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Fixed Income Analysis

SAGICOR FINANCIAL COMPANY LIMITED

Barita Investments Limited
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Company Overview

Sagicor Financial Company Limited ("Sagicor" or "SFC") is a multinational provider of various financial services. These financial services include mostly insurance services (life, health, property and casualty insurance), but also commercial banking, investment banking, pension management and real estate investment services. Sagicor has three reporting operating segments. The first segment is Sagicor Life, which provides financial services such as insurance and asset management to countries including Barbados, Trinidad and Tobago, the Bahamas and other countries in the Eastern and Dutch Caribbean, as well as across Central America. The second segment is Sagicor Jamaica, which provides financial services, such as insurance, commercial and investment banking and other services to Jamaica, The Cayman Islands and Costa Rica. The last operating segment is Sagicor USA, which provides life insurance and annuity products to middle market America in 45 states in the US and the District of Columbia.

Industry:	Diversified Financials
Bond Name	SFCCN 5.30% 2028
Credit Rating (Fitch)	BB-
Credit Rating (S&P)	BB+
Maturity	May 13, 2028
Issue Size	US$550 Mn
Rank	Senior Unsecured
Price (Bid/Ask) (Source: Bloomberg)	US$92.066/ US$93.905
Yield to Maturity (Bid/Ask)	6.991%/6.584 %
Recommendation	**Overweight**

Financial Summary (US$ in Thousands)			
Metrics	**FY2019**	**FY2020**	**FY2021**
Revenue, net	1,867,326	1,878,367	2,359,094
EBITDA	242,423	112,046	342,488
EBIT	206,917	72,487	309,787
Total Assets	8,728,871	9,266,313	10,377,932
Total Equity	1,749,780	1,658,210	1,666,213
Financial Ratios			
EBIT margin	11.1%	3.9%	13.1%
Debt/ EBIT	2.7x	7.1x	2.3X
EBIT/Net Interest	4.7x	1.6x	6.9X

Executive Summary

SFCCN 5.30% 2028 ("SFC 2028") provides investors with the ability to gain exposure to a major player in the Caribbean insurance market as well as a player with a growing insurance and annuities operation in the United States of America. The economies that SFC operates in are rebounding as the number of persons vaccinated has increased and as consumer confidence and business activity rebounds as well. This leads to greater economic activity which bodes well for the insurance industry as well as the other industries SFC operates in. SFC's financial performance has rebounded nicely from the poor performance recorded in the 2020 financial year (FY) during the climax of the Covid-19 pandemic. This can be attributed to recovering GDP, as well as a heightened realization of the importance of insurance coming out of the worst of a pandemic. This bond will allow investors to earn regular coupon payments from a 180 year-old company with a long track record of strong financial performance.

The near-term outlook for SFC, however, is cautiously optimistic, as while SFC was able to weather the COVID-19 storm, the emergence of monkeypox, the ongoing war in Ukraine as well as recession fears all add up to make SFC's near-term financial performance somewhat uncertain. However, over the medium-term, the outlook for SFC is positive. This is on the back of SFC's strong financial track record over time, having operated through multiple turbulent economic periods, with the most recent being the Covid-19 pandemic. This positive medium-term outlook is also driven by Sagicor's strong market leadership in the Caribbean. As more consumers realize the importance of life and health insurance, especially coming out of a pandemic, Sagicor's strong brand and market leadership will help SFC to benefit from the growth in the size of the overall market. **This bond is best suited for investors seeking consistent interest payments with a short to medium-term investment horizon, with a moderate to aggressive risk profile.**

Investment Rationale

- **Geographic Diversification:** SFC operates in multiple countries across the Caribbean and the USA. This reduces concentration risk, as SFC does not have to depend on any single country. Also, if one or two economies that they operate in happen to face a downturn or a recession, the Company would have revenue from their operations in the other countries to offset this decline.
- **Management Team:** The management of SFC can be described as being strong, experienced, and stable, providing the adequate level of support and effort needed to drive operational growth and strategic initiatives, as they have been doing over the years.

Definitions:

Sell = REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO
UNDERWEIGHT = REDUCE EXPOSURE IN YOUR PORTFOLIO TO LESS THAN 5% FOR THIS PARTICULAR ASSET
MARKETWEIGHT/HOLD = EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLIO
OVERWEIGHT/BUY = EXPOSURE TO THIS ASSET SHOULD BE BETWEEN 5% AND 10% OF YOUR TOTAL PORTFOLIO

- **Strong EBIT Generation:** For the financial year (FY) 2021, SFC rebounded from the weak FY2020 financial performance and recorded an EBIT of US$309.8 million compared to that of US$72.5 million for FY 2020. The growth of 327.4% in the EBIT was a result of increased net premium revenue as well as a recovery in investment income.
- **Strong Capital Adequacy:** The overall group, as well as individual companies within the group, continue to maintain strong capital adequacy ratios, which is indicative of a healthy financial profile and within the bounds of regulatory requirements. This has resulted in SFC gaining investment grade ratings from the likes of AM Best, S&P and Fitch.
- **Access to Capital Markets:** The Company has displayed their ability to raise funds in the capital markets. This is beneficial as SFC has the flexibility to raise money to refinance its outstanding debt, which should give bondholders greater confidence in realizing a return on and return of capital. An example of SFC doing this can be seen with the bond that is the subject of this analysis. A portion of the proceeds of this bond was used to redeem previously issued bonds.

Credit Assessment

As of December 2021, Fitch assigned a **'BB-'**credit rating to these notes. Based on Fitch's credit rating scale, BB is the rank just below the minimum rank needed to be considered investment grade, with that minimum rank being BBB. Therefore, according to Fitch, these notes are speculative grade. According to Fitch, BB ratings "indicate an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial flexibility exists that supports the servicing of financial commitments." Fitch has also indicated possible scenarios that would cause the rating to change in the future. Factors that could lead to a rating upgrade include:

- No material deterioration in economic and operating environments and sovereigns of Jamaica, Trinidad and Barbados

- Deployment of capital proceeds from the AQY transaction to grow operations in investment-grade jurisdictions

- A decline in the financial leverage ratio below 25% (adjusted to exclude non-controlling interests from capital)

However, factors that could lead to a rating downgrade include:

- Significant deterioration in the economic and operating environments and sovereigns of Jamaica, Trinidad or Barbados, which would lead to a material decline in operating performance and/or credit profile of SFC's investment portfolio

- Deterioration in key financial metrics, including the consolidated minimum continuing capital and surplus requirement (MCCSR) falling below 180% and financial leverage exceeding 50% and ROE below 5% on a sustained basis

As will be seen later in the report, SFC has been making moves to grow operations in investment-grade jurisdictions, namely the United States of America. SFC generated nearly half of its revenue from the USA, as of FY2021. This bodes well for a potential upgrade in the notes' credit rating. Also, SFC's capital adequacy remains strong with all ratios above the recommended and/or regulatory minimum. Even in FY2020, where the group was severely affected by the Covid-19 pandemic, measured by a significant decrease in net profit year-over-year (YoY), SFC still maintained its strong capital adequacy position, with all ratios at the end of FY2020 also above the recommended and/or regulatory minimum. Against this backdrop it is not likely that SFC would experience a material deterioration in its capital adequacy position in the near future, thus aiding in the group's effort of avoiding a rating downgrade. As will be seen in the financial analysis section, the group's credit metrics seem strong which should give the investor confidence that the group can meet its financial obligations, despite the notes being speculative grade.

Industry Analysis/Country Analysis

Country Analysis

SFC operates in multiple countries, however, most of the revenue SFC earns (as at FY2021) is derived from the USA (47%) and Jamaica (27%). Therefore, this country analysis will focus on these two countries.

United States of America

As of July 2022, Fitch affirmed its **'AAA'** rating with a stable outlook for the country's economy. The drivers for the rating by Fitch are grounded in the improved near-term government debt dynamics, which are in turn driven by the strong post-pandemic economic recovery and buoyant government revenues. Fitch expects government revenue to grow 19% in 2022, driven by strong personal and corporate income taxes. Also, Fitch is forecasting a decline in the general government debt ratio to 113% of GDP at the end of 2022 from 118% of GDP in 2021 (and a peak of 123% in 2020). The rating is also supported by the structural strengths of the economy, namely, the size of the economy, high per capita income, and a dynamic business environment. Other rating agencies have similarly given, the USA a high credit rating. S&P had given the USA an AA+ credit rating while Moody's has given the country an Aaa rating.

After suffering an annual contraction in real GDP of 3.4% in 2020 due to the lockdowns and social distancing policies, the country then recorded real GDP growth of 5.70%, as the country rebounded from the effects of the pandemic. Looking at the country's most recent performance, there were consecutive quarters of GDP decline, with a 1.6% decline in Q1 2022 and a decline of 0.9% in Q2 2022. Consecutive quarters of GDP decline are generally accepted as the requirement to declare a recession in the economy, however, the National Bureau of Economic Research is the one that officially declares recessions and they have not declared one yet. The decline in GDP in the most recent quarter can be attributed to a fall in private investments and government spending. Based on projections submitted by Federal Reserve Board members and Federal Reserve Bank presidents in June 2022, the US economy is expected to grow between 1% and 2% in 2022, between 0.8% and 2.5% in 2023, 1% and 2.2% in 2024 and 1.6% to 2.2% on average long-term.

Inflation has been accelerating over the past two years in the US. The central bank of America ("The Federal Reserve" or "the Fed") aims to keep inflation around 2%. For the 2021 calendar year, the annual inflation rate was 4.70%. As of June 2022, the annual inflation was 9.1%, the highest rate since November 1981 and significantly greater than the 2% Fed target. This increase in the inflation rate can be attributed to many factors. Some of those factors include the significant stimulus package the US government provided, the large quantitative easing done by the Fed, the global supply chain issues, shortages of some goods due to the war in Ukraine, etc. In response to this, the Federal Reserve, amongst other actions, has started to increase its benchmark overnight interest rate. The most recent hike occurred in July 2022, when the Fed raised the benchmark overnight rate by 75 bps to a range of 2.25% to 2.50%. Analysts and economists expect the Fed to continue to hike rates in the near term to continue to fight inflation. In addition to GDP, Federal Reserve Board members and Federal Reserve Bank presidents formulated projections on the outlook of inflation. Based on these projections, the inflation rate is expected to land between 4.8% and 6.2% in 2022, between 2.3% and 4% in 2023, between 2% and 3% in 2024 and is expected to average 2% in the long run.

The unemployment rate has rebounded nicely from the highs seen in 2020 when it reached a high of 14.7% in April. It has since trended downwards to 3.6% in June 2022. This was driven by the economy rebounding from the effects of the pandemic, with people being able to move around more freely, which leads to more spending. As the economy rebounded and spending started to pick back up, businesses also rebounded which led to increased employment. This recovery in the labour market is another factor that can be counted as a cause of the acceleration of inflation. While the labour market has rebounded and is currently strong, the outlook in the near term is not positive. As the Fed increases rates to curb inflation and spending, this is likely to lead to a contraction in the economy which would lead to higher unemployment as businesses cut back on production. The Federal Reserve Board members and Federal Reserve Bank presidents, in June 2022, also provided projections for unemployment rates. It is projected that the unemployment rate is expected to land between 3.2% and 4% in 2022, between 3.2% and 4.5%, between 3.2% and 4.3% in 2024 and between 3.5% and 4.3% over the longer run.

Jamaica

As of March 2022, Fitch has affirmed Jamaica's credit rating at **'B+' with a Stable Outlook.** This credit rating is driven by multiple factors. One of these factors is continued deficit reduction, which Fitch expected to narrow to 0.3% of GDP in FY2022 from 3.1% of GDP a year prior. It is important to note that this would be among the narrowest deficits in the 'B' category. Furthermore, Fitch projects the fiscal deficit will continue to improve leading into the 2024 fiscal year, turning into a fiscal surplus of 0.3% of GDP, driven mainly by strong revenue generation. Another factor driving the rating decision is debt reduction. Fitch projects that government debt-to-GDP will fall to 87.8% by the end of the 2024 financial year from 109.7% at the end of FY2021. However, there are risks to these projections. Currency weakness, rising interest rates and high inflation threaten the achievement of their debt reduction expectations. Of the total debt as of December 31, 2021, 61.3% was denominated in foreign currency, 27.2% was variable-rate debt and 2.7% was CPI-linked debt. Another factor is the adequate capitalization of the local banks, with low non-performing loans despite the pandemic shock and the expiration of repayment moratoria. As of December 31, 2021, the capital adequacy ratio for the industry in aggregate was 14.2% (above the 10% regulatory requirement) and non-performing loans were 2.9% (while the percentage was just 2.2% in December 2019). The health of the banking sector bodes well for the economy as it lowers the probability of the banks defaulting on their obligations which could lead to a run on banks and ultimately, economic contraction.

Real GDP contracted by 9.93% in 2020, which, like the rest of the world, was due to the pandemic and its effects, particularly, the effects on the tourism industry. With significantly less tourist arrivals in 2020, as tourists chose not to travel due to fears of Covid-19 or could not travel due to lockdown measures implemented, the local tourism industry suffered a material decline in economic activity. In 2021, the economy rebounded partially with real GDP increasing by 5.05%, as the government of Jamaica eased the lockdown measures and as tourists started travelling again, driven by the increase in vaccination rates across the world. Looking at the country's most recent economic performance, real GDP grew by 6.4% in Q1 2022. This was driven by growth in both the Services industries and Goods Producing industries of 8.9% and 0.4% respectively. For Q2 2022, the Planning Institute of Jamaica projects that real GDP will grow within the range of 2%-4%. Looking at projections further out into the future, the Bank of Jamaica ("BOJ") projects real GDP will grow between 2% and 4% for fiscal years 2023 and 2024. Over the medium-term (fiscal year 2025 to fiscal year 2028), the BOJ is projecting the local economy will grow at an average rate of 1.1%.

Like most, if not all, countries across the world, Jamaica is experiencing accelerating inflation. The 2021 calendar year inflation rate stood at 9.1% and inflation has continued to increase in 2022. The 12-month inflation rate in April 2022 stood at 11.8% but has decelerated to 10.9% for both May and June 2022. For context, the BOJ has an inflation target of 4%-6%. This inflation is largely driven by the supply side, meaning due to inflation in the economies of major trading partners (such as the United States), the cost of imports has increased which are then later sold to the local population at higher prices. The Bank of Jamaica has been increasing rates since September 2021, moving its key policy rate from 0.5% to 5.5% as of July 2022. The BOJ is doing this and using other contractionary monetary policy tools to help curb inflation and reduce demand, thus making it more difficult to pass on price increases to its customers. The BOJ expects inflation to average between 8% and 9% over the next eight quarters (June 2022 quarter to March 2024 quarter).

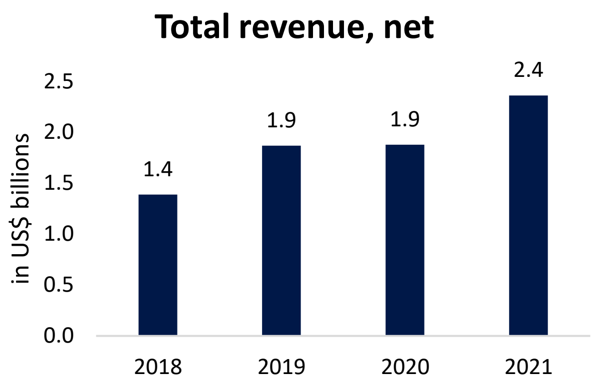
Over the past 4 years, the unemployment rate peaked in Q2 2020 at a rate of 12.6%. However, since then, the unemployment rate has trended downwards to 6% in Q1 2022, a new record low. Importantly, since Q1 2021, the unemployment rate has been declining consecutively every quarter. This can be attributed to the rebound in business activity in the local economy, coinciding with the rebound in real GDP, driven in part by the continued recovery in tourist arrivals, as well as the elimination of lockdown measures. The BOJ projects that the labour market will continue to remain strong over the next eight quarters (June 2022 quarter to March 2024 quarter), with the average unemployment rate expected to stand at 6%.

Industry Analysis

Insurance activities account for 88% of SFC's total revenue, therefore for this analysis, the focus will be on the insurance industry. According to Statista, the global insurance market was valued at US$5.1 trillion in 2021, up 12.9% from a year prior. The global insurance industry is projected to grow at a compounded annual growth rate (CAGR) of 6.1% from US$ 5.1 trillion in 2021 to US$ 6.4 trillion in 2025. This projected growth can be attributed to an increasing awareness of insurance and its importance. Notably, due to the pandemic, many are now seeing the importance of insurance, mostly within the health and life category. An American study from Million Dollar Round Table, an association of life insurance and financial services professionals, was taken and among study participants who have acquired new insurance policies since March 2020, 42% cited the pandemic as a factor in their decision, higher than all other options. Of that 42%, 51% of those participants said the pandemic was the primary factor in their decision. The study also revealed that 54% of participants said that the pandemic has made them more anxious about dying early, becoming disabled, or needing long-term care.

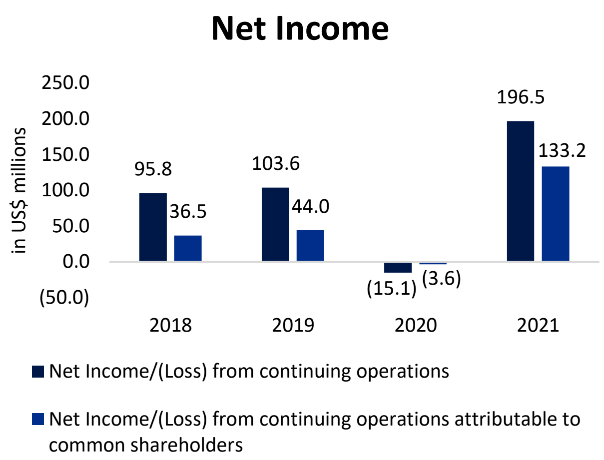
According to Statista, 31% of global insurance premiums were derived from North America while only 3% was derived from Latin America and the Caribbean in 2020. Given the relative population differentials, this indicates that there is significant room for growth in the Latin American and Caribbean insurance markets relative to North America. Similarly, Europe and Asia-Pacific both accounted for 32% of global insurance premiums in 2020, illustrating the potential for growth in those markets relative to North America given the comparative population. Additionally, when looking at insurance (Life and non-life insurance) penetration, it lends further support to the notion that there is significant room for growth in the global insurance industry. According to Statista again, as of 2020, the insurance penetration rate in the United States was 12%, while the global insurance penetration rate was 7.3%. For context, Taiwan had the highest insurance penetration rate in 2020, at 17.4%. On the other hand, as of 2019, Jamaica's insurance penetration was estimated at only 4.4%. This data supports the earlier point of there being tremendous room for not just the Jamaican or American insurance industry to grow, but also for the global insurance market.

Financial Performance



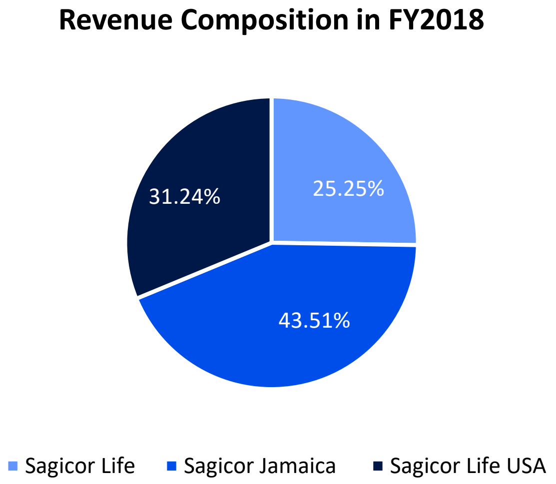
The period under review runs from FY2018 to FY2021, as well as Q1 2022. SFC's financial year ends December 31. Total net revenue grew from $US1.39 billion in FY2018 to US$2.36 billion in FY2021, representing a compound annual growth rate (CAGR) of 19.4%. This was driven by net premium revenue which increased at a CAGR of 17.6% (accounting for 73% of total revenue in FY2021), moving from US$1.1 billion in FY2018 to US$1.7 billion in FY2021. Importantly, net premiums grew 22.1% year-over-year (YoY) in FY2021 which was largely driven by significant net premium growth recorded in the USA segment. While being a small contributor to overall revenue, representing only 3.92% or US$92.38 million in FY2021, other investment income contributed 9.21% of the total revenue growth over the review period, coming from an outturn of just $2.83 million in FY2018. Also supporting the growth in total revenue is the rise in interest income earned from financial assets. Interest income grew at a CAGR of 5.06%, rising from US$291 million in FY2018 to US$ 337.4 million in FY2021. This is driven by growth in their investment portfolio, which will be discussed later in the report. Lastly, fee and other revenue also grew over the review period, moving from US$114.5 million in FY2018 to US$165.9 million in FY2021, representing a CAGR of 13.2%.

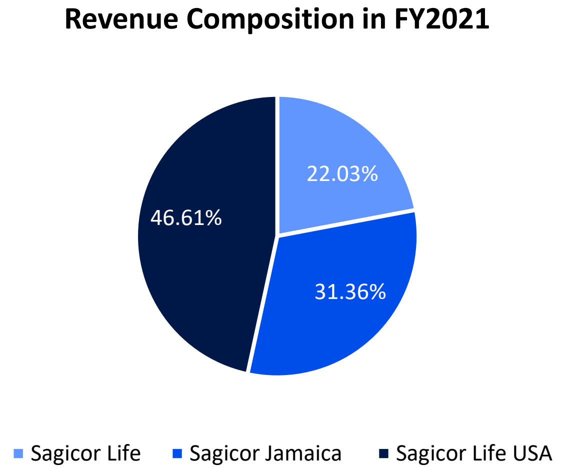
Total benefits expense increased by a CAGR of 26.0%, growing from US$765.3 million in FY2018 to US$1.5 billion in FY2021. This was naturally driven by the expansion of the business and the result of subsidiaries growing their policyholder base. However, the faster pace of growth in benefits expenses also highlights the increase in current insurance claims and related expenses as well as expenses related to future insurance and annuity expenses relative to the net premium income received. In the 2018 financial year, benefits expense as a percentage of net premium income stood at 55.19%, rising to 64.92% in FY2021. On the other hand, total operating expenses grew at a far more modest pace, coming in at a CAGR of 5.48%, moving from US$495.1 million to US$581.1 million. Administrative expenses are the largest contributor to this category of spending and increased at a CAGR of 4.9% over the review period to US$349.8 million in FY2021. Similarly, commissions and related compensation grew at a CAGR of 5.1% over the review period, rising from US$117.3 million to US$136 million. Importantly, in FY2021, commissions and related compensation grew 12.3% YoY, which was driven by the significant new annuities business written in the USA segment. However, depreciation and amortization grew at a CAGR of 10.4%, driven by general business expansion and therefore growth in assets. In FY2021, administrative expenses and commissions and related compensation combined accounted for 83.6% of total operating expenses.



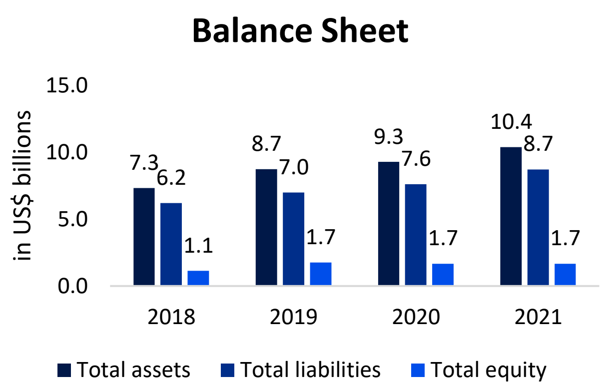
After accounting for other income, income before taxes grew at a CAGR of 21.8%, increasing from US$146.5 million in FY2018 to US$264.7 million in FY2021, driven by growth in total revenue but partially offset by growth in total benefits and expenses. After accounting for income taxes, net income from continuing operations grew at a CAGR of 27% to US$196.5 million in FY2021. Looking more closely at the portion of net income attributable to common shareholders, SFC reported an increase from US$36.5 million to US$133.2 million over the review period, representing a CAGR of 54%. Additionally, the net profit margin expanded from 2.63% in FY2018 to 5.65% in FY2021, driven by total revenue growing at faster pace than expenses.

The charts below display the change in revenue composition of SFC over the review period. These charts show that Sagicor Life USA has increasingly accounted for a greater portion of SFC's revenue, moving from 31.2% in FY2018 to 46.6% in FY2021. This is a result of the USA segment growing much faster than the other segments.





Solvency and Capital Adequacy (Balance Sheet)



SFC grew total assets from US$7.33 billion in FY2018 to US$10.4 billion in FY2021, representing a CAGR of 12.3%. This was largely attributable to growth in financial investments at a CAGR of 18.1%, increasing from US$4.8 billion to US$7.9 billion. At the end of FY2021, financial investments accounted for 76% of total assets. This growth in financial investments explains the growth in interest income mentioned earlier. The interest yields and returns achieved on the financial investments in FY2021 are as follows: Debt securities (4.8% versus 4.6% in 2020), Mortgage loans (6.1% versus 5.8% in FY2020), Policy loans (7.3% versus 7.5% in FY2020), Finance loans and leases (10.4% versus 11.2% in FY2020), securities purchased for resale (1.5% versus 2.4% in FY2020) and deposits (0.7% versus 1.0% in FY2020). Total liabilities increased at a CAGR of 12.1%, rising from US$6.2 billion to US$8.7 billion over the period under review. This comes on the back of growth in total policy liabilities, which increased at a CAGR of 15.2%, from US$3.7 billion to US$5.6 billion. This was driven by the expansion of the business as the group continues to issue policies. Total policy liabilities accounted for 64.3% of total liabilities. Notes and loans payable grew at a CAGR of 11.7% over the review period, from US$490.3 million to US$683.4 million. Of this US$ 683.4 million, US$532.2 million is derived from the 5.30% 2028 senior notes. Total Equity increased at a CAGR of 13.64%, from US$1.1

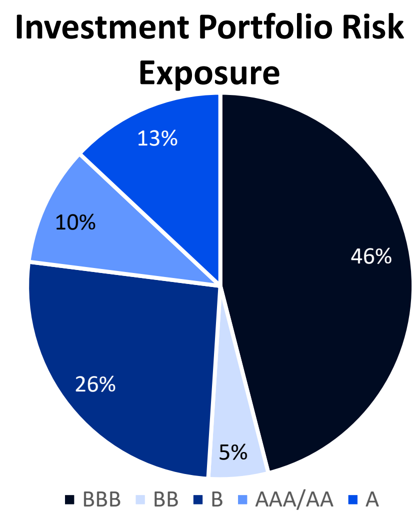
billion to US$1.7 billion at the end of the 2021 financial year, which can be attributed to a 34.8% CAGR in share premium, as well as a 6.8% CAGR in retained earnings. SFC had a debt-to-equity ratio of 41% as at the end of FY2021, which is essentially in line with their North American peers, as will be seen later in the report. In terms of capital adequacy, SFC and its subsidiaries remain strong. To assess SFC's overall capital adequacy strength, the Sagicor consolidated Minimum Continuing Capital and Surplus Requirement (MCCSR), is typically examined. The minimum standard recommended by the Canadian regulators for companies is an MCCSR of 150%. As at the end of FY2021, Sagicor's consolidated MCCSR was 269%, up from 252% a year prior. Looking at individual subsidiaries, Sagicor Life Jamaica (which is governed by the Jamaican MCCSR that is based on Canadian standards in effect in 2001) had an MCCSR of 162% as at the end of FY2021, down from 183% a year prior. The minimum is also 150%. For Sagicor Bank Jamaica and Sagicor Investments Jamaica, the ratio to assess capital adequacy is capital base to risk weighted assets, with a regulatory minimum of 10%. At the end of FY2021, Sagicor Bank Jamaica and Sagicor Investments had ratios of 14% (14% a year prior) and 18% (15% a year prior).

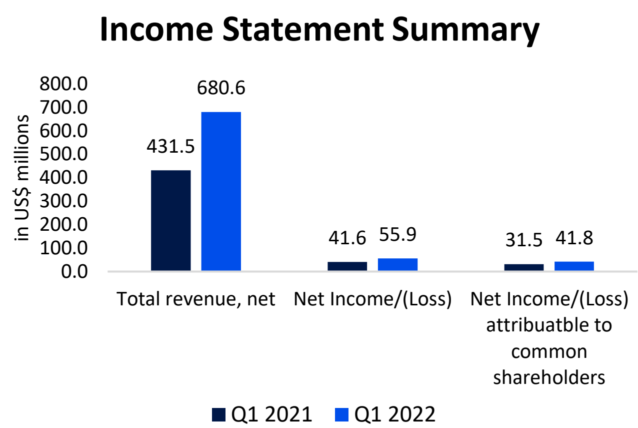
The table to the right, received from SFC's 2021 annual report, outlines the various credit ratings assigned to SFC and its subsidiaries.

Regarding the composition of SFC's investment portfolio, 72.5% of the portfolio consisted of debt securities and money market funds. Of these debt instruments, 69% are considered investment grade based on Fitch's credit rating scale, as seen in the pie chart.

	AM Best Rating	S&P Rating	Fitch Rating
Sagicor Life Inc[a]			
Financial Strength	A - Stable		
Issuer Credit Rating	a- Stable		
Sagicor Life Jamaica[a] **Limited**[a]			
Financial Strength	B++ Stable		
Issuer Credit Rating	bbb+ Stable		
Sagicor Life Insurance Company (USA)[a]			
Financial Strength	A- Stable		
Issuer Credit Rating	a- Stable		
Sagicor Financial Company Ltd			
Issuer Credit Rating	bbb- Stable[a]	BB+ (Stable)[b]	BB (Stable)[d]
Senior Unsecured	bbb Stable[a]	BB+ (Stable)[c]	BB- (Stable)[e]
Sagicor General Insurance Inc[a]			
Financial Strength	A- Stable		
Issuer Credit Rating	a- Stable		
Sagicor Reinsurance `Bermuda Ltd[a]			
Financial Strength	A- Stable		
Issuer Credit Rating	a- Stable		

(a) Updated November 4, 2021; (b) Updated November 24, 2021; (c) Updated May 3, 2021; (d) Long-term Issuer Default Rating updated December 6, 2021; (e) Updated December 6, 2021.

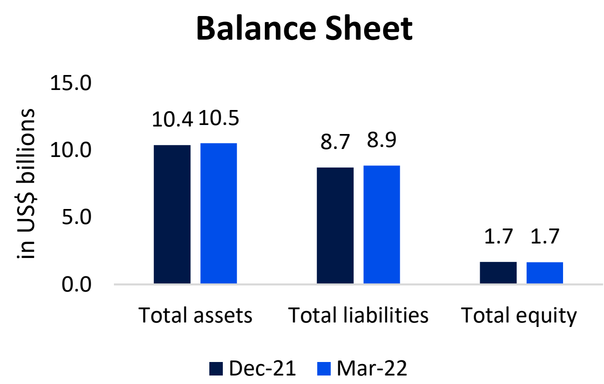




Recent Developments (Q1 2022 Financials)

SFC has built upon their strong financial performance from FY2021 in Q1 2022. For Q1 2022, total revenue grew 57.8% to US$680.6 million. This growth was largely driven by net premium revenue grew 101.5% to US$556.4 million; this was driven by continued strong premium income in the USA operating segment. Also, interest income grew 14.6% to US$91.9 million, driven by growth in SFC's investment portfolio. Total benefits expense grew 77.5% to US$453.5 million, which was largely attributable by growth in net policy benefits and change in actuarial liabilities of 80.4% to US$441.1 million. Total operating expenses grew 13% to US$154.4 million, mainly due to growth in both administrative expenses and commissions and related compensation. Administrative expenses grew 9.4% to US$90.7 million while commissions and related compensation grew 40% to US$37.3 million. This 40% increase is linked to the increased annuity business in the USA operating segment. Income before taxes rose 43.09% to US$75 million, culminating in net income growth of 34.4% to US$55.9 million. Net Income attributable to common shareholders grew 32.9% to US$41.8 million. Despite the strong growth in net income, the net profit margin contracted to 8.22% from 9.64% a year prior, primarily due to the faster pace of growth in benefits expenses relative to revenue. Digging a bit deeper, one of the reasons why total revenue grew by only 57.8%, despite net premium revenue doubling, is because other investment income fell from a positive US$30.9 million in Q1 2021 to a negative US$7.3 million in Q1 2022. This decline was due to mark-to-market declines on financial assets, amidst increasing interest rates.

Total assets grew 1.3% to US$10.5 billion from US$10.4 billion as at the end of FY2021 (December 2021) which was largely driven by financial investments growing 1.3% to US$8 billion over the 3-month period. As at the end of Q1 2022, financial investments accounted for 76% of total assets. Total liabilities grew 1.7% to US$8.9 billion, mainly due to a 2.1% increase in total policy liabilities, which accounted for 64.6% of total liabilities. Notes and loans payable was essentially flat over the 3-month period, moving from US$683.4 million in Q1 2021 to US$684.7 million. Total Equity declined by 0.8% to US$1.7 billion, on the back of a decrease in reserves, moving from -US$60.5 million in Q1 2021 to -US$101.8 million. Nonetheless, this was partially offset by a 7.56% increase in retained earnings to US$490.4 million.



SFC's debt-to-equity remained relatively flat, increasing marginally to 41.4% as at the end of Q1 2022 from 41.0% recorded as at the end of FY2021. SFC's capital adequacy remained strong, with a Consolidated MCCSR (a measure to assess SFC's overall capital adequacy strength) of 244% at the end of Q1 2022 (down from 269% as at the end of FY2021), well above the minimum of 150%. Sagicor Life Jamaica Limited's MCCSR stood at 164% (up slightly from 162% as at the end of FY2021), also above the minimum of 150%. Sagicor Investment and Sagicor Bank had capital base to risk weighted assets ratios of 16% (down from 18% as at the end of FY2021) and 14% (same as at the end of FY2021) respectively, which are both above the regulatory requirement.

The table to the right indicates key credit ratios for SFC. Most importantly, the interest coverage ratio (EBIT/Interest Expense) remains strong. It is important to note here that EBIT here is earnings before interest solely on notes and loans payable and interest expense here is solely interest expense on notes and loans payables. This measure already accounts for interest expense on other liabilities such as securities sold for repurchase and customer deposits and hence focuses solely on the group's ability to cover the Interest expense on capital borrowing. Looking at FY2020, even as the group's performance drastically decreased, the group was still able to more than cover the interest expense, denoting a degree of conservatism in their current solvency profile. Lastly, assuming SFC does not grow and maintains its performance at current levels (which is unlikely based on the Q1 2022 results, and the longer-term track record), the group will be able to cover its interest expenses almost 7 times over. Therefore, one can be reasonably confident that the group can make its coupon payments over the life of the facility.

In Millions of USD except Per Share 12 Months Ending	FY 2021 12/31/2021	FY 2020 12/31/2020	FY 2019 12/31/2019
Total Debt	716.2	511.2	553.4
Total Debt/EBIT (times)	2.31	7.05	2.67
EBIT to Interest Expense (times)	6.88	1.61	4.74
Interest Expense	45.1	44.9	43.6
Common Equity/Total Assets	16.06%	17.90%	20.05%
Debt/Equity	42.99%	30.83%	31.63%
Debt/Total Assets	6.90%	5.52%	6.34%
EBIT	309.8	72.5	206.9

Relative Valuation and Spread Analysis

Sagicor Financial Company Peer Comparison

Sagicor Financial Company Limited Peer Comparison						
Name	**Sagicor Financial Co Ltd**	**CNO Financial Group Inc**	**Brighthouse Financial Inc**	**American Equity Investment Life Holding Co**	**Unum Group**	**Average**
Fitch Rating	BB	BBB	BBB+	BBB	BBB	
Financial Data and Ratios						
Market Capitalization (in US$ millions)	679.15	2125.40	3284.10	3461.94	7186.01	**3347.32**
Net Sales T12M (in US$ millions)	2611.90	3790.00	9539.00	3868.66	11998.90	**6361.69**
Debt/Equity (in %)	43.31	176.50	72.72	11.12	35.47	**67.82**
Debt/Assets (in %)	6.81	11.54	3.82	0.77	5.45	**5.68**
ROA (in %)	1.45	1.60	0.70	0.65	1.72	**1.23**
Net Profit Margin	8.22	15.92	23.36	36.73	12.18	**19.28**

When comparing SFC to its peers, some aspects are better than average and some worse than average. In terms of leverage, SFC is above average, both in terms of Debt/Assets as well as Debt/Equity. However, if one were to remove CNO's debt/equity ratio and count it as an outlier, the average would be 40.66%, with SFC essentially being in line with the average, despite being slightly above average. SFC's return on assets is above average indicating that the group is using its assets more efficiently to produce a return than its peers. However, SFC does have a lower net profit margin than the average which may indicate relative weakness in managing its costs. Notwithstanding the above, due to the wide variation in outturns for the metrics across the peer group, the meaningfulness of the averages is reduced, therefore, it is somewhat difficult to draw a definitive conclusion on SFC based solely on the comparison of these metrics.

In exploring price action and spreads, SFC 2028 trades at a higher spread when compared to its peers. This indicates that the market may be pricing in higher credit risk for the SFC 2028 note when compared to its peers. It should also be noted that the spread (the G-spread, also known as the nominal spread) for the SFC 2028 notes are not just greater than the average of its peers but also greater than each company compared. The peer with the closest spread to the SFC 2028 note is the SECBEN 2026 note, with a nominal spread of 303 basis points (bps) compared to a nominal spread of 399 bps for the SFC 2028 notes. Also, it is important to note that the average nominal spread over the past 6 months for SFC 2028 is 332 bps with the current nominal spread at 399 bs which indicates a declining price trend.

BVAL as of 08/04/2022 - LO 4:15PM 04-Feb-2022 - 04-Aug-2022 6 Months

	Spread	Low	Range	High	Avg	+/- bps	StdDev	#SDs
1) Spreads to Curves (RV)			Avg Now					
2) Spread-Bench	397	252		430	332	65	46	1.4
3) G-Spread	399	250		428	332	67	47	1.4
4) I-Spread	427	273		456	356	71	49	1.4
5) Z-Spread	423	272		453	354	69	48	1.4
6) Credit Rel Value (CRVD)								
7) CDS Basis								

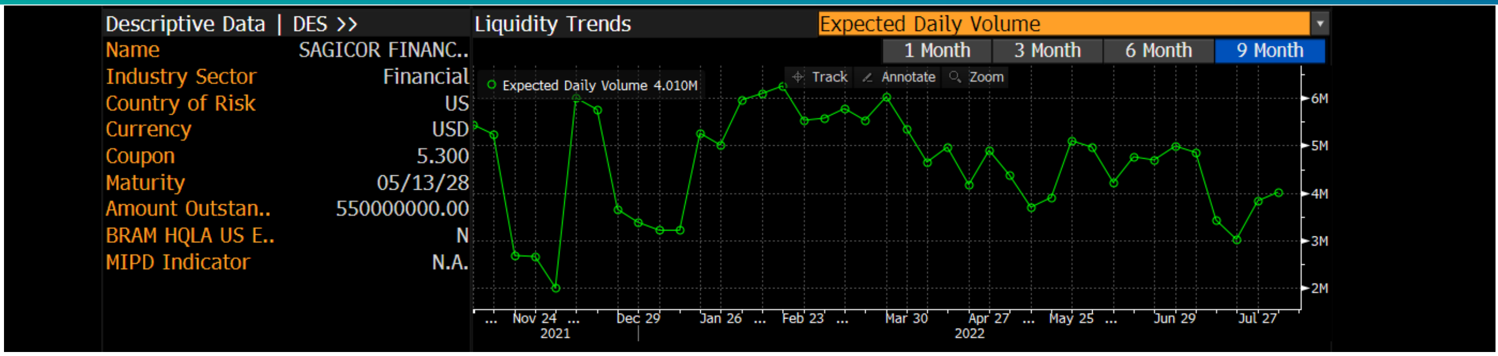
8) Bond vs Comparables (COMB) G-Spd Difference in comparable G-Spreads over 6 Months

	Price	Yield	Spread	Diff	Lo	Range	Hi	Avg	+/- bps	#SDs
SFCCN 5.3 05/28	93.1	6.76	399							
9) SECBEN 5 1/8 11/26	97.1	5.89	303	96	15		171	88	8	0.2
10) UNM 7 1/4 03/28	108.9	5.39	262	137	66		202	134	3	0.1
11) AEL 5 06/27	99.7	5.07	227	172	99		229	155	17	0.5
12) JXN 5.17 06/27	100.7	5.00	219	180	76		194	147	33	1.0
13) UNM 3 7/8 11/25	98.5	4.38	143	256	132		287	209	47	1.2
Avg of Comparables		5.15	231	168	85		216	146	22	0.7
15) BVAL Price	93.1	6.76								

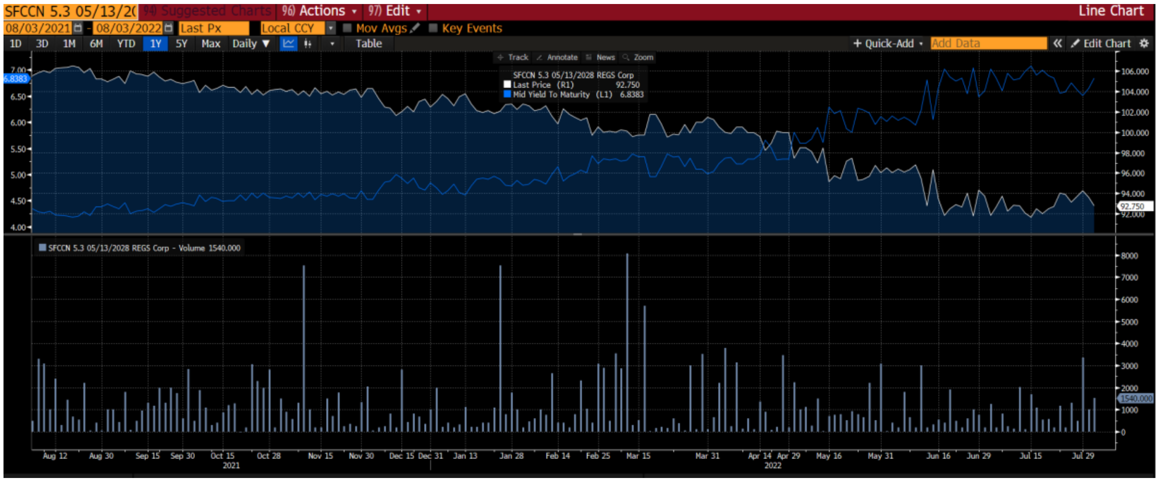
An important aspect of analyzing fixed-income security is that of the liquidity of the bond, the SFC 2028 has shown the ability to trade volumes that are large enough to hold up to that of the average transaction of a Barita client and by such means, liquidity is not a concern with regards to this bond.

Definitions:

Sell = REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO
UNDERWEIGHT = REDUCE EXPOSURE IN YOUR PORTFOLIO TO LESS THAN 5% FOR THIS PARTICULAR ASSET
MARKETWEIGHT/HOLD = EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLIO
OVERWEIGHT/BUY = EXPOSURE TO THIS ASSET SHOULD BE BETWEEN 5% AND 10% OF YOUR TOTAL PORTFOLIO



The screenshot below displays the price, yield and historical daily volume of the SFC 2028 note over the past year.



Recommendation

SFC operates in an industry that is expected to grow, at least over the medium-term. This coupled with the group's strong management team and the group's efforts to grow their operations in an investment grade country, i.e., the United States of America, reflects favourably on the future outlook of SFC. However, the growth in the United States operation is not the only factor contributing to SFC's positive outlook. Additionally, SFC has a strong presence in the Caribbean insurance industry, an industry that accounts for only 3% of global premiums and an especially strong presence in Jamaica where the insurance penetration rate was estimated at 4.4% in 2019, as stated earlier, highlighting a sizeable potential addressable market. Lastly, SFC's credit ratios are strong.

Given the underlying economics of SFC's business operations coupled with the positive outlook of the industry, we rate the **SFC 5.3% 2028** bond as **OVERWEIGHT.** The rationale for our view on this bond is that investors who participate can find comfort in SFC's growing operations in an investment grade country, having a strong brand and presence in a growing industry, strong capital adequacy ratios that stood the test of the downturn in FY2020 caused by the pandemic, as well as their credit rating and access to the capital markets.