



**SAGICOR FINANCIAL CORPORATION LIMITED**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

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, 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:

---

<b>Revenue</b>	89%
<b>Total assets</b>	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 31<sup>st</sup> 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

23<sup>rd</sup> March 2017



December 31, 2016

<b>Reports:</b>	<b>Page</b>	<b>Notes to the Financial Statements:</b>	<b>Page</b>	<b>Notes to the Financial Statements:</b>	<b>Page</b>
Independent Auditor's Report		4 Segments	31	27 Policy Benefits & Change in Actuarial Liabilities	64
Appointed Actuary's Report		5 Investment Property	41	28 Interest Expense	64
<b>Consolidated Financial Statements:</b>		6 Associates and Joint Ventures	42	29 Employee Costs	65
Statement of Financial Position	2	7 Property, Plant and Equipment	46	30 Equity Compensation Benefits	65
Statement of Income	3	8 Intangible Assets	47	31 Employee Retirement Benefits	68
Statement of Comprehensive Income	4	9 Financial Investments	50	32 Income Taxes	72
Statement of Changes in Equity	5	10 Reinsurance Assets	52	33 Deferred Income Taxes	73
Statement of Cash Flows	6	11 Income Tax Assets	52	34 Earnings per Common Share	77
		12 Miscellaneous Assets and Receivables	52	35 Other Comprehensive Income	78
<b>Notes to the Financial Statements:</b>	<b>Page</b>	13 Actuarial Liabilities	53	36 Cash Flows	79
1 Incorporation and Principal Activities	7	14 Other Insurance Liabilities	56	37 Subsidiary Acquisition and Ownership Changes	80
2 Accounting Policies	7	15 Investment Contract Liabilities	57	38 Discontinued Operation	80
3 Critical Accounting Estimates and Judgements	29	16 Notes and Loans Payable	57	39 Contingent Liabilities	82
		17 Deposit and Security Liabilities	58	40 Fair Value of Property	83
		18 Provisions	58	41 Financial Risk	84
		19 Income Tax Liabilities	58	42 Insurance Risk - Property & Casualty Contracts	106
		20 Accounts Payable and Accrued Liabilities	58	43 Insurance Risk - Life, Annuity & Health Contracts	108
		21 Common and Preference Shares	59	44 Fiduciary Risk	113
		22 Reserves	61	45 Statutory Restrictions on Assets	113
		23 Participating Accounts	62	46 Capital Management	114
		24 Premium Revenue	62	47 Related Party Transactions	117
		25 Net Investment Income	63	48 Events after December 31, 2016	117
		26 Fees and Other Revenue	64		

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As of December 31, 2016

Sagicor Financial Corporation Limited

Amounts expressed in US\$000

	Note	2016	2015
<b>ASSETS</b>			
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
<b>Total assets</b>		<b>6,531,920</b>	<b>6,399,885</b>

**LIABILITIES**

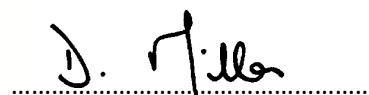
	Note	2016	2015
Actuarial liabilities	13	2,776,362	2,632,387
Other insurance liabilities	14	207,122	205,891
Investment contract liabilities	15	377,576	368,596
<b>Total policy liabilities</b>		<b>3,361,060</b>	<b>3,206,874</b>
Notes and loans payable	16	395,213	475,517
Deposit and security liabilities	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
<b>Total liabilities</b>		<b>5,736,506</b>	<b>5,660,721</b>

These financial statements have been approved for issue by the Board of Directors on March 31, 2017.

**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
<b>Total shareholders' equity</b>		<b>536,149</b>	<b>506,046</b>
Participating accounts	23	1,291	1,383
Non-controlling interest in subsidiaries		257,974	231,735
<b>Total equity</b>		<b>795,414</b>	<b>739,164</b>
<b>Total liabilities and equity</b>		<b>6,531,920</b>	<b>6,399,885</b>

  
 Director

  
 Director

**CONSOLIDATED STATEMENT OF INCOME**

Year ended December 31, 2016

Sagicor Financial Corporation Limited

Amounts expressed in US\$000

	Note	2016	2015
<b>REVENUE</b>			
Premium revenue	24	833,918	969,522
Reinsurance premium expense	24	(169,962)	(295,597)
Net premium revenue		663,956	673,925
Net investment income	25	353,352	322,229
Fees and other revenue	26	116,839	109,090
Gain/(loss) arising on acquisition	37	-	(1,025)
Total revenue		1,134,147	1,104,219
<b>BENEFITS</b>			
Policy benefits and change in actuarial liabilities	27	693,173	692,937
Policy benefits and change in actuarial liabilities reinsured	27	(194,262)	(198,801)
Net policy benefits and change in actuarial liabilities		498,911	494,136
Interest expense	28	61,448	58,807
Total benefits		560,359	552,943
<b>EXPENSES</b>			
Administrative expenses		255,326	251,892
Commissions and related compensation		98,570	105,093
Premium and asset taxes		10,679	14,808
Finance costs		38,333	37,234
Depreciation and amortisation		21,283	18,687
Total expenses		424,191	427,714
<b>INCOME BEFORE TAXES</b>		149,597	123,562
Income taxes	32	(41,700)	(25,119)
<b>NET INCOME FROM CONTINUING OPERATIONS</b>		<b>107,897</b>	<b>98,443</b>

	Note	2016	2015
Net income from continuing operations		107,897	98,443
Net income/(loss) from discontinued operation	38	1,412	(21,648)
<b>NET INCOME FOR THE YEAR</b>		<b>109,309</b>	<b>76,795</b>
<b>Net income/(loss) is attributable to:</b>			
Common shareholders:			
From continuing operations		60,259	56,327
From discontinued operation		1,412	(21,648)
		61,671	34,679
Participating policyholders		110	1,285
Non-controlling interests		47,528	40,831
		109,309	76,795
<b>Basic earnings /(loss) per common share:</b>			
	34		
From continuing operations		19.5 cents	18.2 cents
From discontinued operation		0.5 cents	(7.2) cents
		20.0 cents	11.0 cents
<b>Fully diluted earnings /(loss) per common share:</b>			
	34		
From continuing operations		18.7 cents	17.3 cents
From discontinued operation		0.4 cents	(6.6) cents
		19.1 cents	10.7 cents



**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)	<b>TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR</b>	96,738	(597)
Losses / (gains) transferred to income		2,675	(1,175)			
Net change in actuarial liabilities		(17,090)	48,346	<b>Total comprehensive income / (loss) is attributable to:</b>		
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)
<b>OTHER COMPREHENSIVE LOSS FROM CONTINUING OPERATIONS</b>		(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
<b>2016</b>								
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
<b>2015</b>								
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
<b>OPERATING ACTIVITIES</b>				<b>FINANCING ACTIVITIES</b>			
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)
<b>Net cash flows - operating activities</b>		<u>126,330</u>	<u>(92,026)</u>	Dividends paid to non-controlling interests		(17,824)	(14,600)
<b>INVESTING ACTIVITIES</b>				<b>Net cash flows - financing activities</b>		<u>(127,388)</u>	<u>121,800</u>
Property, plant and equipment, net	36.2	(17,996)	(16,586)	Effects of exchange rate changes		(4,645)	(3,900)
Associates and joint ventures		(188)	(28,986)	<b>NET CHANGE IN CASH AND CASH EQUIVALENTS - CONTINUING OPERATIONS</b>		(28,159)	(34,896)
Intangible assets		(4,272)	(15,198)	Net change in cash and cash equivalents - discontinued operation		(44,614)	(21,419)
<b>Net cash flows - investing activities</b>		<u>(22,456)</u>	<u>(60,770)</u>	Cash and cash equivalents, beginning of year		384,879	441,194
				<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	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&amp;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"> <li>• A temporary difference exists whenever the carrying amount of an asset is less than its tax base at the end of the reporting period.</li> <li>• An entity can assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit.</li> <li>• 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.</li> <li>• 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.</li> </ul> <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%
<b>Associates</b>			
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%
<b>Associates</b>			
Sagikor Real Estate X-Fund Ltd.	Investment in real estate activities	St. Lucia	29.31% <sup>(1)</sup>

(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 <sup>(1)</sup>	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 <sup>(2)</sup>	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 <sup>(1)</sup>	1,419	(3,575) <sup>(1)</sup>	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)
<b>Net income / (loss) from continuing operations</b>	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

<sup>(1)</sup> 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 <sup>(1)</sup>	-	(82,890) <sup>(1)</sup>	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 <sup>(1)</sup>	886	(81,207) <sup>(1)</sup>	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)
<b>Net income / (loss) from continuing operations</b>	<b>70,767</b>	<b>80,112</b>	<b>6,608</b>	<b>18,851</b>	<b>(77,895)</b>	<b>98,443</b>
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

<sup>(1)</sup> 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	
<b>2016</b>						
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)
<b>2015</b>						
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
<b>2016</b>						
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)	-
<b>Total assets</b>	<b>1,928,298</b>	<b>2,673,812</b>	<b>1,900,892</b>	<b>373,294</b>	<b>(344,376)</b>	<b>6,531,920</b>
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)	-
<b>Total liabilities</b>	<b>1,398,805</b>	<b>2,223,385</b>	<b>1,682,445</b>	<b>776,247</b>	<b>(344,376)</b>	<b>5,736,506</b>
<b>Net assets</b>	<b>529,493</b>	<b>450,427</b>	<b>218,447</b>	<b>(402,953)</b>	<b>-</b>	<b>795,414</b>
<b>2015</b>						
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)	-
<b>Total assets</b>	<b>1,904,067</b>	<b>2,513,227</b>	<b>1,782,916</b>	<b>524,023</b>	<b>(324,348)</b>	<b>6,399,885</b>
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)	-
<b>Total liabilities</b>	<b>1,387,651</b>	<b>2,115,681</b>	<b>1,577,848</b>	<b>903,889</b>	<b>(324,348)</b>	<b>5,660,721</b>
<b>Net assets</b>	<b>516,416</b>	<b>397,546</b>	<b>205,068</b>	<b>(379,866)</b>	<b>-</b>	<b>739,164</b>

**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 <sup>(1)</sup>	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. <sup>(2)</sup>	St. Lucia	29%	29%	Associate	Equity Method	47,785	40,584
						<u>87,293</u>	<u>84,530</u>

<sup>(1)</sup> 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).

<sup>(2)</sup> 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
<b>ASSETS</b>										
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
<b>LIABILITIES</b>										
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
<b>Reconciliation to carrying amounts:</b>										
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
<b>Summarised statement of comprehensive income</b>										
<b>REVENUE</b>										
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
<b>BENEFITS AND EXPENSES</b>										
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
<b>INCOME BEFORE TAXES</b>										
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)
<b>NET INCOME FOR THE PERIOD</b>	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
<b>Total comprehensive income</b>	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
<b>Held to maturity securities:</b>				
Debt securities	20,665	21,688	20,530	21,940
<b>Available for sale securities:</b>				
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
<b>Financial assets at fair value through income:</b>				
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
<b>Loans and receivables:</b>				
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
<b>Total financial investments</b>	<b>4,813,748</b>	<b>4,863,307</b>	<b>4,826,621</b>	<b>4,854,910</b>

## 9.1 Analysis of financial investments (continued)

	2016	2015
<b>Non-derivative financial assets at fair value through income comprise:</b>		
Assets designated at fair value upon initial recognition	316,700	310,412
Assets held for trading	11,176	-
	327,876	310,412
<b>Debt securities comprise:</b>		
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
<b>Contracts issued to individuals:</b>				
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
<b>Contracts issued to groups:</b>				
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
<b>Total actuarial liabilities</b>	<b>2,776,362</b>	<b>2,632,387</b>	<b>713,252</b>	<b>601,597</b>

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
<b>Analysis of changes in actuarial liabilities</b>				
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
<b>Total</b>	<b>180,752</b>	<b>90,741</b>	<b>111,731</b>	<b>131,328</b>

## 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
<b>Analysis of policy benefits payable:</b>				
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
<b>Movement for the year:</b>				
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
<b>Analysis of the provision:</b>				
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
<b>Movement for the year:</b>				
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
<b>At amortised cost:</b>				
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
<b>At fair value through income:</b>				
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
<b>At amortised cost:</b>				
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>
<b>At fair value through income:</b>				
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
<b>Issued and fully paid:</b>						
Balance, beginning of year	304,494	302,156	-	302,156	303,917	301,600
Redomiciliation adjustment <sup>(1)</sup>	-	(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
<b>Treasury shares:</b>						
Shares held for LTI and ESOP, end of year (note 30.1)	(1,646)	(16)	(2,061)	(2,077)	(2,126)	(2,836)
<b>Total</b>	<b>302,848</b>	<b>3,029</b>	<b>297,050</b>	<b>300,079</b>	<b>302,368</b>	<b>299,320</b>

The common shares are listed on the Barbados, Trinidad & Tobago and London stock exchanges.

<sup>(1)</sup>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
<b>Dividends declared and paid:</b>				
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
<b>Dividends proposed:</b>				
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				
<b>2016</b>							
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)
<b>2015</b>							
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
<b>Movement for the year:</b>				
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
<b>Financial statement amounts:</b>				
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
<b>Investment income:</b>		
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
<b>Investment expenses:</b>		
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
<b>Net investment income</b>	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
<b>Interest income:</b>		
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
<b>Net investment gains / (losses):</b>		
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
<b>Net liability / (asset), beginning of year</b>	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
<b>Net expense recognised in income</b>	<b>3,536</b>	<b>23,358</b>	<b>(15,366)</b>	<b>11,528</b>	<b>3,358</b>	<b>22,210</b>	<b>(14,796)</b>	<b>10,772</b>
(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
<b>Net losses recognised in other comprehensive income</b>	<b>1,808</b>	<b>19,436</b>	<b>(4,781)</b>	<b>16,463</b>	<b>1,162</b>	<b>12,795</b>	<b>(6,268)</b>	<b>7,689</b>
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)
<b>Other movements</b>	<b>(2,298)</b>	<b>(10,932)</b>	<b>(1,743)</b>	<b>(14,973)</b>	<b>(1,721)</b>	<b>(3,348)</b>	<b>(3,379)</b>	<b>(8,448)</b>
<b>Net liability / (asset), end of year</b>	<b>29,099</b>	<b>285,305</b>	<b>(214,502)</b>	<b>99,902</b>	<b>26,053</b>	<b>253,443</b>	<b>(192,612)</b>	<b>86,884</b>

## 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
<b>Change in absolute assumption</b>	<b>Increase / (decrease) in pension obligations</b>		
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
<b>Change in absolute assumption</b>	<b>Increase / (decrease) in medical and life obligations</b>
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
<b>Income tax expense:</b>		
<b>Current tax</b>		
Current tax on profits for the year	34,872	24,506
Adjustments to current tax of prior periods	232	(257)
<b>Total current tax expense</b>	<b>35,104</b>	<b>24,249</b>
<b>Deferred tax</b>		
Decrease/(increase) in deferred tax assets	498	(1,740)
(Decrease)/increase in deferred tax liabilities	5,696	2,858
<b>Total deferred tax expense</b>	<b>6,194</b>	<b>1,118</b>
Share of tax of associated companies	402	(248)
	<b>41,700</b>	<b>25,119</b>

**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
	<b>41,700</b>	<b>25,119</b>

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
<b>Analysis of deferred income tax assets:</b>		
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
<b>Unrecognised tax balances:</b>		
Tax losses	265,699	237,548
Potential deferred income tax assets	66,428	59,404
<b>Expiry period for unrecognised tax losses:</b>		
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
<b>2016</b>					
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
<b>2015</b>					
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
<b>2016</b>								
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
<b>2015</b>								
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
<b>Basic earnings per common share</b>	<b>20.0¢</b>	<b>11.0¢</b>
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
<b>Fully diluted earnings / (loss) per common share</b>	<b>19.1¢</b>	<b>10.7¢</b>
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
<b>Items that may be reclassified subsequently to income:</b>										
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)
<b>Items that will not be reclassified subsequently to income:</b>										
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)
<b>Total OCI movements</b>	(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
<b>Adjustments for non-cash items, interest and dividends:</b>		
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>
<b>Net increase in investments and operating assets:</b>		
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
<b>Investment property:</b>		
Disbursements	(7)	(111)
Disposal proceeds	825	5,229
	<u>818</u>	<u>5,118</u>
<b>Debt securities:</b>		
Disbursements	(1,931,861)	(1,351,966)
Disposal proceeds	1,962,356	1,200,765
	<u>30,495</u>	<u>(151,201)</u>
<b>Equity securities:</b>		
Disbursements	(118,139)	(55,395)
Disposal proceeds	119,176	39,520
	<u>1,037</u>	<u>(15,875)</u>
<b>Net increase in operating liabilities:</b>		
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
<b>Property, plant and equipment:</b>		
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
<b>Other notes and loans payable:</b>		
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)
<b>Net gain / (loss) and total comprehensive gain / (loss)</b>	<b>1,412</b>	<b>(21,648)</b>

**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 <sup>(1)</sup>	22,513	27,154

<sup>(1)</sup> 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	
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		

## Notes to the Financial Statements

Year ended December 31, 2016

Sagicor Financial Corporation Limited

Amounts expressed in US\$000

### 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
<b>Total financial statement exposures</b>	<b>5,778,655</b>	<b>97.9</b>	<b>5,642,979</b>	<b>98.0</b>
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
<b>Total off financial statement exposures</b>	<b>119,863</b>	<b>2.1</b>	<b>116,470</b>	<b>2.0</b>
<b>Total</b>	<b>5,898,518</b>	<b>100.0%</b>	<b>5,759,449</b>	<b>100.0%</b>

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
<b>Investment portfolios:</b>				
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
<b>Lending portfolios:</b>				
Value Assets International S.A. and Egret Limited	4	28,704	3	29,780
<b>Reinsurance assets:</b>				
Guggenheim Partners <sup>(1)</sup>	3	585,561	3	543,329

<sup>(1)</sup>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
<b>2016</b>			
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
<b>2015</b>			
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	
<b>2016</b>				
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
<b>2015</b>				
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
<b>Financial liabilities:</b>								
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
<b>Off financial statement commitments:</b>								
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
<b>Total</b>	<b>2,238,839</b>	<b>358,816</b>	<b>379,280</b>	<b>2,976,935</b>	<b>2,276,467</b>	<b>368,355</b>	<b>374,631</b>	<b>3,019,453</b>

## 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
<b>Financial assets:</b>		
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%
<b>Financial liabilities:</b>		
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	
<b>ASSETS</b>							
Financial investments <sup>(1)</sup>	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 <sup>(1)</sup>	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 <sup>(2)</sup>	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
<b>LIABILITIES</b>							
Actuarial liabilities	386,276	302,777	329,544	61,905	1,605,596	90,264	2,776,362
Other insurance liabilities <sup>(1)</sup>	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 <sup>(2)</sup>	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
<b>Net position</b>	42,577	261,668	(31,860)	61,562	383,029	78,438	795,414

<sup>(1)</sup> Monetary balances only<sup>(2)</sup> 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	
<b>ASSETS</b>							
Financial investments <sup>(1)</sup>	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 <sup>(1)</sup>	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 <sup>(2)</sup>	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
<b>LIABILITIES</b>							
Actuarial liabilities	392,022	271,391	330,099	63,948	1,500,972	73,955	2,632,387
Other insurance liabilities <sup>(1)</sup>	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 <sup>(2)</sup>	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
<b>Net position</b>	40,084	268,999	(41,804)	52,361	384,331	81,219	785,190

<sup>(1)</sup> Monetary balances only<sup>(2)</sup> 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		
<b>Financial position:</b>				
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)
<b>Income statement:</b>				
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
<b>Available for sale securities:</b>								
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
<b>Investments at fair value through income:</b>								
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
<b>Total assets</b>	<b>679,848</b>	<b>1,868,370</b>	<b>176,342</b>	<b>2,724,560</b>	<b>429,950</b>	<b>2,105,976</b>	<b>189,936</b>	<b>2,725,862</b>
<b>Total assets by percentage</b>	<b>25%</b>	<b>69%</b>	<b>6%</b>	<b>100%</b>	<b>16%</b>	<b>77%</b>	<b>7%</b>	<b>100%</b>
<b>Investment contracts:</b>								
Unit linked deposit administration liabilities	-	-	130,668	130,668	-	-	125,177	125,177
<b>Deposit and security liabilities:</b>								
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
<b>Total liabilities</b>	<b>-</b>	<b>1,364</b>	<b>165,447</b>	<b>166,811</b>	<b>-</b>	<b>1,603</b>	<b>160,289</b>	<b>161,892</b>
<b>Total liabilities by percentage</b>	<b>0%</b>	<b>1%</b>	<b>99%</b>	<b>100%</b>	<b>0%</b>	<b>1%</b>	<b>99%</b>	<b>100%</b>

## 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
<b>Held to maturity securities:</b>				
Debt securities	-	21,688	-	21,688
<b>Loans and receivables:</b>				
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
<b>Investment contracts:</b>				
Deposit administration liabilities	-	9,574	118,771	128,345
Other investment contracts	-	-	121,051	121,051
	-	9,574	239,822	249,396
<b>Notes and loans payable:</b>				
Notes and lease payables	-	364,095	80,496	444,591
	-	364,095	80,496	444,591
<b>Deposit and security liabilities</b>				
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
<b>2016</b>			
<b>Derivatives held for trading:</b>			
Equity indexed options	673,264	28,980	1,364
	673,264	28,980	1,364
<b>2015</b>			
<b>Derivatives held for trading:</b>			
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
<b>ASSETS</b>						
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
<b>LIABILITIES</b>						
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
<b>2015</b>						
<b>ASSETS</b>						
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
<b>LIABILITIES</b>						
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"> <li>• maximum retention of \$4,500 for a single event;</li> <li>• maximum retention of \$5,000 for a catastrophic event;</li> <li>• quota share retention to maximum of 20% in respect of treaty limits;</li> <li>• quota share retention is further reduced to a maximum of \$375 per event.</li> </ul>

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.

	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.