Sagicor Life of the Cayman Islands Ltd.

Company Financial Statements
31 December 2020

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Independent auditor's report

To the Board of Directors of Sagicor Life of the Cayman Islands Ltd.

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Sagicor Life of the Cayman Islands Ltd. (the Company) as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Company's financial statements comprise:

- the Company statement of financial position as at 31 December 2020;
- the Company income statement for the year then ended;
- the Company statement of comprehensive income for the year then ended;
- the Company statement of changes in shareholder's equity for the year then ended;
- the Company statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We 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 Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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Independent auditor's report (continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 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 financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Independent auditor's report (continued)

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.

PricewaterhouseCoopers

June 29, 2021

Sagicor Life of the Cayman Islands Ltd.

Company Statement of Financial Position

31 December 2020

(expressed in United States dollars unless otherwise indicated)

	Note	2020 $	2019 $
ASSETS			
Cash resources	4	2,641,853	3,584,921
Financial investments	5	169,375,260	143,290,072
Investment in subsidiary	6	300,000	300,000
Intangible assets	7	4,997,751	4,994,658
Property, plant and equipment	8	5,023,884	4,946,790
Reinsurance contracts	9	1,077,380	624,712
Other assets	10	2,389,726	2,443,763
Total Assets		185,805,854	160,184,916

The accompanying notes on pages 7 - 89 form an integral part of these financial statements.

Sagicor Life of the Cayman Islands Ltd.

Company Statement of Financial Position (Continued)

31 December 2020

(expressed in United States dollars unless otherwise indicated)

	Note	2020 $	2019 $
SHAREHOLDER'S EQUITY AND LIABILITIES			
Shareholder's Equity Attributable to			
Shareholder of the Company			
Share capital	11	16,000,000	16,000,000
Equity reserves	12	(993,348)	(3,509,183)
Retained earnings		46,334,437	43,179,531
Total Equity		61,341,089	55,670,348
Liabilities			
Other liabilities	13	2,730,729	3,103,316
Policyholders' Funds			
Insurance contracts liabilities	15	84,506,863	67,684,421
Investment contracts liabilities	16	30,562,354	28,128,939
Other insurance liabilities	17	6,664,819	5,597,892
		121,734,036	101,411,252
Total Liabilities		124,464,765	104,514,568
TOTAL EQUITY AND LIABILITIES		185,805,854	160,184,916

Approved for issue by the Board of Directors on 29 June 2021 and signed on its behalf by:

Peter K. Melhado Chairman

Christopher Zacca Director

The accompanying notes on pages 7 - 89 form an integral part of these financial statements.

Sagicor Life of the Cayman Islands Ltd.

Company Income Statement

Year ended 31 December 2020

(expressed in United States dollars unless otherwise indicated)

	Note	2020 $	2019 $
Revenue:			
Gross premium income	18	25,280,942	22,009,491
Insurance premium ceded to reinsurers	18	(1,639,034)	(1,747,634)
Net premium income	18	23,641,908	20,261,857
Interest income earned from financial assets measured at amortised cost and FVTOCI	19	5,062,973	5,975,552
Net gain on de-recognition of financial assets measured at FVTOCI	19	4,544,758	5,382,724
Interest income and other gains/(losses) from financial assets measured at FVTPL	19	3,345,922	5,471,301
Investment income	19	12,953,653	16,829,577
Interest and other investment expense	19	(927,250)	(890,183)
Credit impairment losses	19	(783,795)	(35,604)
Net investment income	19	11,242,608	15,903,790
Fee and other income	20	131,956	255,007
Total revenue		35,016,472	36,420,654
Benefits:			
Insurance benefits incurred	21	14,144,323	11,484,881
Insurance benefits reinsured	21	(1,126,570)	87,158
Net insurance benefits	21	13,017,753	11,572,039
Net movement in actuarial liabilities	15(b)	11,575,707	9,841,750
Expenses:			
Depreciation	8	141,149	152,899
Amortisation of intangible assets	7	3,206	2,105
Administration expenses	22	3,720,112	3,220,381
Commission and sales expenses		3,403,639	3,398,984
		31,861,566	**28,188,158**
NET PROFIT		**3,154,906**	**8,232,496**

The accompanying notes on pages 7 - 89 form an integral part of these financial statements.

Sagicor Life of the Cayman Islands Ltd.

Company Statement of Comprehensive Income

Year ended 31 December 2020

(expressed in United States dollars unless otherwise indicated)

	2020	2019
	$	$
Net profit for the year	3,154,906	8,232,496
Other comprehensive income:		
Items that may be subsequently reclassified to profit or loss:		
Fair value reserve:		
Unrealised gains on securities designated as FVTOCI	11,123,397	17,415,753
	11,123,397	17,415,753
Gains recycled to the income statement on sale and maturity of FVTOCI securities	(4,333,101)	(4,298,795)
Provision for ECLs on securities designated as FVTOCI	783,795	(991,342)
ECLs recycled to the Income Statement on sale and maturity of FVTOCI securities	(20,162)	1,026,933
Change in actuarial liabilities recognised in OCI (Note 15 (c))	(5,246,735)	(5,181,079)
	(8,816,203)	(9,444,283)
Item that may not be subsequently reclassified to profit or loss:		
Unrealised gains on owner-occupied properties	208,641	394,738
Other comprehensive income for the year	2,515,835	8,366,208
Total comprehensive income for the year	5,670,741	16,598,704

The accompanying notes on pages 7 - 89 form an integral part of these financial statements.

Sagicor Life of the Cayman Islands Ltd.

Company Statement of Changes in Shareholder's Equity

Year ended 31 December 2020

(expressed in United States dollars unless otherwise indicated)

	Share Capital	Equity Reserves	Retained Earnings	Total
	$	$	$	$
Balance as at 1 January 2019	16,000,000	(11,875,391)	54,947,035	59,071,644
Net profit for the year	-	-	8,232,496	8,232,496
Other comprehensive income	-	8,366,208	-	8,366,208
Total comprehensive income for the year	-	8,366,208	8,232,496	16,598,704
Transactions with owners -				
Dividend Distribution	-	-	(20,000,000)	(20,000,000)
Balance as at 31 December 2019	16,000,000	(3,509,183)	43,179,531	55,670,348
Net profit for the year	-	-	3,154,906	3,154,906
Other comprehensive income	-	2,515,835	-	2,515,835
Total comprehensive income for the year	-	2,515,835	3,154,906	5,670,741
Balance as at 31 December 2020	16,000,000	(993,348)	46,334,437	61,341,089

The accompanying notes on pages 7 – 89 form an integral part of these financial statements.

Sagicor Life of the Cayman Islands Ltd.

Company Statement of Cash Flows

Year ended 31 December 2020

(expressed in United States dollars unless otherwise indicated)

	Note	2020 $	2019 $
Cash Flows from Operating Activities			
Net profit		3,154,906	8,232,496
Adjustments for:			
Items not affecting cash and changes to policyholders' funds			
Adjustments for non-cash items, interest and dividends	24(a)	4,089,813	(3,520,008)
Changes in operating assets and liabilities	24(a)	(771,036)	1,062,061
Net investment (purchases)/ sales	24(a)	(2,783,061)	5,882,291
Interest received		5,974,256	7,078,831
Interest paid		(927,250)	(890,183)
Net cash provided by operating activities		8,737,628	17,845,488
Cash Flows from Investing Activities			
Net purchases of property, plant and equipment and intangible	24(b)	(15,901)	(22,781)
Net cash used in investing activities		(15,901)	(22,781)
Cash Flows from Financing Activity			
Dividend paid to owners of the parent	24(c)	-	(20,000,000)
Net cash used in financing activity		-	(20,000,000)
Net increase/(decrease)in net cash and cash equivalents		8,721,727	(2,177,293)
Cash and cash equivalents at beginning of year		7,796,978	9,974,271
CASH AND CASH EQUIVALENTS AT YEAR END	4	16,518,705	7,796,978

The accompanying notes on pages 7 – 89 form an integral part of these financial statements.

1. Incorporation and Principal Activities

(a) Sagicor Life of the Cayman Islands Ltd. (the "company" or "Sagicor Life") is incorporated and domiciled in the Cayman Islands. The company is a wholly owned subsidiary of Sagicor Cayman Limited which is incorporated and domiciled in the Cayman Islands. The principal activity of Sagicor Cayman Limited is the provision of financial services (holding company). The ultimate parent company is Sagicor Financial Corporation, which is incorporated and domiciled in Bermuda. The principal activity of the Sagicor Financial Corporation (Group) is insurance services.

(b) The company is licensed as a Class "A" insurer to carry on life insurance business in the Cayman Islands. The company is required to conduct its business in accordance with the Cayman Islands Insurance Law (Revised) and such regulations as the Cayman Islands Monetary Authority may, from time to time, mandate. The company is also licensed to operate in the Turks and Caicos Islands and Antigua in accordance with their laws and regulations.

The main activities of the company include the provision of ordinary life, creditor life and group life insurance and group pension administration. The registered office of the company is located at 1 Regis Place, Fort and Mary Streets, George Town, Cayman Islands.

2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

These financial statements have been prepared in accordance with and comply with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee ('IFRS IC") applicable for companies reporting under IFRS and have been prepared under the historical cost convention as modified by the revaluation of property, plant and equipment, fair value through other comprehensive income (FVTOCI) investment securities and financial assets at fair value through profit and loss (FVTPL).

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. Although these estimates are based on management's best knowledge of current events and actions, actual results could differ from these estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

The amounts included in the financial statements are presented using the United States dollar as it best reflects the economic substance of the underlying transactions and circumstances relevant to the company.

Standards, interpretations and amendments to existing standards effective during the current year

Certain new standards, interpretations and amendments to existing standards have been published that became effective during the current financial year. The company has assessed the relevance of all such new interpretations and amendments, and has adopted the following, which are relevant to its operations.

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Amendment to IAS 1 and IAS 8, (effective for annual periods beginning on or after 1 January 2020). These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs: i) use of a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance in IAS 1 about immaterial information. There was no significant impact from the adoption of this amendment during the year.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the company

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued which are not effective at the date of the statement of financial position, and which the company has not early adopted. The company has assessed the relevance of all such new standards, interpretations and amendments, has determined that the following may be relevant to its operations, and has concluded as follows:

IFRS 17, 'Insurance contracts', (effective for annual periods beginning on or after 1 January 2023). IFRS 17 replaces IFRS 4 which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. The standard requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of discount probability –weighted cash flows, an explicit risk adjustment, and a contract service margin (CSM) representing the unearned profit of the contract which is recognised as revenue over the coverage period. This IFRS provides a common global insurance accounting standard leading to consistency in recognition, measurement, presentation and disclosure. The standard applies to annual periods beginning on or after 1 January 2023. The company is currently assessing the impact of future adoption of the new standard on its financial statements.

Amendments to IAS 1, Presentation of financial statements on classification of liabilities, (effective for annual periods beginning on or after 1 January 2022). These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability. The company is currently assessing the impact of future adoption of the new standard on its financial statements.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the company.

2. Summary of Significant Accounting Policies (Continued)

(b) Foreign currency translation

(i) Functional and presentation currency
Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). These financial statements are presented in United States dollars, which is the company's functional currency.

(ii) Transactions and balances
Foreign currency transactions or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated using the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated using the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined. These rates represent the weighted average rates at which the company trades in foreign currency.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

All foreign exchange gains and losses recognised in the income statement are presented net in the income statement within the corresponding item. Foreign exchange gains and losses on non-monetary items where the gains and losses are recognised in other comprehensive income,are presented in other comprehensive income within the corresponding item.

Changes in the fair value of monetary securities denominated in foreign currency classified FVOTCI are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Translation differences on non-monetary financial instruments are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments, such as equities classified as FVOTCI financial assets, are recognised in other comprehensive income.

Sagicor Life of the Cayman Islands Ltd.

2. Summary of Significant Accounting Policies (Continued)

(c) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise:
- cash balances;
- short term deposits with original maturities of three months or less from date of deposit;
- treasury bills with original maturities of three months or less from the acquisition date; and
- other liquid securities with original maturities of three months or less from the acquisition date.

Cash equivalents are subject to an insignificant risk of change in value. Cash and cash equivalents exclude balances held to meet statutory requirements. Cash and cash equivalents are initially measured at fair value and then subsequently remeasured at amortised cost. The carrying value is deemed to approximate fair value.

Securities purchased under agreements to resell (reverse repurchase agreements) are treated as collateralised financing transactions and are recorded at the amount at which the securities were acquired plus accrued interest.

(d) Financial assets

(i) Classification of financial assets
Equity instruments are measured at FVTPL, unless they are not held for trading purposes, in which case an irrevocable election can be made on initial recognition to measure them at FVTOCI with no subsequent reclassification to profit or loss.

Financial assets are measured on initial recognition at fair value and are classified as, and subsequently measured either at amortised cost, FVTOCI or FVTPL. Financial assets and liabilities are recognised when the company becomes a party to the contractual provision of the instrument. Purchases and sales of financial assets are recognised on trade-date, the date on which the company commits to purchase or sell the asset.

Classification of debt instruments
Classification and subsequent measurement of debt instruments depend on:
- the company's business model for managing the asset; and
- the cash flow characteristics of the asset.

Based on these factors, the company classifies its debt instruments into one of the following three measurement categories.

Measured at amortised cost
Debt instruments that are held to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest(SPPI), such as most loans and some debt securities, are measured at amortised cost. The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs.

Measured at FVTOCI
Financial assets that are held for collection of contractual cash flows and for selling the assets, where cash flows represent SPPI, and that are not designated at FVTPL, are measured at FVTOCI.

2. Summary of Significant Accounting Policies (Continued)

(d) Financial assets (continued)

(i) Classification of financial assets (continued)

Movements in the carrying amounts are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instruments amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in Net Investment income. Interest income from these financial assets is included in "Interest income" using the effective interest rate method.

The use of designation removes or significantly reduces an accounting mismatch.

Measured at FVTPL
Assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. Interest income on a debt investment that is subsequently measured at `FVTPL and is not part of a hedging relationship is recognised in the profit or loss and presented in the profit or loss statement within "Interest income and other gains/(losses) from from financial assets measured at FVTPL' in the period in which it arises..

Held for trading securities are acquired principally for the purpose of selling in the short-term or if they form part of a portfolio of financial assets in which there is evidence of short-term profit taking. Derivatives are also classified as held for trading unless designated as hedges. Assets held for trading are measured FVTPL.

Business model assessment
Business models are determined at the level which best reflects how the company manages portfolios of assets to achieve business objectives. Judgement is used in determining business models, which is supported by relevant, objective evidence including:

- The past experience on how the cash flows of these assets were collected;
- How the assets' performance is evaluated and reported to key management;
- How risks are assessed and managed and how managers are compensated;
- How the company intends to generate profits from holding a portfolio of assets; and
- The historical and future expectations of asset sales within a portfolio.

SPPI
Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the company assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the company considers whether the contractual cash flows are consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

2. Summary of Significant Accounting Policies (Continued)

(d) Financial assets (continued)

(ii) Unit linked funds fair value model
The company's liabilities include unit linked funds which are components of insurance contracts issued or unit linked investment contracts issued with terms that the full investment return earned on the backing assets accrue to the contract-holders. As these liabilities are accounted for at FVTPL, the financial assets backing these liabilities are consequently classified as and measured at FVTPL. This eliminates any accounting mismatch.

(iii) Embedded derivatives
Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

(iv) Impairment of financial assets measured at amortized cost and FVTOCI
IFRS 9's impairment model requires the recognition of expected credit losses ("ECL") on financial assets measured at amortised cost and FVTOCI and off balance sheet loan commitments and financial guarantees which were previously provided for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

At initial recognition, an allowance (or provision in the case of some loan commitments and financial guarantees) is required for ECL resulting from default events that are possible within the next 12 months (or less, where the remaining life is less than 12 months) ('12-month ECL').

In the event of a significant increase in credit risk (SICR) an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment and are therefore considered to be in default or otherwise credit-impaired are in 'stage 3'. Purchased or originated credit-impaired financial assets ("POCI") are treated differently as set out below.

To determine whether the life-time credit risk has increased significantly since initial recognition, the company considers reasonable and supportable information that is available including information from the past and forward-looking information. Factors such as whether payments of principal and interest are in delinquency, an adverse change in credit rating of the borrower and adverse changes in the borrower's industry and economic environment are considered in determining whether there has been a significant increase in the credit risk of the borrower.

(v) POCI assets
Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. Theses financial assets are credit-impaired on initial recognition. The company calculates the credit adjusted effective interest rate, which is calculated based on the fair value origination of the financial asset instead of its gross carrying amount and incorporates the impact of ECLs in estimated future cash flows. Their ECLs are always measured on a life time basis.

2. Summary of Significant Accounting Policies (Continued)

(d) Financial assets (continued)

(vi) Definition of default

The company determines that a financial instrument is in default, credit-impaired and in stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are past due for 90 days or more;
- there are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
- the financial asset is otherwise considered to be in default.

If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due.

(vii) Write-off

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

(viii) The general approach to recognising and measuring ECL

The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Measurement

ECLs are calculated by multiplying three main components, being the probability of default ("PD"), loss given default ("LGD") and the exposure at default ("EAD"), discounted at the original effective interest rate. Management has calculated these inputs based on the estimated forward looking economic and historical experience of the portfolios adjusted for the current point in time. A simplified approach to calculating the ECL is applied to contract and other receivables which do not contain a significant financing component. Generally, these receivables are due within 12 months unless there are extenuating circumstances. Under this approach, an estimate is made of the life-time ECL on initial recognition. For ECL provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a company are homogeneous.

The PD, LGD and EAD models which support these determinations are reviewed periodically during the year. Therefore, the underlying models and their calibration, including how they react to forward-looking economic conditions remain subject to review and refinement. This is particularly relevant for lifetime PDs, which have not been previously used in regulatory modelling and for the incorporation of 'downside scenarios' which have not generally been subject to experience gained through stress testing. The exercise of judgement in making estimations requires the use of assumptions which are highly subjective and sensitive to the risk factors, in particular to changes in economic and credit conditions across a large number of geographical areas.

2. Summary of Significant Accounting Policies (Continued)

(d) Financial assets (continued)

(viii) The general approach to recognising and measuring ECL (continued)

Measurement (continued)

Many of the factors have a high degree of interdependency and there is no single factor to which impairment allowances as a whole are sensitive. Therefore, sensitivities (Note 26 (d)) are considered in relation to key portfolios which are particularly sensitive to a few factors and the results should not be further extrapolated.

One key difference between Stage 1 and Stage 2 ECLs is the respective PD horizon. Stage 1 and Stage 2 ECLs also incorporate different exposure at default which is based on the amortizing schedule for non-revolving assets. Stage 1 estimates will use a maximum of a 12-month PD while Stage 2 estimates will use a lifetime PD. Stage 3 estimates will continue to leverage existing processes for estimating losses on impaired financial assets, however, these processes will be updated to reflect the requirements of IFRS 9, including the requirement to consider multiple forward-looking scenarios. An ECL estimate will be produced for each individual exposure, including amounts which are subject to a more simplified model for estimating ECLs. The measurement of ECLs for each stage and the assessment of SICR must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information will require significant judgment.

The measurement of ECLs for each stage and the assessment of SICR must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions.

For defaulted financial assets, based on management's assessment of the borrower, a specific provision of expected life-time losses which incorporates collateral recoveries, is calculated and recorded as the ECL. The resulting ECL is the difference between the carrying amount and the present value of expected cash flows discounted at the original effective interest rate.

Forward looking information
The estimation and application of forward-looking information requires significant judgment. PD, LGD and EAD inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio.

Each macroeconomic scenario used in the ECL calculation has forecasts of the relevant macroeconomic variables – including, but not limited to, unemployment rates and gross domestic product, for a period up to three years, subsequently reverting to long-run averages. The company's estimation of ECLs in Stage 1 and Stage 2 is a discounted probability-weighted estimate that considers a minimum of three future macroeconomic scenarios.

Sagicor Life of the Cayman Islands Ltd.

Notes to the Financial Statements
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2. Summary of Significant Accounting Policies (Continued)

(d) Financial assets (continued)

(viii) The general approach to recognising and measuring ECL (continued)

Measurement (continued)

Our base case scenario is be based on macroeconomic forecasts that are publicly available. Upside and downside scenarios are set relative to our base case scenario based on reasonably possible alternative macroeconomic conditions.

Scenario design, including the identification of additional downside scenarios occurs on at least an annual basis and more frequently if conditions warrant. Scenarios are probability-weighted according to our best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights are updated on a quarterly basis. The base scenario reflects the most likely outcome and is assigned with the highest weighting. Management believes that there is an equal probability of the upside and downside scenario happening, thus equal weighting was assigned to the two scenarios.

The weightings assigned to each economic scenario as at January 1 and December 31, 2020 were as follows:

	Base	Upside	Downside
Sagicor Life of the Cayman Islands (excluding Government of Barbados)	80%	10%	10%
Refer to note 26 for Government of Barbados exposures			

Impairment on financial assets measured at amortized cost and FVTOCI, are recognized in the income statement. Unrealised gains and losses arising from changes in fair value on FVTOCI assets are measured in other comprehensive income. The ECLs on financial assets at FVTOCI are recognised in the income statement, with a corresponding entry recognised in OCI. On maturity or disposal of a FTOCI instrument, and the accumulated loss allowance is recycled to profit and loss as part of the gain or loss on disposal investments.

(ix) Interest income and interest earned on assets measured at FVTPL
Interest income is earned based on the interest rate before allowances. Interest earned on assets measured at fair value through profit and loss is recognised based on the effective interest rate. For assets that are credit-impaired when purchased or originated, the carrying amount after allowances for ECL is the basis for applying the interest rate.

2. Summary of Significant Accounting Policies (Continued)

(e) Impairment of assets

Impairment of non-financial assets
Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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 value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(f) Investment in subsidiary

Investment in subsidiary is stated in the company's financial statements initially at cost less impairment.

(g) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation.

Owner-occupied property is revalued 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.

Increases in the carrying amounts arising from the revaluation of owner-occupied properties are included in the equity reserves. Decreases that offset previous increases of the same asset are charged against the equity reserves. All other reductions are taken directly to the income statement.

Depreciation is calculated on the straight-line basis at annual rates that will write off the carrying value of each asset over the period of its expected useful life. Annual depreciation rates are as follows:

Freehold building	2 ½%
Leasehold Improvement	10%
Furniture and equipment	10% - 33⅓%

Property, plant and equipment are periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Work-in-progress and freehold land are not depreciated.

Gains or losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the income statement when the expenditure is incurred.

2. Summary of Significant Accounting Policies (Continued)

(h) **Intangible assets**

(i) Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the company's share of the net identifiable assets of the acquired subsidiary at the acquisition date. Goodwill on acquisition of insurance portfolios which qualify as businesses, and subsidiaries is included in intangible assets. Goodwill arising on the acquisition of subsidiaries and insurance portfolios is calculated as the amount by which the consideration paid exceeds the fair value of the net identifiable assets acquired.

At each year end date, the company assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of goodwill is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount.

An excess of the identifiable net assets acquired over the acquisition cost is treated as negative goodwill. Negative goodwill related to expected post-acquisition losses is taken to income during the period the future losses are recognised. Negative goodwill which does not relate to expected future losses and expenses is recognised as income immediately.

(ii) Computer software
Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their expected useful life.

Costs that are directly associated with the production of identifiable and unique software products controlled by the company, and that will probably generate benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development team's employee costs and an appropriate portion of relevant overheads. All other costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.Intangible assets with indefinite useful lives are assessed for impairment annually, or more frequently if events changed in circumstances indicate a potential impairment.

Intangible assets with indefinite useful lives are assessed for impairment annually, or more frequently if events changed in circumstances indicate a potential impairment.

(i) Employee benefits
The company maintains a pension plan for its eligible employees and agents. The pension plan is a defined contribution plan. Once the contributions have been paid the company has no further legal or constructive obligations. The assets, which are held in trust, are carried at market values.

2. Summary of Significant Accounting Policies (Continued)

(j) Financial liabilities

(i) Classification of financial assets
Financial liabilities are measured at initial recognition at fair value and are classified as and subsequently measured either at amortised cost, or at FVTPL. Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The financial liabilities described under the unit linked fair value model (see section (a) above) are classified and measured at FVTPL as the company is obligated to provide investment returns to the unit holder in direct proportion to the investment returns on a specific portfolio of assets, which are also carried at FVTPL. Derivative financial liabilities are carried at FVTPL. All other financial liabilities are carried at amortised cost. The financial liabilities measured at FVTPL do not have a cumulative own credit adjustment gain or loss.

(ii) Re-classified balances
The company reclassifies debt instruments when and only where its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

(k) Insurance and investment contracts

(i) Classification
The company issues contracts that transfer insurance risk and/or financial risk from the policyholder.

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. The company defines insurance risk as significant if an insured event could cause an insurer to pay significant additional benefits in a scenario that has a discernible effect on the economics of the transactions.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk as defined above.

(ii) Recognition and measurement

(1.1) Short-term insurance contracts
These contracts relate to short-duration life.

Short duration life insurance contracts protect the company’s customers from the consequences of events (such as sickness, death and disability) that would affect the ability of the customer or his/her dependents to maintain their current level of income. Guaranteed benefits paid on occurrence of the specified insurance event are either fixed or linked to the extent of economic loss suffered by the policyholder. There are no maturity or surrender benefits.

2. Summary of Significant Accounting Policies (Continued)

(k) Insurance and investment contracts (continued)

(ii) Recognition and measurement (continued)

(1.2) Long-term traditional insurance contracts
These contracts are traditional participating and non-participating policies. The company's participating policies do not have a discretionary participation feature (1.3) as the amount of additional benefits is not paid at the discretion of the company.

The policy reserves have been calculated using the Policy Premium Method (PPM) of valuation. Under this method, explicit allowance is made for all future benefits and expenses under the policies and expected earned investment income. The premiums, benefits and expenses for each policy are projected and the resultant future cash flows are discounted back to the valuation date to determine the reserves.

The process of calculating policy reserves necessarily involves the use of estimates concerning such factors as mortality and morbidity rates, persistency rates, future investment yields and future expense levels. Consequently, these liabilities include reasonable provisions for adverse deviations from the estimates.

An actuarial valuation is prepared at least annually. Changes in the policyholders' liabilities are recorded in the income statement.

Maturities and annuities are accounted for when due.

Death and disability claims and surrenders are recognised in the financial statements in the year in which they have been notified.

These contracts insure events associated with human life (for example death, or survival) over a long duration. Premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before deduction of commission.

Benefits are recorded as an expense when they are incurred.

(1.3) Long-term insurance contracts without fixed terms and without discretionary participation features (DPF) -

A DPF is a contractual right to receive, as a supplement to the guaranteed benefit, additional benefits:

- That are likely to be a significant portion of the total contractual benefits;
- Which amount or timing is contractually at the discretion of the issuer; and
- That are contractually based on:
  - The performance of a specified pool of contracts or specified type of contract; and
  - Realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
  - The profit or loss of the company, fund or other entity that issues the contract.

2. Summary of Significant Accounting Policies (Continued)

(k) Insurance and investment contracts (continued)

(ii) Recognition and measurement (continued)

(1.3) Long-term insurance contracts without fixed terms and without discretionary participation features (DPF) (continued)

These contracts include interest-sensitive and unit-linked universal life type policies which are classified as insurance liabilities.

A unit-linked insurance contract is an insurance contract with an embedded derivative linking payments on the contract to units of an internal investment fund set up by the company with the consideration received from the contract holders. This embedded derivative meets the definition of an insurance contract and is not therefore accounted for separately from the host insurance contract. The liability for such contracts is adjusted for all changes in the fair value of the underlying assets.

Revenue consists of fees deducted for mortality, policy administration and surrender charges. Interest or changes in the unit prices credited to the account balances and excess benefit claims in excess of the account balances incurred during the period are charged as expenses in the income statement.

(1.4) Investment contracts without discretionary participatory feature (DPF) -
The company issues investment contracts without fixed terms and DPFs because these contracts do not satisfy the requirements that the amount or timing of additional benefits is contractually at the discretion of the company.

Investment contracts without fixed terms are financial liabilities, the fair values for which are dependent on the fair value of underlying financial assets and are designated at inception at FVTPL.

Valuation techniques are used to establish the fair value at inception and each reporting date.

The company's main valuation techniques incorporate all factors that market participants would consider and are based on observable market data. The fair value of a unit-linked financial liability is determined using the current unit values that reflect the fair values of the financial assets contained within the company's unitised investments funds linked to the financial liability, multiplied by the number of units attributed to the contract holder at the year-end date.

If the investment contract is subject to a put or surrender option, the fair value of the financial liability is never less than the amount payable on surrender, discounted for the required notice period, where applicable.

2. Summary of Significant Accounting Policies (Continued)

(k) Insurance and investment contracts (continued)

(iii) Amounts on deposit and deposit administration funds

These funds are managed by the company but are not legally separated from the general operations. The assets and liabilities of these funds are included in these financial statements. These liabilities are recognised initially at fair value and subsequently measured at amortised cost. The company earns administration and investment fees on the management of these funds.

(iv) Reinsurance contracts held

Contracts entered into by the company with reinsurers under which the company is compensated for losses on one or more contracts issued by the company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within loans and receivables), as well longer-term receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The company assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement. The company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for other financial assets.

Actuarial liabilities arising from reinsurance are included as an insurance contract liability.

2. Summary of Significant Accounting Policies (Continued)

(l) Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, if it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

(m) Revenue recognition

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

Revenue from service contracts with customers is recognised when (or as) the company satisfies the performance obligation of the contract. For obligations satisfied over time, revenue is recognised monthly or over some other period. For performance obligations satisfied at a point in time, revenue is recognised at that point in time.

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

(i) Premium income

Gross premiums for traditional life contracts are recognised as revenue when due. Revenue for universal life products and annuity contributions are recognised when received. When premiums are recognised, the related actuarial liabilities are computed, resulting in benefits and expenses being matched with revenue.

IFRS requires that when premiums become doubtful of collection, they are written down to their recoverable amounts and thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

(ii) Fee income

Fees consist primarily of investment management fees arising from services rendered in conjunction with the issue and management of investment contracts where the company actively manages the consideration received from its customers to fund a return that is based on the investment profile that the customer selected on origination of the instrument. Fee income is recognised on an accrual basis. 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.

The company charges customers for asset management and other related services using the following approaches:

- Front-end fees are charged to the client on inception. This approach is used particularly for single premium contracts. The consideration received is deferred as a liability and recognised over the life of the contract on a straight-line basis.
- Regular fees are charged to the customer periodically either directly or by making a deduction from invested funds. Fees charged at the end of the period are accrued as a receivable that is offset against the financial liability when charged to the customer.

Sagicor Life of the Cayman Islands Ltd.

Notes to the Financial Statements

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2. Summary of Significant Accounting Policies (Continued)

(m) Revenue recognition (continued)

(iii) Interest income

Interest income is recognised in the income statement for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income investments and accrued discount or premium on treasury bills and other discounted instruments.

(n) Interest expense

Interest expense is computed by applying the effective interest rate based to the gross carrying amount of a financial liability

(o) Commissions

The company pays policy acquisition commissions to intermediaries based on premiums written as determined in the contract with the insured. Commissions relating to insurance contracts are also treated on a pro-rata basis, and unamortised portions at the financial period end are similarly carried forward on the consolidated statement of financial position.

(p) Claims

Claims payable represent the gross cost of all claims notified but not settled on the year end date. Reinsurance recoverable on these claims is shown as a receivable from the reinsurer.

(q) Financial instruments

Financial instruments carried on the statement of financial position include investments, securities purchased under resale agreements, cash and bank, other assets (excluding prepaid expenses) and other liabilities.

The fair values of the company's financial instruments are discussed in Note 26.

(r) Offsetting of financial instruments

Financial assets and liabilities are offset with the net amount presented in the statements of financial position, only if the company holds a currently enforceable legal right to set off the recognized amounts and there is an intention to settle on a net basis or to realize an asset and settle the liability simultaneously. The legal right to set off the recognized amounts must be enforceable in both the normal course of business and in the event of default, insolvency or bankruptcy of both the company and its counterparty. In all other situations they are presented gross. When financial assets and financial liabilities are offset in the statement of financial position, the associated income and expense items will also be offset in the income statements, unless specifically prohibited by an applicable accounting standards.

(s) Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the company's financial statements in the period in which the dividends are approved by the company's shareholders.

2. Summary of Significant Accounting Policies (Continued)

(t) Actuarial liabilities

(1.1) Life insurance and annuity contracts

The determination of actuarial liabilities of long term insurance contracts has been done using the Policy Premium Method (PPM) of valuation. Under this method, explicit allowance is made for all future benefits and expenses under the policies and expected earned investment income. The premiums, benefits and expenses for each policy are projected and the resultant future cash flows are discounted back to the valuation date to determine the reserves.

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.

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 FVTOCI securities, whose unrealised gains or losses in fair value are recorded in other comprehensive income. The company uses shadow accounting to eliminate the mismatch between changes in insurance liabilities (otherwise recognised in profit or loss) and changes in the fair value of FVTOCI securities backing those liabilities. Consequently, through the use of shadow accounting, a portion of the change in actuarial liabilities is recognised in OCI.

An actuarial valuation is prepared at least annually. Changes in the policyholders' liabilities are recorded in both profit and loss, and OCI. Maturities and annuities are accounted for when due.

Death and disability claims and surrenders are recognised in the financial statements in the year in which they have been notified.

Benefits are recorded as an expense when they are incurred.

2. Summary of Significant Accounting Policies (Continued)

(t) Actuarial liabilities (continued)

(1.2) 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.

(u) Securities purchased under agreements to resell
Securities purchased under agreements to resell (reverse repurchase agreements) are treated as collateralised financing transactions and are recorded at the amount at which the securities were acquired or sold plus accrued interest.

The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

(v) Consolidation

The company holds 100% of the issued share capital of Sagicor Insurance Managers Ltd, a company incorporated in Grand Cayman. The company has elected not to present consolidated financial statements in accordance with the exemption permitted in IFRS 10, 'Consolidated financial statements', as it and its subsidiary are included by full consolidation in the consolidated financial statements of its ultimate parent, Sagicor Financial Company Limited (SFC) which is incorporated in Bermuda and listed on the Barbados and Toronto Stock Exchanges. The consolidated financial statements of SFC are publicly available.

3. Critical Accounting Estimates and Judgements in Applying Accounting Policies

The company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key sources of estimation uncertainty
The company makes estimates and assumptions that affect the reported assets and liabilities within the next financial year. The resulting accounting estimates will, by definition, seldom equal the related actual results. Areas of key sources of estimation uncertainty include the following:

(i) Insurance

- The ultimate liability arising from claims made under insurance contracts.

  There are several sources of uncertainty that need to be considered in the estimate of the liability that the company will ultimately pay such claims.

  The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the company. Estimates are made as to the expected number of deaths for each of the years in which the company is exposed to risk. The company bases these estimates on standard industry and national mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the company's own experience. For contracts that insure the risk of longevity, appropriate but not excessively prudent allowance is made for expected mortality improvements. The estimated number of deaths determines the value of the benefit payments and the value of the valuation premiums.

3. Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

Key sources of estimation uncertainty (continued)

(i) Insurance (continued)

The main source of uncertainty is that epidemics and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which the company has significant exposure to mortality risk. However, continuing improvements in medical care and social conditions could result in improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the company is exposed for longevity risk.

For contracts without fixed terms, it is assumed that the company will be able to increase mortality risk charges in future years in line with emerging mortality experience.

Estimates are also made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on current market returns, as well as expectations about future economic and financial developments.

For long term insurance contracts, estimates of future deaths, voluntary terminations, investment returns and administration expenses are made and form the assumptions used for calculating the liabilities during the life of the contract. A margin for adverse deviation is added to these assumptions.

Note 27 (ii) shows the sensitivity of the company's insurance contract liabilities, to changes in various estimates used in performing the valuations.

(ii) Estimated impairment of intangible assets
Goodwill
The assessment of goodwill impairment involves the determination of the fair value of the cash-generating units to which the goodwill has been allocated. Determination of fair value involves the estimation of future net income of these business units and the expected returns to providers of capital to the business units and or the company as a whole.

(iii) Impairment of financial assets
In determining ECL, management is required to exercise judgement in defining what is considered a SICR and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions. Further information about the judgements involved is included in the earlier sections 'Measurement' and 'Forward-looking information'.

- Establishing staging for debt securities and deposits

Sagicor Life of the Cayman Islands Ltd.

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3. Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

Key sources of estimation uncertainty (continued)

(iii) Impairment of financial assets (continued)

The company's internal credit rating model is a 10-point scale which allows for distinctions in risk characteristics and is referenced to the rating scale of international credit rating agencies. The scale is set out in the following table:

<table>
<tr><th colspan="2">Category</th><th>Sagicor Risk Rating</th><th>Classification</th><th>S&P</th><th>Moody's</th><th>Fitch</th><th>AM Best</th></tr>
<tr><td rowspan="7">Non-default</td><td rowspan="3">Investment grade</td><td>1</td><td>Minimal risk</td><td>AAA, AA</td><td>Aaa, Aa</td><td>AAA, AA</td><td>aaa, aa</td></tr>
<tr><td>2</td><td>Low risk</td><td>A</td><td>A</td><td>A</td><td>a</td></tr>
<tr><td>3</td><td>Moderate risk</td><td>BBB</td><td>Baa</td><td>BBB</td><td>bbb</td></tr>
<tr><td rowspan="2">Non-investment grade</td><td>4</td><td>Acceptable risk</td><td>BB</td><td>Ba</td><td>BB</td><td>bb</td></tr>
<tr><td>5</td><td>Average risk</td><td>B</td><td>B</td><td>B</td><td>b</td></tr>
<tr><td rowspan="2">Watch</td><td>6</td><td>Higher risk</td><td>CCC, CC</td><td>Caa, Ca</td><td>CCC, CC</td><td>ccc, cc</td></tr>
<tr><td>7</td><td>Special mention</td><td>C</td><td>C</td><td>C</td><td>c</td></tr>
<tr><td colspan="2" rowspan="3">Default</td><td>8</td><td>Substandard</td><td rowspan="3">D</td><td rowspan="3">C</td><td>DDD</td><td rowspan="3">d</td></tr>
<tr><td>9</td><td>Doubtful</td><td>DD</td></tr>
<tr><td>10</td><td>Loss</td><td>D</td></tr>
</table>

- Establishing staging for debt securities and deposits (continued)

  The company uses its internal credit rating model to determine which of the three stages an asset is to be categorized for the purposes of ECL.

  Once the asset has experienced a significant increase in credit risk the investment will move from Stage 1 to Stage 2. Sagicor has assumed that the credit risk of a financial instruments has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial asset that is investment grade or Sagicor risk rating of 1-3 is considered low credit risk.

  Stage 1 investments are rated (i) investment grade, or (ii) below investment grade <u>and</u> have not been downgraded more than 2 notches since origination. Stage 2 investments are assets which (i) have been downgraded from investment grade to below investment grade, or (ii) are rated below investment grade <u>and</u> have been downgraded more than 2 notches since origination. Stage 3 investments are assets in default.
- Establishing staging for other assets measured at amortised cost.

3. Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

Key sources of estimation uncertainty (continued)

(iii) Impairment of financial assets (continued)

Exposures are considered to have resulted in a significant increase in credit risk and are moved to stage 2 when:

Qualitative test
Accounts that meet the portfolio's 'high risk' criteria and are subject to closer credit monitoring.

Backstop Criteria
Accounts that are 30 calendar days or more past due. The 30 days past due criteria is a backstop rather than a primary driver of moving exposures into stage 2.

- Forward looking information

When management determines the macro-economic factors that impact the portfolios of financial assets, they first determine all readily available information within the relevant market. Portfolios of financial assets are segregated based on product type, historical performance and homogenous country exposures. There is often limited timely macro-economic data for Jamaica and Cayman Islands. Management assesses data sources from local government, International Monetary Fund and other reliable data sources. A regression analysis is performed to determine which factors are most closely correlated with the credit losses for each portfolio. Where projections are available, these are used to look into the future up to three years and subsequently the expected performance is then used for the remaining life of the product. These projections are re-assessed on a quarterly basis.

(iv) Owner occupied property

Owner occupied property is carried in the statement of financial position at estimated market value. The company uses independent qualified property appraisers to value its owner-occupied properties annually, generally using the direct capitalization approach. This approach takes into consideration various assumptions and factors including; the level of current and future occupancy, rent rates, a discount rate, and the current condition of the property. A change in any of these assumptions and factors could have a significant impact on the valuation of owner occupied property.

(v) Novel coronavirus (COVID-19)
The pandemic has caused a contraction in the economies in which the company operates. The spread of the virus has had a debilitating impact on global travel and on tourism and entertainment products offered in key markets that the company holds investments. The downturn in global demand has also resulted in depressed oil and gas prices, negatively impacting several investments held by the company and its customers.

Investment portfolios were impacted by the widening of credit spreads which resulted in significant fall-off in asset prices resulting in significant reduction in investment income and portfolio management fee income. The company has continually monitored the health crisis and the economic impact on customers and trading partners, investments and the effect on the industries in which it operates. The company recognised that customers may experience difficulties that increase credit losses and reduce premium income. The company saw positive impact from the extension of moratoriums, payment holidays and other accommodative measures on the delinquency levels of our borrowing and insurance portfolios. Despite these measures, the company made significant adjustments to ECLs to recognize the increased credit risk associated with impact observed on the economic environment.

(expressed in United States dollars unless otherwise indicated)

4. Cash and Cash Equivalents

	2020	2019
	$	$
Cash at bank	2,640,533	3,583,601
Cash in hand	1,320	1,320
Total cash resources	2,641,853	3,584,921
Securities purchased under resale agreement	6,697,335	811,647
United States of America Government Treasury Bills	4,665,988	3,389,419
Short term deposits (Note 5)	2,892,796	387,955
Cash and cash equivalents	16,897,972	8,173,942

The company has entered into a reverse repurchase agreement collateralised by corporate bonds. These bonds are held with a fellow subsidiary, Sagicor Investments Jamaica Limited (see Note 14).

Cash at bank includes amounts held with a fellow subsidiary, Sagicor Bank Jamaica Limited (see Note 14).

Cash and cash equivalents include the following for the purposes of the statement of cash flows –

	2020	2019
	$	$
Cash and cash equivalents	16,897,972	8,173,942
Less: pledged assets	(379,267)	(376,964)
	16,518,705	7,796,978

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5. Financial Investments

	2020	2019
	$	$
Financial assets at fair value through profit or loss (FVTPL)-		
Foreign governments securities	2,065,995	889,832
Corporate bonds	7,141,202	7,213,564
Quoted equities	17,480,352	17,711,436
Interest receivable	53,384	62,438
	26,740,933	25,877,270
Financial assets at fair value through Other Comprehensive Income (FVTOCI)		
Foreign Governments securities	2,678,643	3,061,513
Corporate bonds	124,285,156	106,952,385
Interest receivable	1,292,904	1,325,336
	128,256,703	111,339,234
Investments at amortised cost, net of ECL		
Securities purchased under resale agreements	6,696,638	811,647
Mortgage loans	58,132	58,132
Policy loans	4,552,872	4,507,913
Short term deposits (Note 4)	2,892,796	387,955
Interest receivable	177,186	307,921
	14,377,624	6,073,568
	169,375,260	143,290,072

During the year, the company recognized credit losses totaling $783,795 (2019 - $35,604) on debt securities (Note 19). Investments at amortised cost are shown net of credit losses. Credit losses on FVTOCI instruments are debited to profit and loss, with a corresponding credit to OCI.

(expressed in United States dollars unless otherwise indicated)

5. Financial Investments (Continued)

i. Mortgage loans

Mortgage loans are secured by the first recourse to the related underlying property. Residential mortgages attract interest of 9.5% (2019 – 9.5%) per annum. Principal and interest are received monthly. The maximum term granted for residential mortgages is 20 years and the loan to value ratio is limited to 75%.

ii. Policy loans

The majority of the policy loans bear interest at the annual rate of 9% - 11% (2019 – 10%). The loans are secured by the cash surrender values of the policies on which the loans are made. Interest is accrued on a monthly basis and the loans are generally due on termination of the policy.

6. Investment in Subsidiary

	2020	2019
	$	$
Sagicor Insurance Managers Ltd.	300,000	300,000

7. Intangible Assets

	Goodwill	Computer Software	Total
	$	$	$
Cost -			
At 1 January 2019	4,988,971	23,834	5,012,805
Additions	-	2,468	2,468
At 31 December 2019	4,988,971	26,302	5,015,273
Additions	-	6,299	6,299
At 31 December 2020	4,988,971	32,601	5,021,572
Amortisation -			
At 1 January 2019	-	18,510	18,510
Amortised during the year	-	2,105	2,105
At 31 December 2019	-	20,615	20,615
Amortised during the year	-	3,206	3,206
At 31 December 2020	-	23,821	23,821
Net Book Value -			
At 31 December 2019	4,988,971	5,687	4,994,658
At 31 December 2020	4,988,971	8,780	4,997,751

7. Intangible Assets (continued)

Computer software are being amortised over 5 – 7 years, which is estimated to be their useful lives.

All of the company's goodwill has been allocated to a single cash generating unit (CGU), the individual lines division.

At 31 December 2020, management tested goodwill.

The recoverable amount of Sagicor Life of the Cayman Islands Individual Lines Division CGU is determined using fair value less costs to sell through the Capitalised Earnings. This calculation uses projected sustainable earnings based on audited earnings and financial budgets approved by management covering a three-year period and the earnings multiples stated below.

There was no impairment of the company's CGU.

Key assumptions used for the impairment calculations is the earnings multiple of 8.5 (2019: 8.8) for Individual Life Division.

8. Property, Plant and Equipment

	Freehold Land & Building	Leasehold Improvements	Furniture & Equipment	Total
	$	$	$	$
Cost or Valuation :-				
At 1 January 2019	4,500,659	457,898	687,445	5,646,002
Additions	-	8,772	11,541	20,313
Revaluation Adjustment	305,000	-	-	305,000
At 31 December 2019	4,805,659	466,670	698,986	5,971,315
Additions	-	-	9,602	9,602
Revaluation Adjustment	110,000	-	-	110,000
At 31 December 2020	4,915,659	466,670	708,588	6,090,917
Accumulated Depreciation:-				
At 1 January 2019	55,659	372,246	533,459	961,364
Charge for the year	89,738	27,100	36,061	152,899
Revaluation adjustment (Note 12)	(89,738)	-	-	(89,738)
At 31 December 2019	55,659	399,346	569,520	1,024,525
Charge for the year	98,641	8,942	33,566	141,149
Revaluation adjustment (Note 12)	(98,641)	-	-	(98,641)
At 31 December 2020	55,659	408,288	603,086	1,067,033
Net Book Value:-				
31 December 2019	4,750,000	67,324	129,466	4,946,790
31 December 2020	4,860,000	58,382	105,502	5,023,884

In accordance with the company's policy, owner-occupied properties were independently revalued during the year by professional real estate valuators. The excess of the carrying value of these property, plant and equipment over the revaluation on such date, amounting to US$208,641 (2019 - US$394,738), has been recognised in OCI and credited to equity reserves.

If revalued assets of the company were stated on a historical cost basis, the amounts would be as follows:

	2020	2019
	$'000	$'000
Cost	4,415,659	4,415,659
Accumulated depreciation	(333,343)	(244,452)
Net book value	4,082,316	4,171,207
Carrying value of revalued assets	4,860,000	4,750,000

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9. Reinsurance Contracts

	2020	2019
	$	$
Claims recoverable from reinsurers	1,077,380	624,712

10. Other Assets

	2020	2019
	$	$
Due from agents	604,489	308,905
Premiums due and unpaid		
Premiums due and unpaid- Gross	4,503,313	4,285,387
Premiums due and unpaid- Provision	(3,338,030)	(3,127,651)
	1,165,283	1,157,736
Due from other related parties (Note 14)	799,650	791,308
Deposits and prepaid expenses	370,759	350,538
Other receivables	120,211	505,942
	3,060,392	3,114,429
Provision against doubtful receivables (related party)	(670,666)	(670,666)
	2,389,726	2,443,763

11. Share Capital

	2020	2019
	$	$
Authorised -		
25,000,000 ordinary shares of $1 each	25,000,000	25,000,000
Issued and fully paid -		
16,000,000 ordinary shares of $1 each	16,000,000	16,000,000

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12. Equity Reserves

		Equity Reserves			
	Note	**Actuarial Liabilities**	**Owner occupied properties fair value reserve**	**Fair value reserves (FVTOCI)**	**Total**
Balance at 31 December 2018		2,887,162	177,493	(14,940,046)	(11,875,391)
Net gains recycled to revenue on disposal and maturity of FVTOCI securities		-	-	(2,244,929)	(2,244,929)
Net unrealized gains on FVTOCI securities		-	-	17,415,753	17,415,753
Provision for expected credit losses- IFRS 9 on FVTOCI securities		-	-	(991,342)	(991,342)
Expected credit losses - IFRS 9 recycled to income statement on sale and maturity of FVTOCI securities		-	-	(1,026,933)	(1,026,933)
Net unrealized losses on revaluation of owner occupied properties		-	394,738	-	394,738
Shadow accounting		(5,181,079)	-	-	(5,181,079)
Total comprehensive income for the year		(5,181,079)	394,738	13,152,549	8,366,208
Balance at 31 December 2019		(2,293,917)	572,231	(1,787,497)	(3,509,183)
Net gains recycled to revenue on disposal and maturity of FVTOCI securities		-	-	(4,333,101)	(4,333,101)
Net unrealized gains on FVTOCI securities		-	-	11,123,397	11,123,397
Provision for expected credit losses- IFRS 9 on FVTOCI securities				783,795	783,795
Expected credit losses - IFRS 9 recycled to income statement on sale and maturity of FVTOCI securities				(20,162)	(20,162)
Net unrealized losses on revaluation of owner occupied properties		-	208,641	-	208,641
Shadow accounting		(5,246,735)	-	-	(5,246,735)
Total comprehensive income for the year		(5,246,735)	208,641	7,553,929	2,515,835
Balance at 31 December 2020		(7,540,652)	780,872	5,766,432	(993,348)

(expressed in United States dollars unless otherwise indicated)

13. Other Liabilities

	2020	2019
	$	$
Accounts payable and accruals	1,101,507	1,026,717
Due to related parties (Note 14)	218,124	126,754
Premiums not applied	876,880	1,354,563
Reinsurance premium payable	534,218	595,282
	2,730,729	3,103,316

14. Related Party Balances and Transactions

Related companies include the parent company, the ultimate parent company, other related companies and fellow subsidiaries and key management. Key management are employed and paid by the immediate parent company, Sagicor Group Jamaica Limited and these remunerations are disclosed in the immediate parent's financial statement.

Related parties include the segregated funds managed by the company.

(a) The statement of financial position includes the following balances with related parties and companies:

	2020	2019
	$	$
Securities purchased under resale agreement-Sagicor Investments Jamaica Limited	6,697,335	811,794
Short Term Deposits -Sagicor Investments Jamaica Limited	2,501,502	-
Cash Resources- Sagicor Bank Jamaica Limited.	488,208	243,705
Due from related parties -		
Ultimate parent company	93,878	106,221
Other related companies	704,526	681,086
Subsidiary	1,246	4,001
	799,650	791,308
Due to related parties -		
Other related companies	218,124	126,754
	218,124	126,754

(expressed in United States dollars unless otherwise indicated)

14. Related Party Balances and Transactions (continued)

(b) The income statement includes the following transactions with related parties and companies:

	2020 $	2019 $
Parent and related companies -		
Interest income	113,961	78,907
Commission expense	(906,727)	(728,000)
Corporate services	(483,792)	(483,982)
Management fees	(275,166)	(297,000)

15. Life Insurance Contracts Liabilities

(a) Composition by line of business is as follows:

	2020 $	2019 $
Individual annuities	24,707,591	18,502,939
Group insurance	441,148	429,103
Individual insurance	59,358,124	48,752,379
	84,506,863	67,684,421

(b) Movement in insurance liabilities:

	2020			
	Individual Annuities $	Individual Insurance $	Group Insurance $	Total $
Balance at the beginning of the year	18,502,939	48,752,379	429,103	67,684,421
Changes in actuarial liabilities recorded to income statement (Note 15(c))	4,610,722	6,952,940	12,045	11,575,707
Changes in actuarial liabilities recorded in other comprehensive income (Note 15 (c))	1,593,930	3,652,805		5,246,735
Balance at end of year	24,707,591	59,358,124	441,148	84,506,863

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15. Life Insurance Contracts Liabilities (continued)

	2019			
	Individual Annuities	Individual Insurance	Group Insurance	Total
	$	$	$	$
Balance at the beginning of the year	14,198,400	38,044,956	418,236	52,661,592
Changes in actuarial liabilities recorded to income statement (Note 15(c))	2,193,333	7,637,550	10,867	9,841,750
Changes in actuarial liabilities recorded in other comprehensive income (Note 15 (c))	2,111,206	3,069,873	-	5,181,079
Balance at end of year	18,502,939	48,752,379	429,103	67,684,421

(c) Changes in policy liabilities were caused by the following business activities and changes in actuarial assumptions:

	2020			
	Annuities	Individual Insurance	Group Insurance	Total
	$	$	$	$
Change in assumed investment yields and inflation rate	3,683,025	6,645,728		10,328,753
Change due to the issuance of new policies and decrements on in-force policies	2,521,705	4,013,139	12,045	6,546,889
Change due to other actuarial assumptions	(1,594,008)	(3,705,927)		(5,299,935)
Change in actuarial liabilities recorded in income statement	4,610,72	6,952,940	12,045	11,575,707
Change in actuarial liabilities recorded in OCI	1,593,930	3,652,805		5,246,735

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15. Life Insurance Contracts Liabilities (continued)

	2019			
	Annuities	**Individual Insurance**	**Group Insurance**	**Total**
	$	**$**	**$**	**$**
Change in assumed investment yields and inflation rate	3,404,390	8,042,863	-	11,447,253
Change due to the issuance of new policies and decrements on in-force policies	901,156	4,713,292	10,867	5,625,315
Change due to other actuarial assumptions	(2,112,213)	(5,118,605)	-	(7,230,818)
Change in actuarial liabilities recorded in income statement	2,193,333	7,637,550	10,867	9,841,750
Change in actuarial liabilities recorded in OCI	2,111,206	3,069,873	-	5,181,079

15. Life Insurance Contract Liabilities (Continued)

(d) Policy assumptions

At each date the for valuation of actuarial liabilities, the Appointed Actuary reviews the assumptions made at the last valuation date. The Appointed Actuary tests the validity of each assumption by reference to current data, the company's experience and where appropriate, changes the assumptions for the current valuation.

Insurance and investment contract liabilities have two major assumptions, best estimate assumptions and provisions for adverse deviation assumptions.

A similar process of review and assessment is conducted in the determination of margins for adverse deviations.

Life Insurance and Annuity Contracts

(i) Best estimate assumptions
Assumptions cover the lifetime of the policies and are made for many variables including mortality, morbidity, investment yields, rates of policy termination and operating expenses.

(ii) Mortality and morbidity
The assumptions are based on past company and industry experience. For individual life policies the company bases its assumption on the Canadian Institute of Actuaries 97-04 male and female aggregate mortality tables which are 21 year select and ultimate mortality tables. For accidental death and dismemberment benefits, the company bases its assumptions on the 1959 Accidental Death Benefit table for rider benefits and the Canadian Population Accident 1990-1992 sex distinct table for coupon products. Critical illness incidence rates are based on British population sex-distinct incidence rates developed by the Institute of Actuaries. Group annuitant mortality is based on the Society of Actuaries 1994 Group Annuitant male and female basic mortality tables with projection scale AA for improvements in mortality. Individual Annuitant mortality is based on the Society of Actuaries 2012 Individual Annuitant male and female Period mortality tables with projection scale G2 beyond 2012 for improvements in mortality.

(iii) Investment yields
The company broadly matches assets and liabilities by line of business. The projected cash flows from these assets are combined with future reinvestment rates derived from the current economic outlook and the company's investment policy to determine expected rates of return on these assets for all future years. The gross long term ultimate reinvestment rate (after 20 years) is based on expectations of risk-free government bond yields. The gross rate is adjusted to take into account investment expenses and asset default. Assumptions taking into account inflation are that real returns after 30 years will be between 2.0% and 3.3%.

(iv) Lapses and persistency
Lapses relate to termination of policies due to non-payment of premiums. Surrender and withdrawals relate to voluntary termination of policies by policyholders. Policy termination assumptions are based on the Group's own experience and vary by type of product. Lapse rates in the first year of a policy range between 2% and 42% (2019: 7% and 45%) of insurance amounts issued. Lapse rates after 20 policy years are assumed to be between 0% and 8.5% (2019: 0% and 10%) of insurance amounts in force. Partial withdrawal rates average about 14% (2019: 15%) of fund values available from policies in force.

(expressed in United States dollars unless otherwise indicated)

15. Life Insurance Contracts Liabilities (Continued)

(d) Policy assumptions (continued)

Life Insurance and Annuity Contracts (continued)

(v) Policy expenses
Policy maintenance expenses are derived from the Group's own internal cost studies projected into the future with an allowance for inflation. All expenses, including overhead, are functionally allocated by line of business, between the administration of the business and the acquisition of the business. All expenses related to the administration of the business are used to determine the policy maintenance unit costs. No expenses related to the acquisition of the business are included in the unit expense assumption used in the valuation of the actuarial liabilities. Interest sensitive and Universal life policies are assumed to be twice as costly to administer as traditional life policies. The inflation assumption is kept consistent with the investment assumption. The initial inflation rate is based on expected inflation on internal company expenses and declines over the life of the policies such that real returns after 30 years are about 1.7% (2019: 2.5%).

(vi) Provision for adverse deviation assumptions
To recognise the uncertainty in establishing best estimate assumptions, to allow for possible deterioration in experience and to provide greater comfort that the reserves are adequate to pay future benefits, the Appointed Actuary is required to include a margin for adverse deviation in each assumption. The impact of these margins is to increase reserves and so decrease the income that would be recognised on inception of the policy. The Canadian Institute of Actuaries standards indicate that margins are to be between 5% and 20% of the best estimate assumptions. The company uses margins for each assumption at the middle of the range, taking into account the risk profiles of the business.

(vii) Changes in assumptions
Every financial year, the expectations of the company with respect to the best estimate assumptions and the margins for adverse deviation described above are reviewed. All assumptions are updated as appropriate to reflect the circumstances of the company.

16. Investment Contract Liabilities

	2020	**2019**
	$	**$**
Amortised cost -		
Amounts on deposit	27,103,165	24,448,273
Deposit administration fund	164,218	154,680
Other investment contracts	3,294,971	3,525,986
	30,562,354	28,128,939

(expressed in United States dollars unless otherwise indicated)

16. Investment Contract Liabilities (Continued)

The maturity value of other investment contracts is determined by the fair value of the linked assets at maturity date. There will be no difference between the carrying amount and the maturity amount at the maturity date.

The fair value of amounts on deposit and deposit administration fund is based on a discounted cash flow valuation technique. This discount rate is determined by the current market assessment of the time value of money and risk specific to the liability.

Movement of the Deposit Administration Fund:

	2020	**2019**
	$	**$**
At the beginning of year	154,680	145,663
Interest credited	9,538	9,017
At the end of year	164,218	154,680

These represent funds managed on behalf of pension plans administered by the company. Interest credited to the funds is paid at a fixed annual rate of return, with the rate being revised on an annual basis. At the end of the year, the company had 36 (2019 - 36) clients. The average interest rate paid by the company during the year was 5.65% (2019 – 5.65%).

17. Other Insurance Liabilities

	2020	**2019**
	$	**$**
Insurance benefits payable	3,172,231	2,349,371
Policy dividends and other funds on deposit	3,492,588	3,248,521
	6,664,819	5,597,892

(expressed in United States dollars unless otherwise indicated)

18. Net Premium Income

	2020	2019
	$	$
Gross premiums by line of business:		
Group life	346,956	677,491
Individual life		
Premium	15,902,637	15,638,620
Segregated fund contribution	6,529,275	4,116,109
Annuities	2,502,074	1,577,271
	25,280,942	22,009,491
Reinsurance premiums by line of business:		
Group life	304,591	331,505
Individual life	1,334,443	1,416,129
	1,639,034	1,747,634
Net premiums	23,641,908	20,261,857

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19. Net Investment Income

	2020	2020	2020
	Amortized cost assets	**FVTOCI assets**	**Total**
	$	**$**	**$**
Interest income -			
Debt securities	39,066	4,322,432	4,361,498
Policy loans	556,621		556,621
Securities purchased under resale	139,144		139,144
Deposits	5,710		5,710
	740,541	4,322,432	5,062,973
Net gain on de-recognition of financial assets measured at FVTOCI			4,544,758
			9,607,731
Interest income from FVTPL investments			233,799
Dividend income			225,263
Unrealized gains on financial assets measured at FVTPL			2,238,088
Net gain on de-recognition of financial assets measured at FVTPL			536,560
Other investment income			112,212
			3,345,922
Total investment income			12,953,653
Interest expense-			
Investment contracts and other policy liabilities			(927,250)
Expected credit losses			(783,795)
Net investment income			**11,242,608**

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19. Net Investment Income (Continued)

	2019		2019
	Amortized cost assets	**FVTOCI assets**	**Total**
	$	**$**	**$**
Interest income -			
Debt securities	18,221	5,484,377	5,502,598
Policy loans	384,356		384,356
Securities purchased under resale	60,958		60,958
Deposits	27,640		27,640
	491,175	5,484,377	5,975,552
Net gain on de-recognition of financial assets measured at FVTOCI			5,382,724
			11,358,276
Interest income from FVTPL investments			306,244
Dividend income			266,395
Unrealized losses on financial assets measured at FVTPL			2,391,023
Net gain on de-recognition of financial assets measured at FVTPL			2,389,894
Other investment income			117,745
			5,471,301
Total investment income			16,829,577
Interest expense-			
Investment contracts and other policy liabilities			(890,183)
Expected credit losses			(35,604)
Net investment income			**15,903,790**

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20. Fee and other Income

	2020	2019
	$	$
Reinsurance commissions	63,055	71,654
Other income	68,901	183,353
	131,956	255,007

21. Insurance Benefits and Claims

	Year ended 31 December 2020			2019
	Gross Insured	Reinsured	Net Claims	Net Claims
	$	$	$	$
Death and disability	3,376,389	(1,126,570)	2,249,819	2,122,460
Maturities	194,772	-	194,772	225,105
Surrenders and withdrawals	1,612,047	-	1,612,047	1,516,490
Segregated fund withdrawals	6,433,188	-	6,433,188	5,154,559
Annuities payments	1,392,367	-	1,392,367	1,339,991
Policy dividends and bonuses	400,082	-	400,082	323,507
Other benefits	735,478	-	735,478	889,927
	14,144,323	(1,126,570)	13,017,753	11,572,039

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22. Administration Expenses

	2020	2019
	$	$
Audit fees	320,971	420,471
Administration fees	768,599	779,999
Information technology	36,646	21,617
Office accommodation	223,418	220,921
Policy contract stamp duties	163,073	133,649
Printing, Postage and courier costs	70,181	41,278
Directors costs	13,435	10,104
Regulatory fees	118,885	106,761
Public relations and advertising	70,199	75,836
Salaries, pension contribution and staff benefits (a)	712,276	679,068
Sales convention and incentives	20,372	52,234
Legal and professional fees	240,624	6,461
Other expenses	961,433	671,982
	3,720,112	3,220,381

(a) Staff costs

	2020	2019
	$	$
Salaries	615,270	571,922
Pension costs	12,215	28,857
Share based compensation	6,810	544
Other	77,981	77,745
	712,276	679,068

23. Taxation

There is presently no taxation imposed on income or premiums by the Government of the Cayman Islands. The company intends to conduct its activities so as not to be subject to taxation in any other jurisdiction. As a result of the above matters, no tax liability or expense has been recorded in these financial statements.

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24. Cash Flows

(a) Operating activities

	2020	2019
Adjustments for non-cash items, interest and dividends:	**$**	**$**
Depreciation and amortisation of intangible assets	144,355	155,004
Interest, dividend and other income	(5,522,035)	(6,665,936)
Interest expense	927,250	890,183
Net realised gains on sale of investment securities	(5,081,318)	(7,772,618)
Fair value gains on trading securities	(2,238,088)	(2,391,023)
ECLs	783,795	35,604
Decrease in policy holders' funds	3,500,342	2,387,753
Net movement in actuarial reserves (Note 15(b))	11,575,697	9,841,750
Effect of exchange gain on foreign assets	(185)	(725)
	4,089,813	(3,520,008)
Changes in other operating assets and liabilities:		
Due from/to related parties	83,027	468,697
Reinsurance contracts	(452,668)	610,061
Other assets	62,566	(657,034)
Other liabilities	(463,961)	640,337
	(771,036)	1,062,061
Net investment (purchases)/ sales**:**		
Proceeds on sale of investment securities	67,665,413	208,198,099
Purchase of investment securities	(70,448,474)	(202,315,808)
	(2,783,061)	5,882,291

(expressed in United States dollars unless otherwise indicated)

24. Cash Flows (Continued)

	2020 $	2019 $
(b) Investing activities		
Purchase of property, plant and equipment (Note 7, 8)	(15,901)	(22,781)
(c) Financing activity	-	(20,000,000)

(d) Net debt reconciliation

This company has no borrowings at the end of the financial year. The sole financing cash flow was the payment of dividends at the end of the prior financial year. Cash and liquid investments as the end of the financial year are shown as below.

	2020 $	2019 $
Cash resources	2,641,853	3,584,921
Liquid Investments	14,256,119	4,212,204
	16,897,972	7,797,125

25. Fair Values of Financial Instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Market price is used to determine fair value where an active market exists as it is the best evidence of the fair value of a financial instrument. However, market prices are not available for a significant number of the financial assets and liabilities held and issued by the company. Therefore, for financial instruments where no market price is available, the fair values presented have been estimated using present value or other estimation and valuation techniques based on market conditions existing at the year-end date.

(expressed in United States dollars unless otherwise indicated)

25. Fair Values of Financial Instruments (Continued)

The values derived from applying these techniques are significantly affected by the underlying assumptions used concerning both the amounts and timing of future cash flows and the discount rates. The following methods and assumptions have been used:

(a) Investment securities classified as FVTOCI are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques;

(b) The fair value of liquid assets and other assets including reinsurance contracts maturing within one year is assumed to approximate their carrying amount. This assumption is applied to liquid assets and the short-term elements of all other financial assets (unsettled trades, due from related party and premium due and unapplied) and financial liabilities (financial liabilities including reinsurance contracts, unsettled trades, premium not applied and due to related party); and

(c) The fair value of variable rate financial instruments is assumed to approximate their carrying amounts as the rates are adjusted to take into account market changes in interest rates.

Differences between the fair values and the carrying values are accounted for in determining the amount of policyholders' liabilities that must be set aside each year.

The table below summaries the carrying amount and fair value of financial assets and financial liabilities not presented on the company's statement of financial position at their fair value:

	Carrying Value 2020 $	Fair Value 2020 $	Carrying Value 2019 $	Fair Value 2019 $
Financial Assets				
Financial investments-				
Investments at amortised	14,377,624	14,377,624	6,073,568	6,073,568
Financial Liabilities				
Investment contracts liabilities	27,267,383	27,267,383	24,602,953	24,602,953

The fair value of all other financial instruments approximate their carrying values.

25. Fair Values of Financial Instruments (Continued)

The following table provides an analysis of financial instruments that are measured in the statement of financial position at fair value at 31 December, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

(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 company 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 company uses a variety of methods such as obtaining dealer quotes and using discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are discounted at market derived rates for government securities in the same country of issue as the security. For non-government securities, an interest spread is added to the derived rate for a similar government security rate according to the perceived additional risk of the non-government security.

In assessing the fair value of non-traded financial liabilities, the company 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.

(expressed in United States dollars unless otherwise indicated)

25. Fair Values of Financial Instruments (Continued)

(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.

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.

	2020			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Financial Assets -				
Financial investments	22,226,673	132,770.963	-	154,997,636
Non- Financial Assets -				
Property, plant & equipment (Freehold Land & Buildings)	-	-	4,860,000	4,860,000
	22,253,322	147,209,810	4,860,000	174,323,132

	2019			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Financial Assets -				
Financial investments	21,692,865	115,523,639	-	137,216,504
Non- Financial Assets -				
Property, plant & equipment (Freehold Land & Buildings)	-	-	4,750,000	4,750,000
	21,692,865	115,523,639	4,750,000	141,966,504

There were no transfers between Level 1 and 2 in the year.

26. Insurance and Financial Risk Management

The company's activities expose it to a variety of financial risks and those activities necessitate the analysis, evaluation, control and/or acceptance of some degree of risk or combination of risks. Taking various types of risk is core to the financial services business and operational risks are an inevitable consequence of being in business. The company's aim is, therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the company's financial performance.

The company's intermediate parent company, Sagicor Group Jamaica Limited, has established a Group risk management framework with clear terms of reference. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the Board of Directors to Executive Management committees and senior managers. Policy frameworks which set out the risk profiles for the company's risk management, control and business conduct standards for the company's operations have been put in place. Each policy has a member of Executive Management charged with overseeing compliance with that policy.

The company's Board of Directors is ultimately responsible for the establishment and oversight of the risk management framework. The Board of Directors has established committees/departments/structures for managing and monitoring risks, as indicated below. Management of the company's insurance and financial risk for this financial year has been impacted by COVID 19. The changes to the company's risk management as a result of COVID 19 are discussed for each category of risk.

(i) Board Audit Committee
The Board Audit Committee comprises independent directors. The Committee:

- Oversees the company's financial risk management framework;
- Oversees how management monitors internal controls, compliance with the company's risk management policies and adequacy of the risk management framework to risks faced by the company;
- Reviews the company's annual and quarterly financial statements, related policies and assumptions and any accompanying reports or statements; and
- Reviews the internal audit function as well as the external auditor's independence, objectivity and effectiveness.

The Board Audit Committee is assisted in its oversight role by the Internal Audit Department. The Internal Audit Department undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Board Audit Committee.

(ii) Board Investment Committee
The Board Investment Committee comprises independent directors. As part of its Terms of Reference, the Committee:

- Oversees the company's financial risk management framework.
- Approves the investment policies within which the company's investment portfolios are managed;
- Reviews the performance of the company's investment portfolios;
- Ensures adherence to prudent standards in making investment and lending decisions and in managing investments and loans; and
- Approves new investment projects over certain thresholds, ensuring the required rates of returns are considered.

26. Insurance and Financial Risk Management (Continued)

(iii) Asset/Liability Management (ALM) Committee
The company has in place an Asset/Liability Management (ALM) Committee. This Committee:

- Monitors the profile of the company's assets and liabilities;
- Plans, directs and monitors various financial risks including, interest rate risk, equity risk, liquidity risk, currency risk and country risk;
- Provides guidance to the Investment Managers with regards to the appropriateness of investments assigned or purchased to support the liabilities of the various lines of business; and
- Monitors market interest rates and establishes the credited rate for various investment contracts.

(iv) Anti-Money Laundering (AML)
The company has assigned responsibility for AML and anti-fraud to a designated department. The responsibilities of this department include:

- Maintaining and communicating the AML and Anti-fraud policies and procedures;
- Interrogating financial transactions to identify suspicious and threshold reportable items;
- Coordinating information received from operating departments on reportable items;
- Ensuring that adequate anti-fraud controls are in place; and
- Filing the required report with Management, Board of Directors and Regulatory bodies.

(v) Regulatory Compliance
The Board has assigned responsibility for monitoring regulatory compliance to a designated department. This department maintains a catalogue of all required regulatory filings and follows-up the respective departments to ensure timely submissions. The department files the required performance reports with management and the Board of Directors.

(vi) Enterprise Risk Management
The company utilises an Enterprise Risk Management (ERM) framework, including policies and procedures designed to identify, measure and control risk in all business activities. The policies and procedures are reviewed periodically by senior managers and the Board of Directors.

The framework provides for quarterly evaluation of risks by senior management, with reporting to the Board Audit Committee. The risks exposures are prioritized each year and the top twenty (20) risks reported on.

Boards of subsidiary companies and management teams carry similar operating structures where applicable.

The most important types of risk facing the company are insurance risk, reinsurance risk, credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

26. Insurance and Financial Risk Management (Continued)

(a) Insurance risk

The company issues both short term and long term contracts that transfer insurance risk or financial risk or both.

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year, from the estimate established, using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

With scientific understanding of the COVID-19 virus, medical response, and actions by governments and organizations evolving rapidly, the situation remains fluid. While high correlation in life and health insurance losses is a feature of pandemic risk, the impact of the virus on long term mortality and morbidity risk is not yet quantified. A characteristic of the pandemic is that losses will materialize over time. The company therefore continues to examine its processes for underwriting, product pricing and product management at the policy level, and evaluate and refine internal models and scenario analyses to measure and manage the implied outcomes.

Long term insurance contracts

Long-term contracts are typically for a minimum period of 5 years and a maximum period which is determined by the remaining life of the insured. In addition to the estimated benefits which may be payable under the contract, the insurer has to assess the cash flows which may be attributable to the contract. The process of underwriting may also be undertaken and may include specific medical tests and other enquiries which affect the insurer's assessment of the risk. The insurer assesses the likely benefits and cash flows both in establishing the amount of premium payable under the contract and in estimating the liability arising from the contract.

For long-term contracts in-force, the company 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.

(i) Frequency and severity of claims

For contracts where death is the insured risk the most significant factors that could increase the overall frequency and severity of claims are epidemics and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits resulting in earlier or more claims than expected. For contracts where survival is the insured risk, the most significant risk is improvement in medical science and social conditions that would increase longevity. At present, these risks do not vary significantly in relation to the location of the risk insured by the company. However, undue concentration could have an impact on the severity of benefit payments on a portfolio basis.

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26. Insurance and Financial Risk Management (Continued)

(a) Insurance risk (continued)

Long-term insurance contracts (continued)

(i) Frequency and severity of claims (continued)
For contracts with fixed and guaranteed benefits and fixed return premiums, there are no mitigating terms and conditions that reduce the insurance risk accepted.

The table below presents the company's concentration of insured benefits across five bands of insured benefits per individual life assured. The benefit insured figures are shown gross and net of the reinsurance contracts described below in Note 26(b). As was the case in the previous year, the risk is concentrated at the lower value bands. (These tables do not include annuity contracts, for which a separate analysis is reported in the following pages).

Individual Life Benefits Assured per Life	**Total Benefits Insured**			
2020	**Before Reinsurance**	**%**	**After Reinsurance**	**%**
$'000	**$**		**$**	
0 - 200	919,555,275	36%	797,393,887	36%
200 - 400	850,427,646	34%	744,200,582	34%
400 - 800	509,790,304	20%	445,872,964	20%
800 - 1000	86,022,284	3%	75,049,549	3%
More than 1,000	168,621,802	7%	147,147,455	7%
Total	2,534,417,311	100%	2,209,664,437	100%

Individual Life Benefits Assured per Life	**Total Benefits Insured**			
2019	**Before Reinsurance**	**%**	**After Reinsurance**	**%**
$'000	**$**		**$**	
0 - 200	918,499,984	38	861,924,759	41
200 - 400	823,798,376	34	781,354,355	37
400 - 800	476,067,027	20	392,582,264	19
800 - 1000	70,035,240	3	34,997,480	1
More than 1,000	142,282,883	5	43,826,827	2
Total	2,430,683,510	100	2,114,685,685	100

26. Insurance and Financial Risk Management (Continued)

(a) Insurance risk (continued)

Long term insurance contracts (continued)

(i) Frequency and severity of claims (continued)
The table below represents the company's concentration of insured benefits across five bands of insured benefits per group individual life assured. The benefit insured figures are shown gross and net of reinsurance. As was the case in the previous year, the risk is concentrated at the lower value bands.

Group Life Benefits Assured per Life	Total Benefits Insured			
	Before Reinsurance	**%**	**After Reinsurance**	**%**
2020				
$'000	**$**		**$**	
0 - 200	218,455,240	84	149,166,578	87
200 - 400	29,973,588	11	19,018,221	11
400 - 800	6,680,972	3	3,641,526	2
800 - 1,000	-	-	-	-
More than 1,000	6,153,552	2	300,000	-
	261,263,352	100	172,126,325	100

Group Life Benefits Assured per Life	Total Benefits Insured			
	Before Reinsurance	**%**	**After Reinsurance**	**%**
2019				
$'000	**$**		**$**	
0 - 200	232,624,544	85	157,158,408	89
200 - 400	27,457,418	10	15,646,451	9
400 - 800	6,950,756	3	3,641,526	2
800 - 1,000	-	-	-	-
More than 1,000	6,554,040	2	300,000	-
	273,586,758	100	176,746,385	100

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26. Insurance and Financial Risk Management (Continued)

(a) Insurance risk (continued)

Long term insurance contracts (continued)

(i) Frequency and severity of claims (continued)
The following tables for the company's annuity insurance contracts illustrate the concentration of risk based on five bands that group these contracts in relation to the amount payable per annum as if the annuity was in payment at the year end. The greatest risk concentration remains at the lower bands, in the current and prior year. The company does not hold any reinsurance contracts against the liabilities carried for these contracts.

Annuity Payable per annum per annuitant	**Total Benefits Insured**	
2020	**$**	**%**
$'000		
0 – 20	687,493	43%
20 – 40	668,595	42%
40 – 80	242,004	15%
Total	1,598,092	100%

Annuity Payable per annum per annuitant	**Total Benefits Insured**	
2019	**$**	**%**
$'000		
0 – 20	625,382	45
20 – 40	573,991	42
40 – 80	182,112	13
Total	1,381,485	100

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26. Insurance and Financial Risk Management (Continued)

(a) Insurance risk (continued)

Long-term insurance contracts (continued)

(i) Frequency and severity of claims (continued)
For interest-sensitive and unit-linked contracts the company charges for mortality risks on a monthly basis for all insurance contracts and has the right to alter these charges based on mortality experience and hence to minimise its exposure to mortality risk. Delays in implementing increases in charges, and market or regulatory restraints over the extent of any increases may reduce this mitigating effect.

The underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of type of risk and the level of insured benefits. The company reinsures the excess of the insured benefit for new business for standard risks under an excess of loss reinsurance arrangement. Medical impaired lives are reinsured at higher levels. The company does not place any reinsurance for contracts that insure survival risk. Insurance risk for contracts is also affected by the policyholders' rights to pay reduced or no future premiums, to terminate the contract completely, or to exercise a guaranteed annuity option. As a result, the amount of insurance risk is also subject to the policyholders' behaviour. On the assumption that the policyholders will make decisions rationally, overall risk can be assumed to be aggravated by such behaviour.

The company has factored the impact of policyholders' behaviour into the assumptions used to measure these liabilities.

(ii) Sources of uncertainty in the estimation of future benefit payments and premium payments
Uncertainty in the estimation of future benefit payments and premium receipts for long term insurance contracts arises from the unpredictability of long term changes in overall levels of mortality and the variability in policyholder behaviour.

The company uses appropriate base tables of standard mortality according to the type of contract being written. An investigation as to the actual experience of the company is carried out, and statistical methods are used to adjust the crude mortality rates to produce a best estimate of expected mortality for the future. The best estimate of future mortality is based on standard industry tables adjusted for the company's overall experience. For contracts that insure survival, an adjustment is made for future mortality improvements based on the mortality investigations performed by independent actuarial bodies. The company maintains voluntary termination statistics to investigate the deviation of actual termination experience against assumptions. Statistical methods are used to determine appropriate termination rates to be used for the best estimate assumption.

26. Insurance and Financial Risk Management (Continued)

(a) Insurance risk (continued)

Long-term insurance contracts (continued)

(iii) Process used in deriving assumptions
The assumptions for short term life contracts and the process used in deriving these assumptions have remained substantially unchanged since the previous year.

For long-term insurance contracts, at the reporting date, the company determines current best estimate assumptions in relation to future deaths, voluntary terminations, investment returns and administration expenses. The best estimate assumptions are determined based on experience studies and the current circumstances of the business. A margin for adverse deviation based on expected deterioration or mis-estimation of the mean, is added to the best estimate assumptions to derive the valuation assumptions which are used for calculating the liabilities arising under the insurance contracts.

See Note 15(d) for detailed policy assumptions.

Short-duration life and health insurance contracts
Short-term contracts are typically for one year's coverage, with an option to renew under terms that may be amended by the company. In determining the premium payable under the contract, the company considers the nature and amount of the risk assumed, and recent experience and industry statistics of the benefits payable. This is the process of underwriting, which establishes appropriate pricing guidelines, and may include specific tests and enquiries which determine the insurer's assessment of the risk. The company may also establish deductibles to limit amounts of potential losses incurred.

Policy benefits payable under short-term contracts are generally triggered by an insurable event, i.e. a death claim. Settlement of these benefits is expected generally within one year. However, some benefits are settled over a longer duration.

The principal risks arising from short-term insurance contracts are premium risk, claims risk and reinsurance risk (See Note 26(b)).

Premium risk is the risk that the premium rate has been set too low for the risk being assumed.

Claims risk is the risk that:

- the number of claims may exceed expectations;
- the severity of claims incurred may exceed expectations; or
- the claim amount may develop during the interval between occurrence and settlement.

26. Insurance and Financial Risk Management (Continued)

(a) Insurance risk (continued)

Short-duration life insurance contracts (continued)

For the company's life insurance contracts, significant risk exposures arise from mortality and morbidity experience.

(i) Frequency and severity of claims

These contracts are mainly issued to employers to insure their commitments to their employees in terms of their employee benefit plans. This risk is affected by the nature of the industry in which the employer operates. The risk of death and disability will vary by industry. Undue concentration of risk by industry will therefore increase the risk of a change in the underlying average mortality or morbidity of employees in a given industry, with significant effects on the overall insurance risk.

Insurance risk under disability contracts is also dependent on economic conditions in the industry. The company attempts to manage this risk through its underwriting, claims handling and reinsurance policy. Excess of loss reinsurance contracts have been purchased by the company to limit the maximum loss on any one life and health claim, see Note 26(b) for retention limits.

(ii) Sources of uncertainty in the estimation of future claim payments

There is no need to estimate mortality rates or morbidity rates for future years because these contracts have a short duration.

(iii) Process used in deriving assumptions

The assumptions for short-duration life contracts and the process used in deriving these assumptions have remained substantially unchanged since the previous year.

See Note 15(d) for detailed policy assumptions.

The process to derive the assumptions for short-duration life contracts is similar to long-term insurance contracts. However, the short-term nature of the mortality risk underwritten makes the company's estimate of the liability covering death benefit payments less uncertain than in the case of long-term contracts.

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26. Insurance and Financial Risk Management (Continued)

(b) 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 company selects reinsurers which have established capability to meet their contractual obligations and which generally have high credit ratings. The credit ratings of reinsurers are monitored annually.

For insurance risks, the company limits its exposure by event or per person by excess of loss or quota share treaties.

Retention limits represent the level of risk retained by the company. The Board of Directors approves policy retention limits. Coverage in excess of these limits is ceded to reinsurers up to the treaty limit. The retention programs used by the company are summarised below:

Type of insurance contract	Retention by insurers
Life insurance contracts with individuals	Retention per individual to a maximum of US$500,000 (2019 – US$500,000)
Life insurance contracts with groups	Retention per individual to a maximum of US$100,000 (2019 – US$100,000)
Group Accident & Disability contracts	Retention per individual to a maximum of US$50,000 (2019 – US$50,000)

(c) Cash flow and fair value interest rate risk

Cash flow risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. 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 Asset and Liability Committee sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored at least quarterly. Resulting from the financial effects of COVID 19, the company enhanced its monitoring of its investment portfolios to determine if any action was required to protect its financial position. The company improved its liquidity by shortening the duration of its portfolios early in the year and, post June 2020, observed improvements in cash flow and interest rate risk.

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.

The company monitors interest rate risk by calculating the mean duration of the investment portfolio and the liabilities issued. The mean duration is an indicator of the sensitivity of the assets and liabilities to change in current interest rates. The mean duration of the liabilities is determined by means of projecting expected cash flows from the contracts using best estimate assumptions).

The company is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

26. Insurance and Financial Risk Management (Continued)

(c) Cash flow and fair value interest rate risk (continued)

(i) Long-term traditional insurance contracts and some investment contracts
Insurance and investment contracts with guaranteed and fixed terms have benefit payments that are fixed and guaranteed at the inception of the contract. The financial components of these benefits may include a guaranteed fixed interest rate and hence the company's primary financial risk on these contracts is the risk that interest income and capital redemptions from the financial assets backing the liabilities is insufficient to fund the guaranteed benefits payable.

(ii) Long-term insurance contracts and investment contracts without fixed terms
For unit-linked contracts, the company matches all the assets on which the unit prices are based with assets in the portfolio. There is no price, currency, credit, or interest rate risk for these contracts.

The company's primary exposure to financial risk for these contracts is the risk of volatility in asset management fees due to the impact of interest rate and market price movements on the fair value of the assets held in the linked funds, on which investment management fees are based.

Unit-linked and interest-sensitive universal life type contracts have embedded surrender options. These embedded derivatives vary in response to the change in a financial variable (such as equity prices and interest rates). At year end, all embedded derivatives within insurance liabilities were closely related to the host contract and did not require separation.

(iii) Short-term contracts
For short term insurance contracts, the company predominantly funds its net insurance liabilities (net of reinsurance recoveries) through its cash and cash equivalents and in the normal course of its operations.

Short-term liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest bearing.

The following tables summarise carrying amounts of statement of financial position assets, liabilities and equity in order to arrive at the company's interest rate gap based on earlier of contractual repricing or maturity dates.

The disclosures provided in this note are based on the company's investment portfolio as at 31 December 2020 and 2019.

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26. Insurance and Financial Risk Management (Continued)

(c) Cash flow and fair value interest rate risk (continued)

	2020				
	Within 1 Year	**1 to 5 Years**	**Over 5 Years**	**Non-interest bearing**	**Total**
	$	**$**	**$**	**$**	**$**
Assets					
Financial assets:					
Cash resources	2,640,533	-	-	1,320	2,641,853
Financial investments	16,926,253	319,059	133,126,122	19,091,698	169,463,132
Reinsurance contracts	-	-	-	1,077,380	1,077,380
Other assets	-	-	-	1,590,076	1,590,076
Total assets	19,566,786	319,059	133,126,122	21,672,602	174,684,569
Liabilities					
Financial liabilities:					
Other liabilities	-	-	-	2,730,729	2,730,729
Insurance contracts liabilities	1,550,110	6,304,003	76,406,190	246,560	84,506,863
Investment contracts liabilities	28,209,044	2,353,310	-	-	30,562,354
Other policy liabilities	3,492,584	-	-	3,172,235	6,664,819
Total liabilities	33,251,738	8,657,313	76,406,190	6,149,524	124,464,765
On statement of financial position interest sensitivity gap	(13,684,952)	(8,338,254)	56,719,932	15,523,078	50,219,804
Cumulative interest sensitivity gap	(13,684,952)	(22,023,206)	34,696,726	50,219,804	

	2019				
	Within 1 year	**1-5 years**	**Over 5 years**	**Non-Interest bearing**	**Total**
	$000	**$000**	**$000**	**$000**	**$000**
Total Assets	11,424,139	532,764	115,878,010	22,317,247	149,783,789
Total liabilities	21,354,853	16,796,231	60,481,693	5,881,791	104,514,568
On statement of financial position interest sensitivity gap	(10,930,714)	(16,263,467)	55,396,317	16,435,456	44,637,592
Cumulative interest sensitivity gap	(10,930,714)	(27,194,181)	28,202,136	44,637,592	

26. Insurance and Financial Risk Management (Continued)

(d) Credit risk

Credit risk exposure- financial investments subject to impairment

COVID 19 has caused a contraction in all the economies in which the company operates. The spread of the virus and travel restrictions have had a significant effect on the demand for tourism, entertainment and related services. As a result, Sagicor offered extensions of moratoriums, payment deferrals and other accommodative activities to several clients on a case by case basis; this against the background that several clients across various sectors experienced significant declines in earnings. The company also made significant adjustments to our ECLs to recognize the increased credit risk associated with the economic fallout on our borrowing and investment portfolios

The following tables contain analyses of the credit risk exposure of financial investments for which an ECL allowance is recognized. The gross carrying amounts of investments at amortised cost below represent the company's maximum exposure to credit risk on those assets. For financial investments at FVTOCI, the maximum exposure to credit risk represents their amortised cost, and not the carrying amount, as the amortised cost represents the maximum loss to be suffered at the year-end, in the event of a full default by the counterparty.

Securities purchased for resale, mortgage loans, policy loans and deposits for the company are all within stage 1 credit risk and have no ECLs. The maximum exposure is therefore equivalent to the carrying amounts as follows:

	2020 $'000	2019 $'000
Maximum exposure at amortised costs:		
Securities purchased for resale	6,697,335	811,647
Policy Loans	4,729,355	4,812,374
Deposits	2,892,796	387,955

Provision for credit losses in the company's financial statements as follow:

	2020 $'000	2019 $'000
Expected credit losses:		
Investments	783,795	35,604
Total per income statement	783,795	35,604

Sagicor Life of the Cayman Islands Ltd.

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26. Insurance and Financial Risk Management (Continued)

(d) Credit risk (Continued)

Credit risk exposure- financial investments subject to impairment (continued)

	2020				
	ECL Staging				
Debt securities – FVTOCI	**Stage 1 12-month ECL**	**Stage 2 life-time ECL**	**Stage 3 life-time ECL**	**Purchased credit-impaired**	**Total**
	$000	**$000**	**$000**	**$000**	**$000**
Credit grade:					
Investment	110,290	-	-	-	110,290
Non-investment	-	8,379	637	79	9,095
Maximum exposure before loss allowance	**110,290**	**8,379**	**637**	**79**	**119,385**
Loss allowance	(23)	(589)	(446)	-	(1,058)
Maximum exposure after loss allowance	**110,267**	**7,790**	**191**	**79**	**118,327**

	2019				
	ECL Staging				
Debt securities – FVTOCI	**Stage 1 12-month ECL**	**Stage 2 life-time ECL**	**Stage 3 life-time ECL**	**Purchased credit-impaired**	**Total**
	$000	**$000**	**$000**	**$000**	**$000**
Credit grade:					
Investment	103,086	-	-	-	103,086
Non-investment	1,912	4,177	-	83	6,172
Maximum exposure before loss allowance	**104,998**	**4,177**	**-**	**83**	**109,258**
Loss allowance	(72)	(219)	-	-	(291)
Maximum exposure after loss allowance	**104,926**	**3,958**	**-**	**83**	**108,967**

For financial investments measured at FVTPL under the unit-linked funds fair value model, the unit holders bear the credit risk and the company has no direct credit exposure.

26. Insurance and Financial Risk Management (Continued)

(d) Credit risk (continued)

Loss allowances

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

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

The following tables contain an analysis of the credit risk exposure of financial investments for which an ECL allowance is recognised. The gross carrying amount of financial assets below represents the company's maximum exposure to credit risk on these assets.

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26. Insurance and Financial Risk Management (Continued)

(d) Credit risk (continued)

Loss allowances (continued)

	2020				
	ECL staging				
	Stage 1	Stage 2	Stage 3	Purchased	
	12-month ECL	Lifetime ECL	Lifetime ECL	credit-impaired	Total
DEBT SECURITIES - FVTOCI	**$000**	**$000**	**$000**	**$000**	**$000**
Loss Allowance as at January 01, 2019	**140**	**1,115**	**39**	**-**	**1,294**
New financial assets originated or purchased	22	-	-	-	22
Financial assets fully derecognised during the period	(95)	(834)	(39)	-	(968)
Changes in models/assumptions used in ECL calculation		-	-	-	-
Changes to inputs used in ECL calculation	4	(72)	-	-	(68)
Foreign exchange adjustment	2	9	-	-	11
Loss Allowance as at December 31, 2019	**73**	**218**	**-**	**-**	**291**
Transfers:					
Transfer from Stage 1 to Stage 2	(3)	3	-	-	-
Transfer from Stage 2 to Stage 3	-	(120)	120	-	-
New financial assets originated or purchased	10	-	-	-	10
Financial assets fully derecognised during the period	(49)	(1)	-	-	(50)
Changes in models/assumptions used in ECL calculation	-	-	-	-	
Changes to inputs used in ECL calculation	(8)	489	326	-	807
Loss Allowance as at December 31, 2020	**23**	**589**	**446**	**-**	**1,058**

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26. Insurance and Financial Risk Management (Continued)

(d) Credit risk (continued)
Loss allowances (continued)

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

At December 31, 2019

Economic variable assumptions

		2020	2021	2022
S&P 500 Financial Index EPS	Base	$38	$41	$41
	Upside	$54	$59	$59
	Downside	$25	$27	$27
World GDP	Base	3.4%	3.6%	3.6%
	Upside	5.0%	5.3%	5.3%
	Downside	2.5%	2.7%	2.7%
WTI Oil Prices/10	Base	$5.62	$5.32	$5.19
	Upside	$9.47	$9.47	$9.47
	Downside	$3.45	$3.27	$3.19

Cayman	Expected state for the next 12 months	
Interest rate	Base	Positive
	Upside	Positive
	Downside	Stable
Unemployment rate	Base	Positive
	Upside	Super positive
	Downside	Stable

Sagicor Life of the Cayman Islands Ltd.

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26. Insurance and Financial Risk Management (Continued)

(d) Credit risk (continued)

Loss allowances (continued)

At December 31, 2020

Economic variable assumptions

		2021	2022	2023
S&P 500 Financial Index EPS	Base	$33	$39	$39
	Upside	$50	$59	$59
	Downside	$22	$26	$26
World GDP growth rate	Base	5.2%	4.2%	3.8%
	Upside	7.8%	6.3%	5.7%
	Downside	2.6%	2.6%	2.6%
WTI Oil Prices/10	Base	4.82	4.67	4.58
	Upside	9.39	9.39	9.39
	Downside	2.02	1.96	1.92

Management has examined the information within the market and selected economic drivers that have the best correlation to the portfolio's performance. Economic state is assigned to reflect the driver's impact on ECL.

Cayman	Expected state for the next 12 months	
Interest rate	Base	Stable
	Upside	Positive
	Downside	Stable
Unemployment rate	Base	Negative
	Upside	Stable
	Downside	Super Negative

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26. Insurance and Financial Risk Management (Continued)

(d) Credit risk (continued)
Loss allowances (continued)

December 31, 2019

SICR and IAS 1 critical estimated disclosure

SICR criteria *	Actual threshold applied	Change in threshold	ECL impact of Change in threshold
Investments	2-notch downgrade since origination	1-notch downgrade since origination	365

* See note 3 (iii)) for full criteria for staging..

Loss Given Default	Actual value applied	Change in value	ECL impact of Increase in value	ECL impact of Decrease in value
Investments - Corporate Debts	52%	(- /+ 5) %	28	(28)

Weighting for downside scenario	Actual value applied	Change in value	ECL impact of Increase in value	ECL impact of Decrease in value
Investments - excluding Government of Barbados	10% (80% for base scenario and 10% for upside scenario)	(- /+ 5) % - keep the weighting for base scenario and adjust the weighting for upside scenario accordingly	9	(9)

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26. Insurance and Financial Risk Management (Continued)

(d) Credit risk (continued)
Loss allowances (continued)

December 31, 2020

SICR and IAS 1 critical estimated disclosure

SICR criteria *	Actual threshold applied	Change in threshold	ECL impact of Change in threshold
Investments	2-notch downgrade since origination	1-notch downgrade since origination	-

* See note 3 (iii) for full criteria for staging.

Loss Given Default	Actual value applied	Change in value	ECL impact of Increase in value	ECL impact of Decrease in value
Investments - Corporate Debts	52%	(-/+ 5)%	58	(58)

Weighting for downside scenario	Actual value applied	Change in value	ECL impact of Increase in value	ECL impact of Decrease in value
Investments - excluding Government of Barbados	10% (80% for base scenario and 10% for downside scenario)	(-/+ 5)%- keep the weighting from base scenario and adjust the weighting for upside scenario accordingly	20	(20)

Sagicor Life of the Cayman Islands Ltd.

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26. Insurance and Financial Risk Management (Continued)

(d) Credit risk (continued)

IFRS 9 maximum exposure to credit risk

The following tables explain the changes in the maximum exposure to credit risk between the beginning and the end of the period due to these factors. With the exception of FVTOCI investments, the maximum exposure to credit risk equals the carrying amount.

	ECL staging				
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Purchased** credit-impaired	**Total**
DEBT SECURITIES - FVTOCI	**$000**	**$000**	**$000**	**$000**	**$000**
Maximum exposure to credit risk as at January 01, 2019	**98,443**	**12,077**	**110**	**-**	**110,630**
New financial assets originated or purchased	76,001	-	-	83	76,084
Financial assets fully derecognised during the period	(69,404)	(7,879)	(110)	-	(77,393)
Changes in principal and interest	(42)	(21)	-	-	(63)
Maximum exposure to credit risk as at December 31, 2019	**104,998**	**4,177**	**-**	**83**	**109,258**
Transfers:					
Transfer from Stage 1 to Stage 2	(5,100)	5,100	-	-	-
Transfer from Stage 2 to Stage 3	-	(657)	657	-	-
New financial assets originated or purchased	58,836	-	-	-	58,836
Financial assets fully derecognised during the period	(48,342)	(219)	-	(4)	(48,565)
Changes in principal and interest	(102)	(22)	(20)	-	(144)
Maximum exposure to credit risk as at December 31, 2020	**110,290**	**8,379**	**637**	**79**	**119,385**

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26. Insurance and Financial Risk Management (Continued)

(d) Credit risk (continued)

IFRS 9 maximum exposure to credit risk (continued)

	ECL staging				
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Purchased credit-impaired**	**Total**
POLICY LOANS - AMORTISED COST	**$000**	**$000**	**$000**	**$000**	**$000**
Maximum exposure to credit risk as at January 01, 2019	**4,976**	**-**	**-**	**-**	**4,976**
Changes in principal and interest	(164)	**-**	**-**	-	(164)
Maximum exposure to credit risk as at December 31, 2019	**4,812**	**-**	**-**	**-**	**4,812**
Changes in principal and interest	(83)	-	-	-	(83)
Maximum exposure to credit risk as at December 31, 2020	**4,729**	**-**	**-**	**-**	**4,729**

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26. Insurance and Financial Risk Management (Continued)

(d) Credit risk (continued)

IFRS 9 maximum exposure to credit risk (continued)

	ECL staging				
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Purchased credit-impaired**	**Total**
SECURITIES PURCHASED FOR RESALE - AMORTISED COST	**$000**	**$000**	**$000**	**$000**	**$000**
Maximum exposure to credit risk as at January 01, 2019	**1,388**	**-**	**-**	**-**	**1,388**
Net new financial assets originated or purchased	(577)	-	-	-	(577)
Maximum exposure to credit risk as at December 31, 2019	**811**	**-**	**-**	**-**	**811**
Net new financial assets originated or purchased	5,886	-	-	-	5,886
Maximum exposure to credit risk as at December 31, 2020	**6,697**	**-**	**-**	**-**	**6,697**

	ECL staging				
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Purchased credit-impaired**	**Total**
DEPOSITS - AMORTISED COST	**$000**	**$000**	**$000**	**$000**	**$000**
Maximum exposure to credit risk as at January 01, 2019	**397**	**-**	**-**	**-**	**397**
Changes in principal and interest	(9)	-	-	-	(9)
Maximum exposure to credit risk as at December 31, 2019	**388**	**-**	**-**	**-**	**388**
New financial asset originated or purchased	2,506	-	-	-	2,506
Changes in principal and interest	(1)	-	-	-	(1)
Maximum exposure to credit risk as at December 31, 2020	**2,893**	**-**	**-**	**-**	**2,893**

26. Insurance and Financial Risk Management (Continued)

(d) Credit risk (continued)

IFRS 9 carrying values

Debt securities in default
During the month of June 2018, the Government of Barbados (GOB) suspended all payments to creditors of its external commercial debt which is denominated primarily in US dollars. Interest payments due on June 5 and June 15, 2018 were not made. Principal payments on matured domestic debt which is denominated in Barbados dollars were suspended and debt holders were required to roll-over principal balances.

The announcement of the suspended payments was evidence that the financial assets were credit-impaired and consequently, in June the company re-classified its GOB debt security holdings to Stage 3 with a probability of default of 100%. Some GOB debt instruments were purchased more recently and therefore there were instruments that had not yet experienced a significant increase in credit risk relative to the initial credit risk and moved from Stage 1 to Stage 3 upon the announcement.

On September 7, 2018 the GOB announced its debt restructuring program which is being done in conjunction with the economic recovery plan and an IMF programme.
As at September 30, 2018 the negotiations of the new bond were materially completed and on October 3, 2018 the company signed an agreement with the Government of Barbados which outlined the terms of the debt exchange. In exchange for its debt the company has accepted the following securities:

Series C
A 15-year amortising bond with interest rates ranging from 1.0% for the first 3 years to 3.75% for years 5 through to maturity. Interest on these bonds is to be paid quarterly with the first payment due on December 31, 2018. The principal will be repaid in four equal quarterly instalments commencing one year prior to maturity.

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26. Insurance and Financial Risk Management (Continued)

(d) Credit risk (continued)
Debt Securities in default (continued)

Series D
A 35-year amortising bond with interest rates ranging from 1.5% for the first 5 years to 7.5% for years 16 through to maturity. Interest on these bonds is paid quarterly with the first payment due on November 30, 2018. The principal will be repaid in three equal instalments commencing one year prior to maturity with the final payment on August 31, 2053.

Series G
A 50-year amortising bond which includes a 15-year grace period on principal payments. The interest rates on the bond range from 4% per annum for the first 15 years to 8% for years 26 through 50 with interest capitalisation of 100% for the first five years.

External Debt
The restructuring of the external debt was not finalised as at December 31, 2018.
Given this agreement and the short timeframe required for the restructuring to close subsequent to September 30, 2018 the company applied a significant weighting to the probability of the current instruments being exchanged for the new instruments in determining the expected credit loss. The company has also considered other scenarios, these however are considered unlikely and have not had a significant impact on the expected credit loss computed as at September 30, 2018. As the new instruments have not been issued, the determination of the expected fair value is based on models and an internally developed yield curve.

The restructuring of the external debt in 2019

On November 22, 2019 the GoB made an Exchange Offer to Bondholders of GOBD 7.8% Notes due 2019, 7.25% Notes due 2021, 7.00% Notes due 2022 and 6.625 Notes due 2035 respectively. The company exchanged its holdings of GOBG 2021 with outstanding principal and interest of US$101,488 respectively. The final exchange offer resulted in the company receiving US$77,400 GOBG2029 6.5% and US$4,700 GOGB2021 6.5% and cash of US$719.30. After the restructuring, a 27% Haircut was recorded.

The exposure of GOB Bonds as at December 31, 2020 was:

	GOB Exposure	GOB Loss Allowances
	$000	**$000**
Balance as of December 31, 2020	79	-
Balance as of December 31, 2019	83	-

26. Insurance and Financial Risk Management (Continued)

(e) Liquidity risk

Liquidity risk is the risk that the company is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

Liquidity risk management process

The company's liquidity management process, as carried out within the company and monitored by the Sagicor Group Jamaica Limited's Treasury Department, includes:

(i) Monitoring future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure funding if required;

(ii) Maintaining a portfolio of highly marketable and diverse assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

(iii) Maintaining committed lines of credit;

(iv) Optimising cash returns on investment;

(v) Monitoring liquidity ratios against internal and regulatory requirements. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities; and

(vi) Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month, respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the company. It is unusual for companies ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of loss.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the company and its exposure to changes in interest rates and exchange rates.

The disclosures provided in this note are based on the company's investment portfolio as at 31 December 2020 and 2019.

The tables below present the undiscounted cash flows payable (both interest and principal cash flows) of the company's financial and insurance contract liabilities based on the remaining periods. There are also tables which show discounted cash flows of the assets and liabilities, by earlier of maturity or contractual re-pricing for the financial assets and liabilities. The company expects that many policyholders/customers will not request repayment on the earliest date the company could be required to pay based on historical trend. The expected maturity dates of financial assets and liabilities are based on estimates made by management as determined by retention history.

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26. Insurance and Financial Risk Management (Continued)

(e) Liquidity risk (continued)

	Within 1 Year	1 to 5 Years	Over 5 Years	No specific maturity	Total
	$	$	$	$	$
Undiscounted Financial Liabilities - 31 December 2020					
Other liabilities	-	-	-	2,730,729	2,730,729
Investment contracts liabilities	29,210,000	2,514,000	-	-	31,724,000
Total undiscounted financial liabilities	29,210,000	2,514,000	-	2,730,729	34,454,729

	Within 1 Year	1 to 5 Years	Over 5 Years	No specific maturity	Total
	$	$	$	$	$
Undiscounted Financial Liabilities 31 December 2019					
Other liabilities	2,790,036	313,280	-	-	3,103,316
Investment contracts liabilities	10,408,145	17,735,003	-	-	28,143,148
Total undiscounted financial liabilities	13,198,181	18,048,283	-	-	31,246,464

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26. Insurance and Financial Risk Management (Continued)

(e) Liquidity risk (continued)

The tables below reflect the expected maturities of the company's discounted financial assets and liabilities at the year end date.

	2020				
	Within 1 year	**1-5 years**	**Over 5 years**	**No Specific Maturity**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Assets:					
Cash resources	-	-	-	2,641,853	2,641,853
Financial investments & pledged assets	15,837,374	319,059	135,738,465	17,480,362	169,375,260
Reinsurance contracts	-	-	-	1,077,380	1,077,380
Other assets	865,376	-	-	724,700	1,590,076
Total assets	16,702,750	319,059	135,738,465	21,924,295	174,684,569
Liabilities					
Other liabilities	-	-	-	2,730,729	2,730,729
Insurance contracts liabilities	1,550,000	6,303,863	76,653,000	-	84,506,863
Investment contracts liabilities	28,209,044	2,353,310	-	-	30,562,354
Other policy liabilities	6,664,819	-	-	-	6,664,819
Total liabilities	36,423,863	8,657,173	76,653,000	2,730,729	124,464,765
On statement of financial position liability gap	(19,721,113)	(8,338,114)	59,085,465	19,193,566	50,219,804
Cumulative liability sensitivity gap	(19,721,113)	(28,059,227)	31,026,238	50,219,804	

	2019				
	Within 1 Year	**1 to 5 Years**	**Over 5 Years**	**No specific maturity**	**Total**
	$	**$**	**$**	**$**	**$**
Total assets	12,683,142	508,169	113,743,642	22,217,207	149,152,160
Total liabilities	26,777,544	16,826,230	60,910,794	-	104,514,568
On statement of financial position liability sensitivity gap	(14,094,402)	(16,318,061)	52,832,848	22,217,207	44,637,592
Cumulative liability sensitivity gap	(14,094,402)	(30,412,463)	22,420,385	44,637,592	

26. Insurance and Financial Risk Management (Continued)

(e) Liquidity risk (continued)

Assets available to meet all of the liabilities include cash, investment securities and other eligible bills. The company is also able to meet unexpected net cash outflows by selling securities and accessing additional funding sources from other financing institutions.

(f) Market risk

The company takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk mainly arises from changes in foreign currency exchange rates and interest rates. Market risk is monitored by the Investment department which carries out extensive research and monitors the price movement of financial assets on the local and international markets. Market risk exposures are measured using sensitivity analysis.

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Foreign exchange risk occurs when the company takes an open position in a currency. To control this exchange risk the Asset and Liability Committee (ALCO) has approved limits for net open positions in each currency for both intra-day and overnight position. This limit may vary from time to time as determined by ALCO.

The company also has transactional currency exposure. Such exposure arises from having financial assets in currencies other than those in which financial liabilities are expected to settle. The company ensures that its net exposure is kept to an acceptable level by buying or selling foreign assets to address short term imbalances.

The following tables summarise the exposure of the company to foreign currency exchange rate risk. Included in the tables are the company’s assets and liabilities at carrying amounts categorised by currency.

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26. Insurance and Financial Risk Management (Continued)

(f) Market risk (continued)

Currency risk (continued)

	2020			
	United States	**Cayman Islands**	**Other**	**Total**
	$	**$**	**$**	**$**
Assets				
Financial assets:				
Cash resources	1,575,954	1,041,956	23,943	2,641,853
Financial investments	164,724,996	4,154,311	495,953	169,375,260
Reinsurance contracts	1,077,380	-	-	1,077,380
Other assets	882,071	707,013	992	1,590,076
Total assets	**168,260,401**	**5,903,280**	**520,888**	**174,684,569**
Liabilities				
Financial liabilities				
Other liabilities	2,477,521	249,719	3,489	2,730,729
Insurance contracts liabilities	37,746,240	46,721,200	39,423	84,506,863
Investment contracts liabilities	29,895,688	666,666	-	30,562,354
Other insurance liabilities	2,790,305	3,864,854	9,660	6,664,819
Total liabilities	**72,909,754**	**51,502,439**	**52,572**	**124,464,765**
Net exposure	**95,350,647**	**(45,599,159)**	**468,316**	**50,219,804**

	2019			
	United States	**Cayman Islands**	**Other**	**Total**
	$	**$**	**$**	**$**
Total assets	141,776,310	7,251,609	124,241	149,152,160
Total liabilities	65,139,713	38,170,128	1,204,727	104,514,568
Net on statement of financial position	**76,636,597**	**(30,918,519)**	**(1,080,486)**	**44,637,592**

27. Sensitivity Analysis

Actuarial liabilities comprise 69.4% (2019 – 66.7%) of total Policyholders' Funds. The determination of actuarial liabilities is sensitive to a number of assumptions, and changes in those assumptions could have a significant effect on the valuation results. These factors are discussed in detail in Note 15(d).

(i) Sensitivity arising from the valuation of life insurance and annuity contracts

In summary, the valuation of actuarial liabilities of life insurance and annuity contracts is sensitive to:

- the economic scenario,
- the investments allocated to back the liabilities,
- the underlying assumptions used, and
- the margins for adverse deviations.

The Appointed Actuary tests the actuarial liabilities under several economic scenarios. These tests have been done and the liabilities have been derived from the scenarios which produce the worst-case results.

The assumption for future investment yields has a significant impact on actuarial liabilities.

The other assumptions to which the actuarial liabilities of the company are most sensitive, in descending order of impact are:

- Mortality and morbidity;
- Lapse rates; and
- Operating expenses.

(ii) Dynamic capital adequacy testing (DCAT)

DCAT is a technique used to assess the adequacy of an insurer's future 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 statement of financial position at a given date.

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, to whom it owes benefits and to its shareholders.

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 and the Board to material, plausible and imminent threats to the insurer's solvency; and
- to describe possible courses of action to address these threats.

27. Sensitivity Analysis (Continued)

(ii) Dynamic capital adequacy testing (DCAT) (continued)

A full DCAT report has been completed for the company.

The results are as follows:

(i) Worsening rate of lapse. The scenario was tested in either of the following ways:

For business which produces higher valuation reserves with an increase in lapse rates, the scenario lapse rates were doubled. For business which produces higher valuation reserves with a decrease in lapse rates, the scenario lapse rates were halved.

Overall, this scenario produces adverse results in 2020 and for the next five years.

(ii) High interest rate. An assumed increase in portfolio rate of 0.5% per year for 10 years. Overall, this scenario produces favourable results in 2020 and for the next five years.

(iii) Low interest rate. An assumed decrease in portfolio rate of 0.5% for 10 years was tested in this scenario. Overall, this scenario produces adverse results in 2020 and for the next five years.

(iv) Worsening mortality and morbidity. To test this scenario, mortality and morbidity rates were increased for insurance and critical illness products and decreased for annuity products. For insurance and critical illness products, rates were increased by 3% of the base rate per year for 5 years. For annuity products, rates were decreased by 3% of the base rate for 5 years. Overall, this scenario produces adverse results in 2020 and for the next five years.

(v) Higher expenses. Higher unit maintenance expenses were tested by setting the unit expense rate for each projection year 5% greater than the unit expense rate assumed in the base scenario. Overall, this scenario produces adverse results in 2020 and for the next five years.

(vi) Level new business. New business planned for 2020 was maintained for the 5 year period. Overall, this scenario has no effect on the liabilities in 2020 but produces favourable results for the next five years.

(vii) Double new business. New business planned for the 5-year period was projected to grow at twice the rate of growth anticipated in the base scenario. Overall, this scenario has no effect on the 2020 liabilities, but will produce unfavourable results over the next five years.

(expressed in United States dollars unless otherwise indicated)

27. Sensitivity Analysis (Continued)

(ii) Dynamic capital adequacy testing (DCAT) (continued)

The DCAT conducted has not tested any correlation that may exist between assumptions. The use of differing sensitivity rates by insurers reflects differences in the insurers' environment.

The following table represents the estimated sensitivity of each of the above scenarios to net actuarial liabilities totalling $84,506,863 (2019: $67,684,421) at year end date.

Variable	Change in Variable	2020 Change in Liability/ Equity $	2019 Change in Liability/ Equity $
Worsening of mortality/morbidity	+3%	8,773,324	5,766,778
Improvement in annuitant mortality	-3%	670,062	442,670
Lowering of investment return	-0.5%	10,814,606	892,588
Worsening of base renewal expense inflation rate	+5%	432,322	311,422
Worsening of lapse rate	x2 or x0.5	8,650,172	3,991,700
Rising of investment return	+0.5%	(14,991,214)	(15,301,724)

(iii) Sensitivity arising from a decline in equity and unit trust prices

The company is sensitive to fair value risk on its securities. The theoretical effects of an increase by 5% and decrease by 10% in equity prices at the year-end date are set out below.

	Carrying value $	Effect of 5% change at 31 December 2020 $	Effect of 10% change at 31 December 2020 $
Equity securities:			
Listed on US stock exchanges	16,951,250	847,563	1,695,125
Listed on other stock exchanges	555,751	27,788	55,575
	17,507,001	875,351	1,750,700

27. Sensitivity Analysis (Continued)

(iii) Sensitivity arising from a decline in equity and unit trust prices (continued)

	Carrying value $	Effect of 10% change at 31 December 2019 $
Equity securities:		
Listed on US stock exchanges	17,073,010	1,707,301
Listed on other stock exchanges	638,423	63,842
	17,711,433	1,771,143

(iv) Sensitivity arising from currency risk

The company is most sensitive to currency risk in its operating currencies which float with the United States dollar. The Cayman Islands dollar is pegged to the United States dollar and as such there is no currency sensitivity on balances denominated in CI$. Balances not denominated in USD and CI$ are predominately denominated in JMD.

The effect or a further 6% depreciation and a 2% appreciation in the United States dollar (USD) relative to the Jamaican dollar (JMD) at the year end date are considered in the following table.

	2020			2019		
	Balances Denominated in other than USD and CI $	Effect of a 6% depreciation at 31 December 2020 $	Effect of a 2% appreciation at 31 December 2020 $	Balances Denominated in other than USD and CI $	Effect of a 5% depreciation at 31 December 2019 $	Effect of a 15% appreciation at 31 December 2019 $
Statement of financial position:						
Assets	520,888	552,141	(510,470)	124,243	130,455	(105,606)
Liabilities	52,572	(55,726)	51,521	1,204,727	(1,264,963)	1,024,018
Net position	468,316	496,415	(458,949)	(1,080,484)	(1,134,508)	(918,412)
Income statement:						
Net income	-	28,099	(9,367)	-	(54,024)	162,073

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27. Sensitivity Analysis (Continued)

(v) Interest rate sensitivity

The following tables indicate the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, on the income statements and stockholders' equity.

The sensitivity of the profit or loss is the effect of the assumed changes in interest rates on net income based on the floating rate of financial assets and financial liabilities. The sensitivity of stockholders' equity is calculated by revaluing fixed rate FVTOCI financial assets for the effects of the assumed changes in interest rates.

	Effect on Net Profit 2020 $'000	Effect on Equity 2020 $'000	Effect on Net Profit 2019 $'000	Effect on Equity 2019 $'000
Change in percentage				
US$ -1% (2019-US$ -0.5%)	(4,999)	3,038	(3,813)	8,167
US$ +1% (2019-US$ +0.5%)	4,706	(2,459)	3,328	(7,350)

28. Capital Management

The company manages its capital resources according to the following objectives:

- To comply with internationally recognised capital requirements for insurance, and to meet local regulations imposed by the Cayman Islands Insurance Laws.
- To safeguard its ability to meet future obligations to policyholders, depositors and shareholders;
- To provide adequate returns to shareholders by pricing insurance, investment and other contracts commensurately with the level of risk; and
- To maintain a strong capital base, which is sufficient for the future development of the company's operations.

The principal capital resources of the company comprise its shareholders' equity, which stands at $61,341,089 (2019 - $ 55,670,348).

The company deploys its capital resources to activities carried out through various lines of business. The capital is deployed in such a manner as to ensure that each line of business generates the desired return on capital employed and that the company has adequate and sufficient capital resources to carry out its activities.

(expressed in United States dollars unless otherwise indicated)

28. Capital Management (continued)

Sagicor Life of the Cayman Islands Ltd.
During 2014, the Cayman Islands Insurance (Capital and Solvency) (Class A Insurers) Regulations became effective. The minimum capital requirement for a local Class A insurer was established as the greater of US$300,000, or the square root of the sum of the square of five risk components – assets, policy liabilities, subsidiaries, catastrophe exposure and foreign exchange risk. Additionally, the prescribed capital for a local Class A insurer must be at least 125% of the minimum capital requirement. As at the year-end date, the prescribed capital requirement was US$15,830,000 (2019 - $10,882,000) and available capital when expressed as a percentage of prescribed capital, was 364% (2019 – 475.9%).

The Minimum Capital and Requirement (MCCSR) for Sagicor Life of the Cayman Islands Ltd., based on the Canadian Regulatory Standards is set out below.

	2020	2019
Sagicor Life of the Cayman Islands Ltd.	260.50%	249.42%

29. Pension Scheme

The company participates in the Cayman Islands Chamber of Commerce Pension Plan. The plan is a money purchase contributory plan covering all the employees of the company in the Cayman Islands. The benefits are vested immediately.

The company contributes at a fixed rate of 5% of pensionable earnings of up to KYD87,000 per annum and employees contribute at a rate of 5% of regular salary.

The employer’s contribution for the year totaled $12,215 (2019 - $28,857) for the company.

During the year, an approval was granted for a pension holiday during which time all employers and employees are not required to pay mandatory pension contributions into pension plans.

30. Commitments and Contingent Liabilities

(a) Commitments
There were no commitments for the current or prior year with respect of lease contracts and capital commitments.

(b) Regulatory Finding
The company has not made any filings with the Regulators in Antigua as management deemed the level of business in the said territory to be insignificant. Also refer to Note 33 with respect to regulatory findings in the Cayman Islands.

31. Dividends Declared and Paid

There was no dividend declared or paid during the year (2019 - $ 20,000,000).

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32. Offsetting Financial Assets and Financial Liabilities

(a) Financial assets

The following financial assets are subject to offsetting, enforceable master netting arrangements and similar agreements.

	2020						
				Related amounts not set off in the statement of financial position			
	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 Agreements**	**Cash collateral**	**Financial instruments collateral**	**Net Amount**
	$	**$**	**$**	**$**	**$**	**$**	**$**
ASSETS							
Cash resources	2,641,853	-	2,641,853	-	-	-	2,641,853
Financial investments	169,754,526	-	169,754,526	-	-	(379,266)	169,375,260
Other assets	1,889,983	-	1,889,983	-	-	-	1,889,983
	174,286,362		174,286,362	-	-	(379,266)	173,907,096

	2019						
ASSETS							
Cash resources	3,584,921	-	3,584,921	-	-	-	3,584,921
Financial investments	143,290,072	-	143,290,072	-	-	-	143,290,072
Other assets	2,284,084	-	2,284,084	-	-	-	2,284,084
	149,159,077	-	149,159,077	-	-	-	149,159,077

(b) Financial liabilities

There were no financial liabilities subject to offsetting as at 31 December 2020.

33. Cease and Desist Order

Following the lifting of the Cease and Desist Order in 2018, the Cayman Islands Monetary Authority “the Authority” conducted an on-site inspection of Sagicor Life of the Cayman Islands Ltd in 2019. The Authority’s 2019 report outlined specific action items, which the Business has been actively working to complete.