash and cash equivalents represented by:		
Cash in hand and at bank	<u>165,999,048</u>	<u>62,565,571</u>

The notes on pages 9 to 43 are an integral part of these financial statements.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2017

1. **Incorporation and Business Activities**

ScotiaLife Trinidad and Tobago Limited (ScotiaLife) was incorporated and domiciled in the Republic of Trinidad and Tobago on May 23, 2000 and was registered to conduct ordinary long-term insurance business under the Insurance Act, 1980 on December 3, 2001. ScotiaLife commenced insurance operations in April 2004. It is a wholly owned subsidiary of Scotiabank Trinidad and Tobago Limited (Scotiabank), which is also incorporated and domiciled in the Republic of Trinidad and Tobago. Its ultimate holding company is the Bank of Nova Scotia, which is incorporated and domiciled in Canada. ScotiaLife's registered office is located at 56-58 Richmond Street, Port of Spain.

2. **Significant Accounting Policies**

The significant accounting policies adopted in the preparation of these financial statements have been applied consistently to all periods presented in the financial statements and are set out below:

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and are presented in Trinidad and Tobago dollars, which is the functional currency, rounded to the nearest dollar.

The financial statements are prepared on the historical cost basis modified for the inclusion of investments at fair value through profit or loss, available-for-sale investments at fair value and policyholders' funds calculated using the policy premium method of valuation.

(b) Insurance – recognition and measurement

Insurance contracts

These contracts insure human life events (for example, death or permanent disability) over a long duration. The accounting treatment differs according to whether the contract bears investment options or not. Under contracts that do not bear investment options, premiums are recognised as income when they become payable by the contract holder and benefits are recorded as an expense when they are incurred.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2017

2. Significant Accounting Policies (continued)

(b) Insurance – recognition and measurement (continued)

Insurance contracts (continued)

Under contracts that bear an investment option, insurance premiums received are initially recognised directly as liabilities. These liabilities are increased by credited interest and are decreased by policy administration fees, mortality and surrender charges and any withdrawals; the resulting liability is included in the Provision for Future Policy Benefits and Other Policyholders' Liabilities which are disclosed in Notes 5 and 6. Income consists of fees deducted for mortality, policy administration, and surrenders.

Insurance contract liabilities are determined by an independent actuary using the Policy Premium Method of valuation as discussed in accounting policy 2(f). These liabilities are, on valuation, adjusted through profit or loss to reflect the valuation determined under the Policy Premium Method.

Reinsurance contracts held

Contracts entered into by ScotiaLife with reinsurers under which ScotiaLife is compensated for losses on one or more contracts issued by ScotiaLife and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets.

The benefits to which ScotiaLife is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of balances due from reinsurers. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

ScotiaLife assesses its reinsurance assets for impairment on an annual basis. If there is objective evidence that the reinsurance asset is impaired, ScotiaLife reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in profit or loss. ScotiaLife gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is calculated following the same method used for financial assets. These processes are described in accounting policy 2(j).

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2017

2. Significant Accounting Policies (continued)

(c) *Loans*

All loans are backed by real estate and are stated net of any unearned income and of any specific provisions established to recognise anticipated losses. Individual loans are subject to ongoing reviews. Specific provisions for losses are determined as a result of these reviews.

(d) *Revenue recognition*

Premium income

Premiums are recognised on the accruals basis in accordance with the terms of the underlying contracts as outlined in Note 2 (b).

Investment income

This consists of interest from investments and real estate backed loans, dividends and realised and unrealised investment gains and losses.

Interest income is accounted for on the accruals basis using the effective interest rate method except on non-accrual loans. When a loan is classified as non-accrual, accrued but uncollected interest is reversed against income of the current period, unless the loan, including accrued interest, is fully secured and in the process of collection. Thereafter, interest income is recognised only after the loan reverts to performing status.

Dividends are recognised when received.

(e) *Foreign currency*

Transactions in foreign currencies are translated at the rate of exchange ruling at the transaction date. Foreign currency monetary assets and liabilities are translated at the rate of exchange ruling at the reporting date. Resulting translation differences and profits and losses from trading activities are included in profit or loss.

(f) *Provision for future policy benefits*

Provision for future policy benefits is calculated using the Policy Premium Method (PPM) of valuation. Under this method explicit allowance is made for all future benefits and expenses under the policies. The premiums, benefits and expenses for each policy are projected and the resultant future cash flows are discounted back to the valuation date to determine the reserves.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2017

2. Significant Accounting Policies (continued)

(f) *Provision for future policy benefits* (continued)

The process of calculating policy reserves involves the use of estimates concerning such factors as mortality and morbidity rates, future investment yields and future expense levels. Consequently, these liabilities include reasonable provision for adverse deviations from the estimates.

Actuarial valuations are prepared monthly, with adjustments to reserves shown in the year to which it relates.

(g) *Taxation*

Income tax expense for the year comprises current tax and the change in deferred tax. Deferred tax is recognized in profit or loss except to the extent that it relates to items recognized directly in other comprehensive income (OCI). Current tax comprises tax payable, calculated on the basis of the expected taxable income for the year, using the tax rate enacted by the reporting date, green fund levy, and any adjustment of tax payable for previous years.

Deferred tax is provided using the liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes, except differences relating to the initial recognition of assets or liabilities which affect neither accounting nor taxable profit (loss). Net deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is calculated on the basis of the tax rate that is expected to apply to the period when the asset is realised or the liability is settled. The effect on deferred tax of any changes in the tax rate is charged to the statement of profit or loss and statement of other comprehensive income, except to the extent that it relates to items previously charged or credited directly to equity.

(h) *Financial instruments*

Financial instruments carried on the statement of financial position include cash resources, investments securities, loans, other assets, policyholders' funds and other liabilities. The standard treatment for recognition, derecognition, classification and measurement of financial instruments is described in notes (i) – (v) below.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2017

2. Significant Accounting Policies (continued)

(h) *Financial instruments* (continued)

(i) *Recognition*

Financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are recognised on the date at which ScotiaLife becomes a party to the contractual provisions of the instrument.

(ii) *Derecognition*

Financial assets are derecognised when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferring financial assets that is created or retained by ScotiaLife is recognised as a separate asset or liability.

ScotiaLife derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

(iii) *Classification*

ScotiaLife classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans; held-to-maturity; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

Financial assets at fair value through profit or loss

This category includes financial assets held-for-trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Loans

Loans are financial assets with fixed or determinable payments that are not quoted in an active market.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2017

2. Significant Accounting Policies (continued)

(h) *Financial instruments* (continued)

(iii) *Classification* (continued)

Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that ScotiaLife's management has the positive intention and ability to hold to maturity. If ScotiaLife were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be compromised and reclassified as available-for-sale.

Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, and may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

(iv) *Measurement*

Financial instruments are measured initially at fair value, plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Subsequent to initial recognition all financial assets at fair value through profit or loss and available-for-sale assets are measured at fair value, based on their quoted market price at the reporting date without any deduction for transaction costs. Where the instrument is not actively traded or quoted on recognised exchanges, fair value is determined using discounted cash flow analysis. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions.

Any available-for-sale asset that does not have a quoted market price in an active market and where fair value cannot be reliably measured, is stated at cost, including transaction costs, less impairment losses.

Gains and losses arising from the change in the fair value of available-for-sale investments subsequent to initial recognition are accounted for as changes in the investment revaluation reserve and are recognised in other comprehensive income.

Gains and losses, both realised and unrealised, arising from the change in the financial assets at fair value through profit or loss are reported in investment income.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2017

2. Significant Accounting Policies (continued)

(h) *Financial instruments* (continued)

(iv) *Measurement* (continued)

All non-trading financial liabilities, purchased loans and held-to-maturity assets are measured at amortised costs less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(v) *Specific instruments*

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and in-transit, deposits with banks and related companies and short-term highly liquid investments with maturities of three months or less when purchased, including treasury bills and other bills eligible for rediscounting with the Central Bank. The carrying value approximates the fair value due to its highly liquid nature and the fact that it is readily converted to known amounts of cash in hand and is subject to insignificant risk of change in value.

Investment securities

Debt investments that ScotiaLife has the intent and ability to hold to maturity are classified as held-to-maturity assets. All other investments are classified as available-for-sale or fair value through profit or loss.

On disposal or on maturity of an investment, the difference between the net proceeds and the carrying amount is included in profit or loss. When available-for-sale assets are sold, converted or otherwise disposed of, the cumulative gain or loss recognised in equity is reclassified to profit or loss.

Loans

All loans are backed by real estate and are stated at cost (amortised cost) net of allowances to reflect the estimated recoverable amounts.

A loan is classified as non-accrual when principal or interest is 90 days past due or when, in the opinion of management, there is reasonable doubt as to the ultimate collectability of principal or interest.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2017

2. Significant Accounting Policies (continued)

(h) *Financial instruments* (continued)

(v) *Specific instruments* (continued)

Loans (continued)

Non-accrual loans may revert to performing status when all payments become fully current or when management has determined there is no reasonable doubt of ultimate collectability.

A loan is classified as impaired when, in management's opinion, there has been a deterioration in credit quality to the extent that there is no longer reasonable assurance of timely collection of the full amount of principal and interest. If a payment on a loan is contractually 90 days in arrears the loan will be classified as impaired.

When a loan is classified as impaired, recognition of interest in accordance with the terms of the original loan ceases, and interest is taken into account on the cash basis. This differs from IFRS which requires that interest on the impaired asset continues to be recognised through the unwinding of the discount that was applied to the estimated future cash flows. The difference is not considered material.

Loans are written off after all the necessary legal procedures have been completed and the amount of the loss is finally determined.

ScotiaLife maintains a loan loss provision, which in management's opinion, is adequate to absorb all incurred credit-related losses in its loan portfolio. The loan loss provision is done on a portfolio basis and reflects the associated estimated loss. Provisions are calculated using a formula taking into account recent loss experience.

The provision for the year, less recoveries of amounts previously written off and the reversal of provisions no longer required, is disclosed in the statement of profit or loss and other comprehensive income as loan loss expense.

(i) *Employee benefits*

Employee benefits that are earned as a result of past or current service are recognised in the following manner: short-term employee benefits are recognised as a liability, net of payments made, and charged as expense. The expected cost of vacation leave that accumulates is recognised when the employee becomes entitled to the leave. Post-employment benefits are accounted for as described below.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2017

2. Significant Accounting Policies (continued)

(i) *Employee benefits* (continued)

Post-employment benefits have no financial effect in these financial statements as all employees are employed by Scotiabank of Trinidad and Tobago Limited (the immediate parent company) who accounts for the IAS 19 adjustments.

(j) *Impairment*

The carrying amounts of ScotiaLife's assets, other than deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) *Insurance and investment contracts – classification*

ScotiaLife issues policy contracts that transfer insurance and/or financial risk from the policyholder. Insurance risk is defined as an insured event that could cause an insurer to pay significant additional benefits in a scenario that has a discernable effect on the economics of the transaction.

Insurance contracts transfer insurance risk and may also transfer financial risk. Investment contracts transfer financial risk and no insurance risk. Financial risk includes credit risk, liquidity risk and market risk.

2. Significant Accounting Policies (continued)

(i) Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and income and expenses during the reporting period. Actual results could differ from these estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next financial year are discussed below:

- *Determining fair values with significant unobservable inputs*

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 2(h)(iv).

A number of accounting policies and disclosures require the measurement of fair values. ScotiaLife has an established control framework with respect to the measurement of fair values which represents the amount at which a financial instrument could be exchanged in an arm's length transaction between willing parties under no compulsion to act and is best evidenced by a quoted market price. If no quoted market prices are available, the fair values presented are estimates derived using present value or other valuation techniques and may not be indicative of net realisable value. When measuring the fair value of an asset or a liability ScotiaLife uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as referenced in Note 13. If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. ScotiaLife recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

- *Financial asset and liability classification*

ScotiaLife's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2017

2. Significant Accounting Policies (continued)

(l) Critical accounting estimates and judgements (continued)

- *Financial asset and liability classification* (continued)

In classifying financial assets or liabilities as “fair value through profit or loss”, ScotiaLife has determined that it meets the description of trading assets and liabilities set out in accounting policy 2(h)(iii).

In designating financial assets or liabilities at fair value through profit or loss, ScotiaLife has determined that it has met one of the criteria for this designation set out in accounting policy 2(h)(iii).

In classifying financial assets as held-to-maturity, ScotiaLife has determined that it has both the positive intention and ability to hold the assets until maturity date as required by accounting policy 2(h)(iii).

- *Taxation*

Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. ScotiaLife recognises liabilities for possible tax issues based on the likelihood of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

- *Estimate of future payments and premiums arising from long-term insurance contracts*

The determination of liabilities under long-term insurance contracts is dependent on estimates made by the appointed actuary. Estimates are made as to the expected number of deaths for each of the years in which ScotiaLife is exposed to risk. The appointed actuary bases these estimates on standard industry and international mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect ScotiaLife’s own experience. For contracts that insure the risk of longevity, appropriate but not excessively prudent allowance is made for expected mortality improvements. The estimated number of deaths determines the value of the benefit payments and the value of the valuation premiums. The main source of uncertainty is that epidemics such as AIDS, and wide-ranging lifestyle changes, such as eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which ScotiaLife has significant exposure to mortality risk. However, continuing improvements in medical care and social conditions could result in improvements in longevity in excess of those allowed for in estimates used to determine the liability for contracts where ScotiaLife is exposed to longevity risk.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2017

2. Significant Accounting Policies (continued)

(i) Critical accounting estimates and judgements (continued)

- *Estimate of future payments and premiums arising from long-term insurance contracts (continued)*

The following shows the sensitivity of the liabilities to a change in assumptions:

	<u>2017</u>	<u>2016</u>
	\$	\$
Interest rates decrease by 1%	(3,632,798)	(3,503,674)
Interest rates increase by 1%	4,363,356	3,984,942
Mortality increases by 10%	10,882,134	10,378,063
Mortality decreases by 10%	(11,243,400)	(10,696,520)
Expenses increase by 10%	7,621,598	7,856,322
Expenses decrease by 10%	(7,608,341)	(7,818,930)
Lapses and withdrawals increase by 10%	15,424,779	15,391,549
Lapses and withdrawals decrease by 10%	(17,442,057)	(17,389,595)

For contracts without fixed terms, it is assumed that ScotiaLife will be able to increase mortality risk charges in future years in line with emerging mortality experience.

Estimates are also made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

For long-term contracts with fixed and guaranteed terms, estimates are made in two stages. Estimates of future deaths, voluntary terminations and partial withdrawal of policy funds, investment returns and administration expenses are made at the inception of the contract and form the assumptions used for calculating the liabilities at the inception of the contract. A margin of risk and uncertainty is added to these assumptions. New estimates are made each subsequent year based on updated company and intercompany experience studies and updated economic forecasts. The valuation assumptions are altered to reflect these revised best estimate assumptions. The margins for risk and uncertainty may also be altered if the underlying level of uncertainty in the updated assumption has changed. The financial impact of revisions to best estimate assumptions or the related margins is recognised in the accounting period in which the change is made.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2017

2. Significant Accounting Policies (continued)

(m) *New, revised and amended standards and interpretations that became effective during the year:*

Certain new, revised and amended standards and interpretations came into effect during the current financial year. The Company assessed them and adopted those relevant to its financial statements.

- IAS 1, *Presentation of Financial Statements*, effective for accounting periods beginning on or after January 1, 2016, has been amended to clarify or state the following:
 - specific single disclosures that are not material do not have to be presented even if they are minimum requirements of a standard;
 - the order of notes to the financial statements is not prescribed;
 - line items on the statement of financial position and the statement of profit or loss and other comprehensive income (OCI) should be disaggregated if this provides helpful information to users. Line items can be aggregated if they are not material;
 - specific criteria is now provided for presenting subtotals on the statement of financial position and in the statement of profit or loss and OCI, with additional reconciliation requirements for the statement of profit or loss and OCI; and
 - the presentation in the statement of OCI of items of OCI arising from joint ventures and associates accounted for using the equity method follows the IAS 1 approach of splitting items that may, or that will never, be reclassified to profit or loss.

(n) *New, revised and amended standards and interpretations not yet effective:*

Certain new, revised and amended standards and interpretations have been issued which are not yet effective for the current year and which the Company has not early-adopted. ScotiaLife has assessed the relevance of all such new standards, amendments and interpretations with respect to ScotiaLife's operations and has determined that the following are likely to have an effect on the financial statements.

- IFRS 9, *Financial Instruments*, which is effective for annual reporting periods beginning on or after January 1, 2018, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial assets and liabilities, including a new expected credit loss model for calculating impairment of financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2017

2. Significant Accounting Policies (continued)

(n) *New, revised and amended standards and interpretations not yet effective* (continued)

- IFRS 9, *Financial Instruments* (continued)

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) - are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different. IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ model, which means that a loss event will no longer need to occur before an impairment allowance is recognized.

ScotiaLife is assessing the impact that this amendment will have on its 2019 financial statements.

- IFRS 16, *Leases*, which is effective for annual reporting periods beginning on or after January 1, 2019, eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Companies will be required to bring all major leases on-balance sheet, recognising new assets and liabilities. The on-balance sheet liability will attract interest; the total lease expense will be higher in the early years of a lease even if a lease has fixed regular cash rentals. Optional lessee exemption will apply to short-term leases and for low-value items with value of US\$5,000 or less.

Lessor accounting remains similar to current practice as the lessor will continue to classify leases as finance and operating leases. Finance lease accounting will be based on IAS 17 lease accounting, with recognition of net investment in lease comprising lease receivable and residual asset. Operating lease accounting will be based on IAS 17 operating lease accounting.

Early adoption is permitted if IFRS 15, *Revenue from Contracts with Customers* is also adopted.

ScotiaLife is assessing the impact that this amendment will have on its 2020 financial statements.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2017

2. Significant Accounting Policies (continued)

(n) *New, revised and amended standards and interpretations not yet effective* (continued)

- IAS 7, *Statement of Cash Flows (Amendment)*, which is effective for annual reporting periods beginning on or after January 1, 2017, requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

ScotiaLife is assessing the impact that this amendment will have on its 2018 financial statements.

- Amendments to IAS 12, *Income Taxes*, effective for accounting periods beginning on or after January 1, 2017, clarifies the following:
 - The existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.
 - A deferred tax asset can be recognised if the future bottom line of the tax return is expected to be a loss, if certain conditions are met.
 - Future taxable profits used to establish whether a deferred tax can be recognised should be the amount calculated before the effect of reversing temporary differences.
 - An entity can assume that it will recover an asset for more than its carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.
 - Deductible temporary differences related to unrealised losses should be assessed on a combined basis for recognition unless a tax law restricts the use of losses to deductions against income of a specific type.

ScotiaLife is assessing the impact that this amendment will have on its 2018 financial statements.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2017

2. Significant Accounting Policies (continued)

(o) Dividends

Dividends that are proposed and declared during the period are accounted for as an appropriation of retained earnings in the statement of changes in equity. Dividends that are proposed after the reporting date are not shown on the statement of financial position but are disclosed as a note to the financial statements.

(p) Comparative information

Where necessary, comparatives have been adjusted to conform to changes in presentation in the current year.

	<u>2017</u>	<u>2016</u>
	\$	\$
3. Investment Securities		
Securities at fair value through profit or loss		
- Equities	<u>20,981,111</u>	<u>20,416,145</u>
Securities available-for-sale		
- Government and state enterprises debt securities	876,001,086	802,477,854
- Mutual Funds	<u>10,922,074</u>	<u>10,795,502</u>
	<u>886,923,160</u>	<u>813,273,356</u>
Securities held-to-maturity		
- Government and state enterprises debt securities	<u>45,566,478</u>	<u>88,705,459</u>
Total investments	<u>953,470,749</u>	<u>922,394,960</u>
4. Loans		
4.1 Principal neither past due nor impaired	751,660,384	743,716,158
Principal which is past due but not impaired	92,372,894	80,859,601
Principal which is impaired	<u>16,709,137</u>	<u>9,850,081</u>
Gross loans	860,742,415	834,425,840
Loan loss provision	<u>(1,554,917)</u>	<u>(1,199,795)</u>
Total loans net of provision	<u>859,187,498</u>	<u>833,226,045</u>

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2017

	<u>2017</u>	<u>2016</u>
	\$	\$
4. Loans (continued)		
4.1 (continued)		
Current portion	3,045,485	2,789,802
Long-term portion	<u>856,142,013</u>	<u>830,436,243</u>
Total loans net of provision	<u>859,187,498</u>	<u>833,226,045</u>
Interest receivable (included in other assets)	<u>4,362,993</u>	<u>3,866,377</u>

4.2 *Financial assets past due but not impaired*

	<u>2017</u>			
	<u>Less than 30 days</u>	<u>30 - 60 days</u>	<u>61 - 90 days</u>	<u>Total</u>
	\$	\$	\$	\$
Loans	<u>69,013,496</u>	<u>17,003,387</u>	<u>6,356,011</u>	<u>92,372,894</u>

	<u>2016</u>			
	<u>Less than 30 days</u>	<u>30 - 60 days</u>	<u>61 - 90 days</u>	<u>Total</u>
	\$	\$	\$	\$
Loans	<u>63,983,693</u>	<u>7,994,438</u>	<u>8,881,470</u>	<u>80,859,601</u>

	<u>2017</u>	<u>2016</u>
	\$	\$
4.3 <i>Analysis of movement of loan loss provision</i>		
Provision, beginning of year	1,199,795	148,997
Loan loss charge for the year	<u>355,122</u>	<u>1,050,798</u>
Provision, end of year	<u>1,554,917</u>	<u>1,199,795</u>
4.4 <i>Loan loss expense</i>		
Loan loss charge for the year	<u>355,122</u>	<u>1,050,798</u>

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2017

	<u>2017</u>	<u>2016</u>
	\$	\$
5. Provision for Future Policy Benefits		
TT\$ Ordinary Life – Non-participating policies	638,015,104	568,551,920
TT\$ Individual Annuities	642,556,802	607,631,772
US\$ Individual Annuities	13,040,691	12,488,639
TT\$ Group Life – Creditor Life	<u>23,487,435</u>	<u>24,739,798</u>
	<u>1,317,100,032</u>	<u>1,213,412,129</u>
<p>The movements in provision for future policy benefits are as follows:</p>		
Balance at beginning of year	1,213,412,129	1,088,211,940
Increase in reserves	<u>103,687,903</u>	<u>125,200,189</u>
Balance at end of year	<u>1,317,100,032</u>	<u>1,213,412,129</u>
6. Other Policyholders' Liabilities		
Claims admitted but not paid	10,702,456	8,772,720
Premium suspense	162,679	336,780
Premiums paid in advance	1,501,528	1,469,211
Provision for claims incurred but not reported	<u>3,155,995</u>	<u>3,166,641</u>
	<u>15,522,658</u>	<u>13,745,352</u>
7. Stated Capital		
<i>Authorised</i>		
Authorised capital consists of an unlimited number of ordinary shares		
<i>Issued and fully paid</i>		
60,000,000 ordinary shares of no par value	<u>60,000,000</u>	<u>60,000,000</u>

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2017

	<u>2017</u>	<u>2016</u>
	\$	\$
8. Investment Income		
Available-for-sale	23,596,926	19,839,886
Held-to-maturity	3,293,647	7,813,980
Securities at fair value	1,039,002	1,135,354
Loans	56,025,815	52,188,727
Unrealised (loss) gain on investment	<u>60,309</u>	<u>(966,951)</u>
	<u>84,015,699</u>	<u>80,010,996</u>
9. Income Tax Expense		
Current tax provision	12,310,485	77,681,803
Deferred tax	15,994,890	(49,208,465)
Green Fund levy	<u>1,642,185</u>	<u>1,577,506</u>
	<u>29,947,560</u>	<u>30,050,844</u>

Taxation reconciliation

The following is a reconciliation of the application of the effective tax rate with the income tax expense:

Net income before taxation	<u>125,240,729</u>	<u>124,438,233</u>
Prima facie tax calculated at domestic corporation tax rate of 25%/30%	37,522,219	31,109,558
Effect of difference on tax rate on life insurance companies	(10,147,679)	(3,396,996)
Tax effect of non-taxable income and deductible investment expenses	930,835	760,776
Green Fund levy	<u>1,642,185</u>	<u>1,577,506</u>
Tax expense	<u>29,947,560</u>	<u>30,050,844</u>

With effect from January 1, 2017, a two-tiered tax rate system was introduced whereby the first TT\$1,000,000 of chargeable profit of companies will be subject to tax at a rate of 25% and any excess of chargeable profit will be subject to tax at a rate of 30%. Prior to this date, a flat 25% corporation tax rate applied.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2017

10. Deferred Taxation

10.1 The net deferred tax liability is attributable to the following items:

	<u>Opening Balance</u>	<u>Recognised in OCI</u>	<u>Recognised in Profit or Loss</u>	<u>Total</u>
	\$	\$	\$	\$
Available for sale securities	(601,898)	902,191	-	300,293
Non-Statutory Fund Assets	<u>4,467,657</u>	-	<u>15,994,890</u>	<u>20,462,547</u>
	<u>3,865,759</u>	<u>902,191</u>	<u>15,994,890</u>	<u>20,762,840</u>
			<u>2017</u>	<u>2016</u>
			\$	\$

10.2 The movement in the deferred tax account comprised:

Balance at beginning of year	3,865,759	53,750,104
Available-for-sale securities fair value re-measurement	902,191	(675,880)
Current year's deferred tax (credit) charge	<u>15,994,890</u>	<u>(49,208,465)</u>
Balance at end of year	<u>20,762,840</u>	<u>3,865,759</u>

11. Financial Risk Management

Introduction and overview

ScotiaLife has adopted risk management policies and has set appropriate limits and controls to manage and mitigate against financial risk. ScotiaLife has exposure to the following risks arising from its use of financial instruments and from foreign currency transactions.

- Credit risk
- Market risk
- Liquidity risk
- Operational risk.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2017

11. Financial Risk Management (continued)

Credit risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to ScotiaLife. ScotiaLife's exposure to credit risk resides in its investment in loans purchased from Scotiabank, investment securities available for sales and investment securities held to maturity.

Credit risk is managed through a number of strategies, policies and limits that are approved by the Board of Directors and include the following processes:

- A centralised credit review system that is independent of the customer relationship function;
- Senior management which considers all major risk exposures; and
- An independent review by the Internal Audit Department.

Relationship managers develop and structure individual proposals at branches and commercial centres. A full financial review is performed for each customer at least annually, so that Scotiabank remains fully aware of customers' risk profiles. The Credit Risk Management department analyses and adjudicates on commercial and corporate credits over a certain size and exceptions to established credit policies. In assessing credit proposals, Scotiabank is particularly sensitive to the risks posed to credit quality by environmental exposures.

Retail credits are normally authorised by Scotiabank within established criteria using a credit scoring system. Scotiabank's Credit Risk Management department adjudicates on those retail credits that do not conform to the established criteria. The retail portfolios are reviewed regularly for early signs of possible difficulties.

Market Risk

Market risk refers to the risk of loss resulting from changes in market prices such as interest rates, foreign exchange market prices and other price risks. ScotiaLife invests in financial instruments in the ordinary course of business whilst managing and controlling these exposures within acceptable parameters.

ScotiaLife has more than 80% of its investments denominated in Trinidad and Tobago currency thus hedging against exchange rate fluctuations; also it maintains a mix of fixed rate bonds and short-term deposits that allows it to mitigate the effects of interest rate fluctuations.

All market limits are reviewed at least annually. The key sources of ScotiaLife's market risk are as follows:

- Currency risk
- Interest rate risk

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2017

11. Financial Risk Management (continued)

Market Risk (continued)

Currency risk

ScotiaLife has no significant foreign exchange exposure with the majority of ScotiaLife's assets being denominated in the local currency. Foreign currency transactions have not required the use of interest rate swaps and foreign currency options and other derivative instruments which all carry inherent risks.

Concentration of assets and liabilities

ScotiaLife has the following currency denominated positions:

	2017			
	TT	US	Other	Total
	\$	\$	\$	\$
Assets				
Cash	162,897,695	3,065,933	35,420	165,999,048
Investments securities:				
Fair value through profit or loss				
- Equities	20,981,111	-	-	20,981,111
Held-to-maturity				
- Bonds	43,604,182	1,962,296	-	45,566,478
Available-for-sale				
- Government and state enterprises debt securities	871,386,738	4,614,348	-	876,001,086
- Mutual Funds	5,089,215	5,832,859	-	10,922,074
Other assets	23,321,174	-	-	23,321,174
Loans	859,187,498	-	-	859,187,498
Total assets	1,986,467,613	15,475,436	35,420	2,001,978,469
Liabilities				
Other liabilities	8,276,745	-	-	8,276,745
Policyholders' liabilities	1,319,581,999	13,040,691	-	1,332,622,690
Total liabilities	1,327,858,744	13,040,691	-	1,340,899,435
Net financial position	660,142,771	936,263	-	661,079,034

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2017

11. Financial Risk Management (continued)

Market Risk (continued)

Currency risk (continued)

Concentration of Assets and Liabilities

	2016			
	TT \$	US \$	Other \$	Total \$
Assets				
Cash	56,572,191	5,959,412	33,968	62,565,571
Investments securities:				
Fair value through profit or loss				
- Equities	20,416,145	-	-	20,416,145
Held-to-maturity				
- Bonds	86,749,919	1,955,540	-	88,705,459
Available-for-sale				
- Government and state enterprises debt securities	801,682,010	795,844	-	802,477,854
- Mutual Funds	5,032,128	5,763,374	-	10,795,502
Other assets	30,075,654	-	-	30,075,654
Loans	833,226,045	-	-	833,226,045
Total assets	1,833,754,092	14,474,170	33,968	1,848,262,230
Liabilities				
Other liabilities	8,495,750	1,957,390	33,968	10,487,108
Policyholders' liabilities	1,214,668,842	12,488,639	-	1,227,157,481
Total liabilities	1,223,164,592	14,446,029	33,968	1,237,644,589
Net financial position	606,790,601	3,759,104	67,936	610,617,641

Interest rate risk

ScotiaLife is exposed to interest rate risk where, due to changes in market interest rates, fluctuations arise in the value and the future cash flows of ScotiaLife's financial instruments.

Interest rate risk is managed through the matching of financial liabilities with investment activities, regular review of structural gaps and monitoring market conditions. The interest rates on a material amount of ScotiaLife's liabilities can be repriced as and when required.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2017

11. Financial Risk Management (continued)

Market Risk (continued)

Interest rate risk (continued)

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of change in market interest rates.

Interest sensitivity of assets, liabilities and equity

The following table summarises carrying amounts of assets, liabilities and equity in order to arrive at ScotiaLife's interest rate gap on the earlier of contractual repricing or maturity dates:

	2017					Total \$
	Due on demand \$	Due in one year \$	Due in two to five years \$	Over five years \$	Non- interest bearing \$	
Assets						
Cash	165,999,048	-	-	-	-	165,999,048
Investments:						
Fair value through profit or loss						
- Equities	-	-	-	-	20,981,111	20,981,111
Held-to-maturity						
- Bonds	-	202,045	23,364,433	22,000,000	-	45,566,478
Available-for-sale						
- Government and state enterprises debt securities	-	482,402,500	137,638,519	255,960,067	-	876,001,086
- Mutual Funds	10,922,074	-	-	-	-	10,922,074
Other assets	-	-	-	-	23,321,174	23,321,174
Loans	-	3,045,484	51,271,091	804,870,923	-	859,187,498
	<u>176,921,122</u>	<u>485,650,029</u>	<u>212,274,043</u>	<u>1,082,830,990</u>	<u>44,302,285</u>	<u>2,001,978,469</u>
Liabilities						
Other liabilities	-	-	-	-	8,276,745	8,276,745
Policyholders' liabilities	77,699,099	44,889,212	206,330,644	1,003,703,735	-	1,332,622,690
Equity	-	-	-	-	638,300,605	638,300,605
	<u>77,699,099</u>	<u>44,889,212</u>	<u>206,330,644</u>	<u>1,003,703,735</u>	<u>646,577,350</u>	<u>1,979,200,040</u>
Net Gap	<u>99,222,023</u>	<u>440,760,817</u>	<u>5,943,399</u>	<u>79,127,255</u>		
Cumulative Gap	<u>99,222,023</u>	<u>539,982,840</u>	<u>545,926,239</u>	<u>625,053,494</u>		

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2017

11. Financial Risk Management (continued)

Market Risk (continued)

Interest rate risk (continued)

Interest sensitivity of assets, liabilities and equity

	2016					Total \$
	Due on demand \$	Due in one year \$	Due in two to five years \$	Over five years \$	Non- interest bearing \$	
Assets						
Cash	62,565,571	-	-	-	-	62,565,571
Investments:						
Fair value through profit or loss						
- Equities	-	-	-	-	20,416,145	20,416,145
Held-to-maturity						
- Bonds	-	42,944,219	23,761,240	22,000,000	-	88,705,459
Available-for-sale						
- Government and state enterprises debt securities						
- Mutual Funds	10,795,502	441,443,521	139,929,542	221,104,791	-	802,477,854
Other assets	-	-	-	-	30,075,654	30,075,654
Loans	-	2,789,802	63,482,106	766,954,137	-	833,226,045
	<u>73,361,073</u>	<u>487,177,542</u>	<u>227,172,888</u>	<u>1,010,058,928</u>	<u>50,491,799</u>	<u>1,848,262,230</u>
Liabilities						
Other liabilities	-	-	-	-	10,487,108	10,487,108
Policyholders' liabilities	73,863,000	36,983,450	151,760,165	964,550,866	-	1,227,157,481
Equity	-	-	-	-	537,914,850	537,914,850
	<u>73,863,000</u>	<u>36,983,450</u>	<u>151,760,165</u>	<u>964,550,866</u>	<u>548,401,958</u>	<u>1,775,559,439</u>
Net Gap	<u>(501,927)</u>	<u>450,194,092</u>	<u>75,412,723</u>	<u>45,508,062</u>		
Cumulative Gap	<u>(501,927)</u>	<u>449,692,165</u>	<u>525,104,888</u>	<u>570,612,950</u>		

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2017

11. Financial Risk Management (continued)

Liquidity Risk

Liquidity risk is the risk that ScotiaLife is unable to meet its financial obligations in a timely manner. ScotiaLife is exposed to daily calls on its cash resources from its policyholders. The liquidity risk management process ensures that ScotiaLife is able to honour all of its financial commitments as they fall due. ScotiaLife's liquidity strategy includes measuring and forecasting cash commitments and ensuring sufficient cash and marketable instruments such as treasury bills and government securities are available to meet short-term requirements.

The table below shows the maturity analysis of financial instruments using discounted cash flows of financial assets and financial liabilities based on their contractual maturity dates as at October 31.

	2017				Total
	Due on demand	Due in one year	Due in two to five years	Over five years	
	\$	\$	\$	\$	\$
Assets					
Cash	165,999,048	-	-	-	165,999,048
Investments:					
Fair value through profit or loss					
- Equities	20,981,111	-	-	-	20,981,111
Held-to-maturity					
- Bonds	-	202,045	23,364,433	22,000,000	45,566,478
Available-for-sale					
- Government and state enterprises debt securities	-	482,402,500	137,638,519	255,960,067	876,001,086
- Mutual Funds	10,922,074	-	-	-	10,922,074
Other Assets	-	-	-	23,321,174	23,321,174
Loans	-	3,045,484	51,271,091	804,870,923	859,187,498
	<u>197,902,233</u>	<u>485,650,029</u>	<u>212,274,043</u>	<u>1,106,152,164</u>	<u>2,001,978,469</u>
Liabilities					
Policyholders' Liabilities	77,699,099	44,889,212	206,330,644	1,003,703,735	1,332,622,690
Accrued charges and other payables	-	8,276,745	-	-	8,276,745
	<u>77,699,099</u>	<u>53,165,957</u>	<u>206,330,644</u>	<u>1,003,703,735</u>	<u>1,340,899,435</u>
Net Gap	<u>120,203,134</u>	<u>432,484,072</u>	<u>5,943,399</u>	<u>102,448,429</u>	<u>661,079,034</u>
Cumulative Gap	<u>120,203,134</u>	<u>552,687,206</u>	<u>558,630,605</u>	<u>661,079,034</u>	

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2017

11. Financial Risk Management (continued)

Liquidity Risk (continued)

The table below shows the maturity analysis of financial instruments using discounted cash flows of financial assets and financial liabilities based on their contractual maturity dates as at October 31.

	2016				Total
	Due on demand	Due in one year	Due in two to five years	Over five years	
	\$	\$	\$	\$	\$
Assets					
Cash	62,565,571	-	-	-	62,565,571
Investments:					
Fair value through profit or loss					
- Equities	20,416,145	-	-	-	20,416,145
Held-to-maturity					
- Bonds	-	42,944,219	23,761,240	22,000,000	88,705,459
Available-for-sale					
- Government and state enterprises debt securities	-	441,443,521	139,929,542	221,104,791	802,477,854
- Mutual Funds	10,795,502	-	-	-	10,795,502
Other Assets	-	-	-	30,075,654	30,075,654
Loans	-	2,789,802	63,482,106	766,954,137	833,226,045
	<u>93,777,218</u>	<u>487,177,542</u>	<u>227,172,888</u>	<u>1,040,134,582</u>	<u>1,848,262,230</u>
Liabilities					
Policyholders' liabilities	73,863,000	36,983,450	151,760,165	964,550,866	1,227,157,481
Accrued charges and other payables	-	10,487,108	-	-	10,487,108
	<u>73,863,000</u>	<u>47,470,558</u>	<u>151,760,165</u>	<u>964,550,866</u>	<u>1,237,644,589</u>
Net Gap	<u>19,914,218</u>	<u>439,706,984</u>	<u>75,412,723</u>	<u>75,583,716</u>	<u>610,617,641</u>
Cumulative Gap	<u>19,914,218</u>	<u>459,621,202</u>	<u>535,033,925</u>	<u>610,617,641</u>	

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2017

11. Financial Risk Management (continued)

Liquidity risk (continued)

The table below summarises the maturity profile of financial liabilities based on their undiscounted cash flows at October 31. The balances include both principal and interest cash flows over the remaining term to maturity and therefore would differ from the carrying amounts in the statement of financial position.

	2017					
	Due on demand	Due in one year	Due in two to five years	Over five years	Total contractual cash flows	Total carrying value
	\$	\$	\$	\$	\$	\$
Liabilities and Equity Policyholders' liabilities	77,699,099	46,026,791	228,186,884	1,816,981,777	2,168,894,545	1,332,622,690

	2016					
	Due on demand	Due in one year	Due in two to five years	Over five years	Total contractual cash flows	Total carrying value
	\$	\$	\$	\$	\$	\$
Liabilities and Equity Policyholders' liabilities	73,129,588	30,855,080	162,761,728	1,722,789,966	1,989,536,362	1,227,157,481

Capital management

ScotiaLife's capital management policy seeks to achieve several objectives:

- Compliance with capital requirements as set by the Insurance Act and Central Bank of Trinidad and Tobago
- Ensure ScotiaLife's ability to continue as a going concern
- To maintain a strong capital base to support the development of its business.

11. Financial Risk Management (continued)

Capital management (continued)

ScotiaLife employs techniques derived from the guidelines developed by the Central Bank of Trinidad and Tobago. The required information is filed with the regulatory authority on an annual basis.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with ScotiaLife's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of ScotiaLife's operations.

The objective is to manage operational risk so as to balance the avoidance of financial losses and damage to ScotiaLife's reputation with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of overall Scotiabank Group's standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective

Compliance is supported by a programme of periodic review undertaken by the Bank's Internal Audit department. The results of such audits are discussed with the ScotiaLife Management Team with summaries submitted to ScotiaLife's Audit Committee and senior management of the Scotiabank Group.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2017

12. Management of Insurance Risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to provisioning, the principal risk ScotiaLife faces under their insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the policyholder benefits and other liabilities. This may occur in the event the frequency or severity of claims and benefits are greater than that estimated. Insurance events are random and therefore the actual number and amount of claims and benefits will vary from year to year from the levels established.

ScotiaLife pledges assets to the Statutory Fund at the Central Bank of Trinidad & Tobago. This strategy is used to mitigate the risk associated with the possibility of insufficient funds to cover policyholder benefits. ScotiaLife pledges assets in excess of its policyholders' liabilities to ensure coverage at any given point in time.

To limit its exposure of potential loss on an insurance policy, reinsurance contracts are utilised as a strategy to mitigate risks.

	<u>2017</u>	<u>2016</u>
	\$	\$
Statutory fund assets	1,724,279,001	1,542,483,910
Policyholders' liabilities	<u>(1,332,622,690)</u>	<u>(1,227,157,481)</u>
Surplus	<u>391,656,311</u>	<u>315,326,429</u>

13. Fair Value of Financial Instruments

The fair values of on and off-balance sheet financial instruments are based on the valuation methods and assumptions set out in the significant accounting policies Note 2(h).

Fair value represents the amount at which a financial instrument could be exchanged in an arm's length transaction between willing parties under no compulsion to act and is best evidenced by a quoted market price. If no quoted market prices are available, the fair values presented are estimates derived using present value or other valuation techniques and may not be indicative of net realisable value.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2017

13. Fair Value of Financial Instruments (continued)

ScotiaLife is consistent with Scotiabank Group's methodology of measuring fair values using the following fair value hierarchy which reflects the significance of the inputs used in making the measurements:

- Level 1 - Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2 - Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3 - Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique included inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Due to the judgement used in applying a wide range of acceptable valuation techniques and estimations in the calculation of fair value amounts, fair values are not necessarily comparable among financial institutions. The calculation of estimated fair values is based upon market conditions at a specific point in time and may not be reflective of future fair values.

The table below analyses financial instruments measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorised:

	2017			
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Assets				
Equities	20,981,111	-	-	20,981,111
Securities available-for-sale				
- Government and state enterprises debt securities		876,001,086	-	876,001,086
Mutual funds	10,922,074			10,922,074
	31,903,185	876,001,086	-	907,904,271
Liabilities				
Provision for future policy benefits	-	(1,317,100,032)	-	(1,317,100,032)
	31,903,185	(441,098,946)	-	(409,195,761)

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2017

13. Fair Value of Financial Instruments (continued)

	2016			Total
	Level 1	Level 2	Level 3	
	\$	\$	\$	\$
Assets				
Equities	20,416,145	-	-	20,416,145
Securities available-for-sale				
- Government and state enterprises debt securities	-	802,477,854	-	802,477,854
Mutual funds	-	10,795,502	-	10,795,502
	<u>20,416,145</u>	<u>813,273,356</u>	<u>-</u>	<u>833,689,501</u>
Liabilities				
Provision for future policy benefits	-	(1,213,412,129)	-	(1,213,412,129)
	<u>20,416,145</u>	<u>(400,138,773)</u>	<u>-</u>	<u>(379,722,628)</u>

The table below summarises the carrying amounts and fair values of those financial assets and liabilities that are not presented on ScotiaLife's statement of financial position at fair value.

	Carrying Value		Fair Value	
	2017	2016	2017	2016
	\$	\$	\$	\$
Financial Assets				
Cash	165,999,048	62,565,571	165,999,048	62,565,571
Loans	859,187,498	833,226,045	859,187,498	833,226,045
Securities held-to-maturity				
- Government securities	45,566,478	88,705,459	54,678,708	99,023,938
	<u>1,070,753,024</u>	<u>984,497,075</u>	<u>1,079,865,254</u>	<u>994,815,554</u>
Financial Liabilities				
Accrued charges and other payables	8,276,745	10,487,108	8,276,745	10,487,108
Other policyholders' liabilities	15,522,658	13,745,352	15,522,658	13,745,352
	<u>23,799,403</u>	<u>24,232,460</u>	<u>23,799,403</u>	<u>24,232,460</u>

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2017

13. Fair Value of Financial Instruments (continued)

The fair values of these financial assets and liabilities have been determined on the following basis:

(a) Cash in hand and due to banks

These amounts are short-term in nature and are taken to be equivalent to fair value.

(b) Net loans to customers

Loans and advances to customers are granted at market rates and their values are not adversely affected by unusual terms. The estimated future cash flows are discounted using a discount rate based on market rates for similar type facilities.

(c) Government and state enterprises debt securities

The fair value of these instruments was determined using discounted cash flow analysis. The estimated future cash flows are discounted using a discount rate based on quoted market prices for securities with similar credit, maturity and yield characteristics.

(d) Policyholder Benefits and Other Liabilities

Policyholder benefits and liabilities are based on actuarial projections and assumptions based on a number of factors including but not limited to mortality and morbidity tables, lapse studies, company experience, market trends and interest rate assumptions.

Other liabilities are short-term and are equivalent to fair value.

14. Related Party Transactions

Parties are considered related if one party has the ability to control or exert significant influence over the other's decision-making process. A number of banking transactions have been entered into with related parties in the normal course of business. These transactions were conducted at market rates, on commercial terms and conditions.

Related party transactions include but are not limited to the following:

- Data processing and information technology support
- Technical and management services
- Operations support
- Transaction processing support
- Delinquent account collection services.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2017

14. Related Party Transactions (continued)

	<u>2017</u>	<u>2016</u>
	\$	\$
Outstanding balances		
ASSETS		
Bank of Nova Scotia and its related entities	170,126,947	66,177,593
Reinsurance asset	<u>13,853,811</u>	<u>14,709,992</u>
LIABILITIES		
Bank of Nova Scotia and its related entities	<u>1,178,874</u>	<u>1,714,357</u>
INCOME		
Bank of Nova Scotia and its related entities	1,701,149	2,051,282
Reinsurance – claims recoveries	<u>5,977,571</u>	<u>4,186,977</u>
EXPENSES		
Bank of Nova Scotia and its related entities	17,698,296	16,549,763
Reinsurance	<u>52,645,942</u>	<u>50,868,642</u>

In the normal course of business, ScotiaLife purchases loans from Scotiabank at book value. Loans purchased during the year ended October 31, 2017 totalled \$144,900,154 (2016: \$169,236,434). The loans are with parties unrelated to ScotiaLife and are purchased without recourse.

Key management comprises individuals responsible for planning, directing and controlling the activities of ScotiaLife.

	<u>2017</u>	<u>2016</u>
	\$	\$
Key management compensation		
Short-term benefits	3,414,497	3,154,073
Share based payment	<u>135,117</u>	<u>35,726</u>
	<u>3,549,614</u>	<u>3,189,799</u>

15. Responsibilities of the Appointed Actuary and External Auditors

The Board of Directors pursuant to the Insurance Act appoints the Actuary. The Actuary's responsibility is to carry out an annual valuation of ScotiaLife's policyholders' liabilities in accordance with accepted actuarial practice and regulatory requirements and report thereon to the policyholders and shareholders. In performing the valuation, the Actuary makes assumptions as to the future rates of interest, asset defaults, mortality, morbidity, claims experience, policy termination, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of ScotiaLife and the insurance policies in force.

SCOTIALIFE TRINIDAD AND TOBAGO LIMITED

Notes to the Financial Statements

October 31, 2017

15. Responsibilities of the Appointed Actuary and External Auditors (continued)

The shareholders, pursuant to the Companies Act, appoint the external auditors. Their responsibility is to conduct an independent and objective audit of the financial statements in accordance with International Standards on Auditing and report thereon to the shareholders. In carrying out their audit, the auditors also make use of the work of the appointed Actuary and his report on the policyholders' liabilities.

16. Subsequent Events

There are no events occurring after the statement of financial position date and before the date of approval of these financial statements by the Board of Directors that require adjustment to or disclosure in these financial statements.

APPENDIX I – PROPOSED NEW SAGICOR AUDIT COMMITTEE MANDATE

CHARTER OF THE AUDIT COMMITTEE OF SAGICOR FINANCIAL COMPANY LTD.

Section 1 PURPOSE

The audit committee (the “**Audit Committee**”) is a committee of the board of directors (the “**Board**”) of Sagicor Financial Company Ltd. (the “**Corporation**”). The primary function of the Audit Committee is to assist the directors of the Corporation in fulfilling their applicable roles by:

- (a) recommending to the Board the appointment and compensation of the Corporation’s external auditor;
- (b) overseeing the work of the external auditor, including the resolution of disagreements between the external auditor and management;
- (c) pre-approving all non-audit services (or delegating such pre-approval if and to the extent permitted by law) to be provided to the Corporation by the Corporation’s external auditor;
- (d) satisfying themselves that adequate procedures are in place for the review of the Corporation’s public disclosure of financial information, other than those described in (g) below, extracted or derived from its financial statements, including periodically assessing the adequacy of such procedures;
- (e) establishing procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal controls or auditing matters, and for the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters;
- (f) reviewing and approving any proposed hiring of current or former partner or employee of the current and former auditor of the Corporation; and
- (g) reviewing and approving the annual and interim financial statements, related Management Discussion and Analysis (“**MD&A**”) and other financial information provided by the Corporation to any governmental body or the public.

The Audit Committee should primarily fulfill these roles by carrying out the activities enumerated in this Charter. However, it is not the duty of the Audit Committee to prepare financial statements, to plan or conduct internal or external audits, to determine that the financial statements are complete and accurate and are in accordance with Canadian generally accepted accounting principles, to conduct investigations, or to assure compliance with laws and regulations or the Corporation’s internal policies, procedures and controls, as these are the responsibility of management, and in certain cases, the external auditor.

Section 2 LIMITATIONS ON AUDIT COMMITTEE’S DUTIES

In contributing to the Audit Committee’s discharge of its duties under this Charter, each member of the Audit Committee shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in this Charter is intended to be, or may be construed as, imposing on any members of the Audit Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which the directors are subject.

Members of the Audit Committee are entitled to rely, absent actual knowledge to the contrary, on (i) the integrity of the persons and organizations from whom they receive information, (ii) the accuracy and completeness of the information provided, (iii) representations made by management as to the non-audit

services provided to the Corporation by the external auditor, (iv) financial statements of the Corporation represented to them by a member of management or in a written report of the external auditors to present fairly the financial position of the Corporation in accordance with generally accepted accounting principles, and (v) any report of a lawyer, accountant, engineer, appraiser or other person whose profession lends credibility to a statement made by any such person.

Section 3 COMPOSITION AND MEETINGS

The Audit Committee should be comprised of not less than three directors as determined by the Board, all of whom shall be independent within the meaning of NI 52-110 – *Audit Committees* (“**52-110**”) of the Canadian Securities Administrators (or exempt therefrom), and free of any relationship that, in the opinion of the Board, would interfere with the exercise of his or her independent judgment as a member of the Audit Committee. All members of the Audit Committee should have (or should gain within a reasonable period of time after appointment) a working familiarity with basic finance and accounting practices. At least one member of the Audit Committee should have accounting or related financial management expertise and be considered a financial expert. Each member should be “financially literate” within the meaning of 52-110. The Audit Committee members may enhance their familiarity with finance and accounting by participating in educational programs conducted by the Corporation or an outside consultant.

The members of the Audit Committee shall be elected by the Board on an annual basis or until their successors shall be duly appointed. Unless a Chair of the Audit Committee (the “**Chair**”) is elected by the full Board, the members of the Audit Committee may designate a Chair by majority vote of the full Audit Committee membership.

In addition, the Audit Committee members should meet all of the requirements for members of audit committees as defined from time to time under applicable legislation and the rules of any stock exchange on which the Corporation’s securities are listed or traded.

The Audit Committee should meet at least four times annually, or more frequently as circumstances require. The Audit Committee should meet within forty-five (45) days following the end of the first three financial quarters to review and discuss the unaudited financial results for the preceding quarter and the related MD&A, and should meet within 90 days following the end of the fiscal year end to review and discuss the audited financial results for the preceding quarter and year and the related MD&A.

The Audit Committee may ask members of management or others to attend meetings and provide pertinent information as necessary. For purposes of performing their duties, members of the Audit Committee shall have full access to all corporate information and any other information deemed appropriate by them, and shall be permitted to discuss such information and any other matters relating to the financial position of the Corporation with senior employees, officers and the external auditor of the Corporation, and others as they consider appropriate.

For greater certainty, management is indirectly accountable to the Audit Committee and is responsible for the timeliness and integrity of the financial reporting and information presented to the Board.

In order to foster open communication, the Audit Committee or its Chair should meet at least annually with management and the external auditor in separate sessions to discuss any matters that the Audit Committee or each of these groups believes should be discussed privately. In addition, the Audit Committee or its Chair should meet with management quarterly in connection with the Corporation’s interim financial statements.

A quorum for the transaction of business at any meeting of the Audit Committee shall be a majority of the number of members of the Audit Committee or such greater number as the Audit Committee shall by resolution determine, provided that a majority thereof are resident Canadians.

Meetings of the Audit Committee shall be held from time to time and at such place as any member of the Audit Committee shall determine upon 48 hours' notice to each of its members. The notice period may be waived by all members of the Audit Committee. Each of the Chair of the Board, the external auditor, the Chief Executive Officer, the Chief Financial Officer or the Secretary shall be entitled to request that any member of the Audit Committee call a meeting.

This Charter is subject in all respects to the Corporation's articles of incorporation and by-laws from time to time.

Section 4 ROLE

As part of its function in assisting the Board in fulfilling its oversight role (and without limiting the generality of the Audit Committee's role), the Audit Committee should:

- (1) Determine any desired agenda items;
- (2) Review and recommend to the Board changes to this Charter, as considered appropriate from time to time;
- (3) Review the public disclosure regarding the Audit Committee required by 52-110;
- (4) Review and seek to ensure that disclosure controls and procedures and internal control over financial reporting frameworks are operational and functional;
- (5) Summarize in the Corporation's annual information form the Audit Committee's composition and activities, as required; and
- (6) Submit the minutes of all meetings of the Audit Committee to the Board upon request.

Documents / Reports Review

- (7) Review and recommend to the Board for approval the Corporation's annual and interim financial statements, including any certification, report, opinion, undertaking or review rendered by the external auditor and the related MD&A, as well as such other financial information of the Corporation provided to the public or any governmental body as the Audit Committee or the Board require.
- (8) Review other financial information provided to any governmental body or the public as they see fit.
- (9) Review, recommend and approve any of the Corporation's press releases that contain financial information.
- (10) Seek to satisfy itself and ensure that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements and related MD&A and periodically assess the adequacy of those procedures.

External Auditor

- (11) Recommend to the Board the selection of the external auditor, considering independence and effectiveness, and review the fees and other compensation to be paid to the external auditor.

- (12) Review and seek to ensure that all financial information provided to the public or any governmental body, as required, provides for the fair presentation of the Corporation's financial condition, financial performance and cash flow.
- (13) Instruct the external auditor that its ultimate client is not management and that it is required to report directly to the Audit Committee, and not management.
- (14) Monitor the relationship between management and the external auditor including reviewing any management letters or other reports of the external auditor and discussing any material differences of opinion between management and the external auditor.
- (15) Review and discuss, on an annual basis, with the external auditor all significant relationships it has with the Corporation to determine the external auditor's independence.
- (16) Pre-approve all non-audit services (or delegate such pre-approval, as the Audit Committee may determine and as permitted by applicable Canadian securities laws) to be provided by the external auditor.
- (17) Review the performance of the external auditor and any proposed discharge of the external auditor when circumstances warrant.
- (18) Periodically consult with the external auditor out of the presence of management about significant risks or exposures, internal controls and other steps that management has taken to control such risks, and the fullness and accuracy of the financial statements, including the adequacy of internal controls to expose any payments, transactions or procedures that might be deemed illegal or otherwise improper.
- (19) Communicate directly with the external auditor and arrange for the external auditor to be available to the Audit Committee and the full Board as needed.
- (20) Review and approve any proposed hiring by the Corporation of current or former partners or employees of the current (and any former) external auditor of the Corporation.

Audit Process

- (21) Review the scope, plan and results of the external auditor's audit and reviews, including the auditor's engagement letter, the post-audit management letter, if any, and the form of the audit report. The Audit Committee may authorize the external auditor to perform supplemental reviews, audits or other work as deemed desirable.
- (22) Following completion of the annual audit and quarterly reviews, review separately with each of management and the external auditor any significant changes to planned procedures, any difficulties encountered during the course of the audit and, if applicable, reviews, including any restrictions on the scope of work or access to required information and the cooperation that the external auditor received during the course of the audit and, if applicable, reviews.
- (23) Review any significant disagreements among management and the external auditor in connection with the preparation of the financial statements.
- (24) Where there are significant unsettled issues between management and the external auditor that do not affect the audited financial statements, the Audit Committee shall seek to ensure that there is an agreed course of action leading to the resolution of such matters.

Financial Reporting Processes

- (25) Review the integrity of the financial reporting processes, both internal and external, in consultation with the external auditor as they see fit.
- (26) Consider the external auditor's judgments about the quality, transparency and appropriateness, not just the acceptability, of the Corporation's accounting principles and financial disclosure practices, as applied in its financial reporting, including the degree of aggressiveness or conservatism of its accounting principles and underlying estimates, and whether those principles are common practices or are minority practices.
- (27) Review all material balance sheet issues, material contingent obligations (including those associated with material acquisitions or dispositions) and material related party transactions.
- (28) Review with management and the external auditor the Corporation's accounting policies and any changes that are proposed to be made thereto, including all critical accounting policies and practices used, any alternative treatments of financial information that have been discussed with management, the ramification of their use and the external auditor's preferred treatment and any other material communications with management with respect thereto.
- (29) Review the disclosure and impact of contingencies and the reasonableness of the provisions, reserves and estimates that may have a material impact on financial reporting.
- (30) If considered appropriate, establish separate systems of reporting to the Audit Committee by each of management and the external auditor.
- (31) Periodically consider the need for an internal audit function, if not present.

Risk Management

- (32) Review program of risk assessment and steps taken to address significant risks or exposures of all types, including insurance coverage and tax compliance.

General

- (33) With prior Board approval, the Audit Committee may at its discretion retain independent counsel, accountants and other professionals to assist it in the conduct of its activities and to set and pay (as an expense of the Corporation) the compensation for any such advisors.
- (34) Respond to requests by the Board with respect to the functions and activities that the Board requests the Audit Committee to perform.
- (35) Periodically review this Charter and, if the Audit Committee deems appropriate, recommend to the Board changes to this Charter.
- (36) Review the public disclosure regarding the Audit Committee required from time to time by applicable Canadian securities laws, including:
 - (i) the Charter of the Audit Committee;
 - (ii) the composition of the Audit Committee;
 - (iii) the relevant education and experience of each member of the Audit Committee;
 - (iv) the external auditor services and fees; and

- (v) such other matters as the Corporation is required to disclose concerning the Audit Committee.
- (37) Review in advance, and approve, the hiring and appointment of the Corporation's senior financial executives by the Corporation, if any.
- (38) Perform any other activities as the Audit Committee deems necessary or appropriate including ensuring all regulatory documents are compiled to meet Committee reporting obligations under 52-110.

Section 5 AUDIT COMMITTEE COMPLAINT PROCEDURES

Submitting a Complaint

- (39) Anyone may submit a complaint regarding conduct by the Corporation or its employees or agents (including its independent auditors) reasonably believed to involve questionable accounting, internal accounting controls or auditing matters. The Chair should oversee treatment of such complaints.

Procedures

- (40) The Chair will be responsible for the receipt and administration of employee complaints.
- (41) In order to preserve anonymity when submitting a complaint regarding questionable accounting or auditing matters, the employee may submit a complaint confidentially.

Investigation

- (42) The Chair should review and investigate the complaint. Corrective action will be taken when and as warranted in the Chair's discretion.

Confidentiality

- (43) The identity of the complainant and the details of the investigation should be kept confidential throughout the investigatory process.

Records and Report

- (44) The Chair should maintain a log of complaints, tracking their receipt, investigation, findings and resolution, and should prepare a summary report for the Audit Committee.

The Audit Committee is a committee of the Board and is not and shall not be deemed to be an agent of the Corporation's securityholders for any purpose whatsoever. The Board may, from time to time, permit departures from the terms hereof, either prospectively or retrospectively, and no provision contained herein is intended to give rise to civil liability to securityholders of the Corporation or other liability whatsoever.

APPENDIX J – PROPOSED NEW SAGICOR BOARD MANDATE

SAGICOR FINANCIAL COMPANY LTD.

BOARD MANDATE

1. Purpose

The Board of Directors (the “**Board**”) has the duty to supervise the management of the business and affairs of Sagicor Financial Company Ltd. (the “**Company**”). The Board, directly and through its committees and the chair of the Board (the “**Chair**”), shall provide direction to senior management, generally through the President and Chief Executive Officer, to pursue the best interests of the Company.

2. Composition

General

The composition and organization of the Board, including the number, qualifications and remuneration of directors, the number of Board meetings, quorum requirements, meeting procedures and notices of meetings are governed by the *Companies Act 1981 of Bermuda*, applicable Canadian securities laws, applicable stock exchange rules (including the rules of the Toronto Stock Exchange) and the articles of the Company, in each case as they may be amended and/or replaced from time to time, subject to any exemptions or relief that may be granted from such requirements.

Each director must have an understanding of the Company’s principal operational and financial objectives, plans and strategies, and financial position and performance. Directors must have sufficient time to carry out their duties and not assume responsibilities that would materially interfere with, or be incompatible with, Board membership. Directors who experience a significant change in their personal circumstances, including a change in their principal occupation, are expected to advise the chair of the Corporate Governance and Ethics Committee.

Chair of the Board

If the Chair of the Board is not independent, then the independent directors shall select from among their number a director who will act as “Lead Director” and who will assume responsibility for enhancing the effectiveness and independence of the Board.

3. Duties and Roles

The Board shall have the specific duties and roles outlined below.

Strategic Planning

(a) Strategic Plans

The Board shall adopt a strategic plan for the Company. At least annually, the Board shall review and, if advisable, approve the Company’s strategic planning process and the Company’s annual strategic plan. In discharging this role, the Board shall review the plan in light of management’s

assessment of emerging trends, the competitive environment, the opportunities for the business of the Company, risk issues, and significant business practices and products.

(b) Business and Capital Plans

At least annually, the Board shall review and, if advisable, approve the Company's annual business and capital plans as well as policies and processes generated by management relating to the authorization of major investments and significant allocation of capital.

(c) Monitoring

At least annually, the Board shall review management's implementation of the Company's strategic, business and capital plans. The Board shall review and, if advisable, approve any material amendments to, or variances from, these plans.

Risk Management

(a) General

At least annually, the Board shall review reports provided by management of principal risks associated with the Company's business and operations, review the implementation by management of appropriate systems to seek to manage these risks, and review reports by management relating to the operation of, and any material deficiencies in, these systems.

(b) Verification of Controls

The Board shall seek to verify that internal, financial, non-financial and business control and management information systems have been established by management.

Human Resource Management

(a) General

At least annually, the Board shall review a report of the Corporate Governance and Ethics Committee (with respect to the Company's President and Chief Executive Officer) and a report of the Compensation and Human Resources Committee (with respect to the Company's other executive management) concerning the Company's approach to human resource management and executive compensation.

(b) Succession Review

At least annually, the Board shall review the succession plans of the Company for the Chair, the Lead Director, the President and Chief Executive Officer and other executive officers, including the appointment, training and monitoring of such persons.

(c) Integrity of Senior Management

The Board shall, to the extent feasible, seek to satisfy itself as to the integrity of the President and Chief Executive Officer and other executive officers of the Company and that the President

and Chief Executive Officer and other senior officers strive to create a culture of integrity throughout the Company.

Corporate Governance

(a) General

At least annually, the Board shall review a report of the Corporate Governance and Ethics Committee concerning the Company's approach to corporate governance.

(b) Director Independence

At least annually, the Board shall review a report of the Corporate Governance and Ethics Committee that evaluates the director independence standards established by the Board and the Board's ability to act independently from management in fulfilling its duties.

(c) Ethics Reporting

The Board has adopted a written Code of Business Conduct and Ethics (the "**Code**") applicable to directors, officers and employees of the Company. At least annually, the Board shall review the report of the Corporate Governance and Ethics Committee relating to compliance with, or material deficiencies from, the Code and approve changes it considers appropriate. The Board shall review reports from the Corporate Governance and Ethics Committee concerning investigations and any resolutions of complaints received under the Code.

(d) Board of Directors Mandate Review

At least annually, the Board shall review and assess the adequacy of this Mandate to seek to ensure compliance with any rules of regulations promulgated by any regulatory body and approve any modifications to this Mandate as considered advisable.

Communications

(a) General

The Board has adopted a Disclosure Policy for the Company. At least annually, the Board, in conjunction with the President and Chief Executive Officer, shall review the Company's overall Disclosure Policy, including measures for receiving feedback from the Company's stakeholders, and management's compliance with such policy. The Board shall, if advisable, approve material changes to the Company's Disclosure Policy.

(b) Shareholders

The Company endeavors to keep its shareholders informed of its progress through an annual report, annual information form, quarterly interim reports, periodic press releases and other continuous disclosure documentation, as applicable. Directors and management meet with the Company's shareholders at the annual meeting and are available to respond to questions at that time. In addition, the Company shall maintain a website that is regularly updated and provides

investors with relevant information on the Company and an opportunity to communicate with the Company.

4. Committees of the Board

The Board has established the following committees: the Corporate Governance and Ethics Committee, the Audit Committee the Compensation and Human Resources Committee and the Investment and Risk Management Committee. Subject to applicable law and regulations, the Board may establish other Board committees or merge or dispose of any such Board committee.

Committee Mandates

The Board has approved mandates for each Board committee and shall approve mandates for each new Board committee. At least annually, each committee mandate shall be reviewed by the Corporate Governance and Ethics Committee and any suggested amendments brought to the Board for consideration and approval.

Delegation to Committees

The Board has delegated to the applicable committee those duties and responsibilities set out in each Board committee's mandate.

Consideration of Committee Recommendations

As required by applicable law, by applicable committee Mandate or as the Board may consider advisable, the Board shall consider for approval the specific matters delegated for review to Board committees.

Board/Committee Communication

To facilitate communication between the Board and each Board committee, each committee chair shall provide a report to the Board on material matters considered by the committee at the first Board meeting after the committee's meeting.

5. Meetings

The Board will meet at least once in each quarter, with additional meetings held as deemed advisable. The Chair is primarily responsible for the agenda and for supervising the conduct of the meeting. Any director may propose the inclusion of items on the agenda, request the presence of, or a report by any member of senior management, or at any Board meeting raise subjects that are not on the agenda for that meeting.

Meetings of the Board shall be conducted in accordance with the Company's constating documents.

Secretary and Minutes

The Company's Secretary, his or her designate or any other person the Board requests shall act as secretary of Board meetings. Minutes of Board meetings shall be recorded and maintained by the Secretary and subsequently presented to the Board for approval.

Meetings Without Management

The independent members of the Board shall hold regularly scheduled meetings, or portions of regularly scheduled meetings, at which non-independent directors and members of management are not present. The Lead Director, if applicable, is primarily responsible for the agenda and for supervising the conduct of the meeting.

Directors' Responsibilities

Each director is expected to attend all meetings of the Board and any committee of which he or she is a member. Directors will be expected to have read and considered the materials sent to them in advance of each meeting and to actively participate in the meetings.

Access to Management and Outside Advisors

In discharging the forgoing duties and responsibilities, the Board shall have unrestricted access to management and employees of the Company and to the relevant books, records and systems of the Company as considered appropriate. The Board shall have the authority to retain legal counsel, consultants or other advisors to assist it in fulfilling its responsibilities. The Company shall provide appropriate funding, as determined by the Board, for the services of these advisors.

Service on Other Boards and Audit Committees

Directors may serve on the boards of other public companies so long as these commitments do not materially interfere and are compatible with their ability to fulfill their duties as a member of the Board. Directors must advise the Chair in advance of accepting an invitation to serve on the board of another public corporation.

6. Director development and evaluation

Each new director shall participate in the Company's initial orientation program and each director shall participate in the Company's continuing director development programs. The Corporate Governance and Ethics Committee shall review with each new member: (i) certain information and materials regarding the Company, including the role of the Board and its committees; and (ii) the legal obligations of a director of the Company. At least annually, the Board with the assistance of the Corporate Governance and Ethics Committee, shall review the Company's initial orientation program and continuing director development programs.

7. No Rights Created

This Mandate is a statement of broad policies and is intended as a component of the flexible governance framework within which the Board, assisted by its committees, directs the affairs of

the Company. While it should be interpreted in the context of all applicable laws, regulations and listing requirements, as well as in the context of the Company's constating documents (including its bye-laws), it is not intended to establish any legally binding obligations. The Board may, from time to time, permit departures from the terms hereof, either prospectively or retrospectively, and no provision contained herein is intended to give rise to civil liability to securityholders of the Company or its subsidiaries or other liability whatsoever.