BERMUDA LIFE INSURANCE COMPANY LIMITED

Consolidated financial statements
(With Independent Auditor's Report Thereon)

March 31, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Bermuda Life Insurance Company Limited

We have audited the accompanying consolidated financial statements of Bermuda Life Insurance Company Limited and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of March 31, 2021 and 2020, and the related consolidated statements of comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bermuda Life Insurance Company Limited and its subsidiaries as of March 31, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
July 27, 2021

BERMUDA LIFE INSURANCE COMPANY LIMITED

Consolidated Balance Sheets

March 31, 2021 and 2020
(Expressed in thousands of Bermuda Dollars)

	Note	2021	2020
Assets			
Cash and short-term investments	3	30,797	31,733
Interest and dividends receivable		2,209	2,538
Investments	5, 6	420,663	404,997
Receivable for investments sold		2,408	74
Insurance balances receivable	8	6,649	6,055
Reinsurers' share of:			
Claims provisions	11	3,534	3,110
Unearned premiums	11	208	184
Assets held-for-sale	4	-	7,700
Other assets	9	4,357	2,867
Due from parent	21	14,000	16,152
Investment property	7	500	500
Property and equipment	10	38,599	38,833
Total general fund assets		523,924	514,743
Segregated fund assets	25	1,182,550	866,100
Total assets		**1,706,474**	**1,380,843**
Liabilities			
Insurance balances payable	14	6,448	4,496
Payables arising from investment transactions	15	-	3,546
Accounts payable and accrued liabilities		11,389	7,851
Insurance contract liabilities	11	193,829	182,808
Investment contract liabilities	12	248,539	253,752
Total general fund liabilities		460,205	452,453
Segregated fund liabilities	25	1,182,550	866,100
Total liabilities		**1,642,755**	**1,318,553**
Equity			
Share capital		252	252
Contributed surplus	22	28,977	28,977
Retained earnings		25,478	38,429
Accumulated other comprehensive income/(loss)	24	9,012	(5,368)
Total equity attributable to the shareholder of the Group		63,719	62,290
Total equity and liabilities		**1,706,474**	**1,380,843**

The accompanying notes form part of these consolidated financial statements.

Signed on behalf of the Board

________________ Director   ________________ Director

BERMUDA LIFE INSURANCE COMPANY LIMITED

Consolidated Statements of Comprehensive Income/(Loss)

Years ended March 31, 2021 and 2020
(Expressed in thousands of Bermuda Dollars)

	Note	2021	2020
Revenue			
Gross premiums written		101,650	108,911
Premiums rebate		(4,963)	-
Reinsurance ceded		(7,363)	(6,673)
Net premiums written		89,324	102,238
Net change in unearned premiums	16	26	16
Net premiums earned		89,350	102,254
Investment income	5, 7	12,561	21,676
Commissions, management fees and other	17	14,358	14,339
Total revenue		116,269	138,269
Expenses			
Policy benefits		16,397	15,656
Claims and adjustment expenses		54,225	71,953
Reinsurance recoveries	18	(3,364)	(2,849)
Gross change in contract liabilities	19	6,066	(2,353)
Change in reinsurers' share of claims provisions	19	(424)	2,323
Net benefits and claims		72,900	84,730
Commission expenses		504	542
Operating expenses	20	24,172	24,010
Depreciation and impairment of property and equipment	10	1,644	1,582
Total expenses		99,220	110,864
Net earnings for the year		17,049	27,405
Items that will not be reclassified to net earnings:			
Re-measurement of post-employment medical benefit obligation		75	240
Items that may subsequently be reclassified to net earnings:			
Change in unrealised gains (losses) on available-for-sale investments		14,305	(7,208)
Other comprehensive income/(loss) for the year		14,380	(6,968)
Total comprehensive income/(loss) for the year		**31,429**	**20,437**

The accompanying notes form part of these consolidated financial statements.

BERMUDA LIFE INSURANCE COMPANY LIMITED

Consolidated Statements of Changes in Equity

Years ended March 31, 2021 and 2020
(Expressed in thousands of Bermuda dollars, except the number of shares)

	Note	2021	2020
Share capital			
Authorised, issued and fully paid:			
105,000 common shares of $2.40 each (2020 - 105,000)		252	252
Contributed surplus			
Balance, beginning of year		28,977	28,977
Retained earnings			
Balance, beginning of year		38,429	23,143
Dividends paid to Parent	22	(30,000)	(12,119)
Net earnings for the year		17,049	27,405
Balance, end of year		25,478	38,429
Accumulated other comprehensive income/(loss)			
Balance, beginning of year		(5,368)	1,600
Other comprehensive income/(loss) for the year		14,380	(6,968)
Balance, end of year		9,012	(5,368)
Total equity		**63,719**	**62,290**

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended March 31, 2021 and 2020
(Expressed in thousands of Bermuda Dollars)

	2021	2020
Operating activities		
Net earnings for the year	17,049	27,405
Adjustments to reconcile net earnings to cash basis (Footnote (i) below)	(8,114)	(17,055)
Change in operating balances (Footnote (ii) below)	10,037	2,807
Dividend income received	69	142
Interest income received	9,568	11,875
Cash generated from operating activities	28,609	25,174
Investing activities		
Purchase of investments	(518,592)	(903,688)
Sale of investments	520,457	904,598
Purchase of property and equipment	(1,410)	(275)
Cash generated from investing activities	455	635
Financing activities		
Dividends paid to parent	(30,000)	(12,119)
Cash used in financing activities	(30,000)	(12,119)
Net increase/(decrease) in cash and short-term investments	(936)	13,690
Cash and short-term investments, beginning of year	31,733	18,043
Cash and short-term investments, end of year	**30,797**	**31,733**

Footnotes

	2021	2020
(i) Provision for bad debts	956	773
Dividend income	(69)	(143)
Interest income	(10,603)	(13,309)
Investment income related to deposit administration pension plans	1,364	1,765
Net realised and unrealised (gains)/loss on investments and investment property	(2,998)	(9,915)
Amortisation of premiums on bonds	1,354	1,046
Depreciation and impairment of property and equipment	1,644	1,582
Impairment charges (reversal) on mortgages and loans	238	1,146
	(8,114)	(17,055)
(ii) Insurance balances receivable	(1,551)	(1,569)
Reinsurers' share of:		
Claims provision	(424)	2,323
Unearned premiums	(24)	16
Other assets	(1,490)	1,141
Due from parent	2,152	(10,876)
Insurance balances payable	1,952	1,882
Accounts payable and accrued liabilities	3,614	736
Insurance contract liabilities	11,021	(2,376)
Investment contract liabilities	(5,213)	11,530
	10,037	2,807

See accompanying notes to the consolidated financial statements

1. OPERATIONS

Bermuda Life Insurance Company Limited (the "Group"), was incorporated on June 3, 1957 and has its registered office at The Argus Building, 14 Wesley Street, Hamilton, HM 11, Bermuda. The Group is a wholly-owned subsidiary of Argus Group Holdings Limited (the "Parent"), a Bermuda public company with no controlling interest vested in any one person or persons. The Group operates predominantly in Bermuda, underwriting life and health insurance. The Group also provides investment, savings and retirement products.

The Group has two wholly owned dormant subsidiaries, namely: (a) Succession Strategies (Bermuda) Limited and (b) C&S (Bermuda) Limited. All subsidiaries are included in the Group's consolidated financial statements. The Group's voting rights percentages are the same as the ownership percentages.

The consolidated financial statements as at and for the year ended March 31, 2021 were authorized for issue by the Board of Directors on July 27, 2021.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of the consolidated financial statements are discussed below and are applied consistently.

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and in accordance with the provisions of the Bermuda Companies Act 1981, as amended.

2.2 Basis of presentation

2.2.1 Basis of measurement

The consolidated financial statements have been compiled on a going concern basis and prepared on the historical cost basis except for the following items on the Consolidated Balance Sheets:

- Financial assets at fair value through profit or loss ("FVTPL") are measured at fair value;
- Available-for-sale financial assets are measured at fair value;
- Derivative financial instruments are measured at fair value;
- Investment properties are measured at fair value;
- Segregated fund assets and liabilities are measured at fair value based on net assets values of the investment funds as reported by third parties, such as fund managers or independent custodians;
- Life and annuity policy reserves are based on actuarial valuation using the Canadian Asset Liability Method (CALM); and
- Provision for unpaid and unreported claims are actuarially determined and represents the best estimate of the ultimate costs of claims in the course of settlement and claims incurred but not yet reported.

The Consolidated Balance Sheets are presented in order of decreasing liquidity.

2.2.2 Presentation currency

All amounts are in Bermuda dollars, which is the Group's presentation and functional currency and is on par with United States (U.S.) dollars.

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

2.2 **Basis of presentation** (continued)

2.2.3 Use of critical estimates, judgments and assumptions

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results will differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised on the consolidated financial statements is included in the following notes:

Note 2.8 – Insurance, investment and service contracts;
Note 2.9 and Note 7 – Investment properties
Note 4 – Assets and liabilities held-for-sale

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

Note 2.7 – Impairment of assets;
Note 6 – Fair value measurement;
Note 11 – Insurance contract liabilities; and
Notes 5 and 12 – Investments and Investment contract liabilities.

2.3 **Basis of consolidation**

2.3.1 Business combinations

The Group uses the acquisition method to account for the acquisition of subsidiaries. At the date of acquisition, the Group recognises the identifiable assets acquired and liabilities assumed as part of the overall business combination transaction at their fair value. Recognition of these items is subject to the definition of assets and liabilities in accordance with the IASB's Framework for Preparation and Presentation of Financial Statements.

Transaction costs that the Group incurs in connection with a business combination are expensed as incurred.

Amalgamation transactions

Under a business combination where entities under common control are amalgamated, the carrying values of the assets and liabilities of the entities are combined. Transactions arising from the amalgamation of the entities under common control are eliminated in the Group's consolidated financial statements.

2.3.2 Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The results and financial position of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The Group consolidated financial statements include the financial statements of the Company and its subsidiaries after all intercompany accounts and transactions have been eliminated. The accounting policies of subsidiaries have been changed where necessary to align them with the policies adopted by the Group.

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

2.4 **Cash and short-term investments**

Cash and short-term investments include cash balances, cash equivalents, time deposits and other short-term highly liquid financial assets with original maturities of three months or less.

Interest on these balances is recorded on the accrual basis and included in Investment income.

2.5 **Assets and Liabilities Held-for-Sale**

Disposal groups, which comprise of assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale.

The sale is highly likely if, on the reporting date, Management has committed to detailed sale plans, is actively looking for a buyer, has set a reasonable selling price, and the sale is likely to occur within a year. Disposal groups are measured at the lower of their carrying value and fair value less costs to sell, except for assets and liabilities arising from insurance contracts which are measured on the same basis as the insurance assets and liabilities from continuing operations. Once classified as held-for-sale these assets will no longer be depreciated. See Note 4 Asset and liabilities held-for-sale.

2.6 **Financial instruments**

2.6.1 Financial assets

2.6.1(a) Classification and recognition of financial assets

The Group has the following financial assets: (i) financial assets at FVTPL, (ii) available-for-sale financial assets, and (iii) loans and receivables. Management determines the classification of financial assets at initial recognition and is dependent on the nature of the assets and the purpose for which the assets were acquired.

All financial assets are required to be measured at fair value with the exception of loans and receivables and Available-for-sale equity instruments whose fair value cannot be reliably measured. The Group recognises loans and receivables at their date of inception. All other financial assets (including assets designated at FVTPL) are recognised on the trade date at which the Company becomes a party to the contractual provisions of the instrument. Balances pending settlement as a result of sales and purchases are reflected on the Consolidated Balance Sheets as Receivable for investments sold and Payable arising from investment transactions.

(i) Financial assets at FVTPL

A financial asset is classified as FVTPL if it is determined to be held-for-trading or is designated as such upon initial recognition. Financial assets are designated at FVTPL if the Group manages such investments and makes purchases and sale decisions based on their fair value in accordance with the Group's documented risk management and investment strategies.

Attributable transaction costs upon initial recognition are recognised in Investment income on the Consolidated Statements of Comprehensive Income/(Loss) as incurred. FVTPL financial instruments are measured at fair value, and changes therein are recognised in Investment income on the Consolidated Statements of Comprehensive Income/(Loss). Interest or dividend income earned from these financial assets is recorded in Investment income on the Consolidated Statements of Comprehensive Income/(Loss). Interest income is net of investment management fees.

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

2.6 **Financial instruments** (continued)

2.6.1 Financial assets (continued)

2.6.1(a) Classification and recognition of financial assets (continued)

(ii) *Available-for-sale financial assets*

Available-for-sale financial assets include equity investments and debt securities. Equity securities classified as available-for-sale are carried at fair value except unquoted equities, which are carried at cost. Debt securities in this category are carried at fair value and are intended to be held for an indefinite period of time and it may be sold in response to needs for liquidity, in response to changes in market conditions or in response to complying with investment guidelines.

After initial measurement, Available-for-sale financial assets are subsequently measured at fair value with unrealised gains or losses recognised in Other comprehensive income/(loss) and presented on the Consolidated Statements of Comprehensive Income/(Loss). When an investment is derecognised, the cumulative gain or loss in Other comprehensive income/(loss) is transferred to Investment income on the Consolidated Statements of Comprehensive Income/(Loss).

Amortisation and accretion of premiums and discounts and interest income on Available-for-sale debt securities are calculated using the effective interest rate method and are recognised in Investment income. Interest income is recognised using the effective interest rate method. The carrying value of accrued interest income approximates estimated fair value due to its short term nature and high-liquidity. Interest income is net of investment management fees. Dividends on equity securities are recorded as investment income on the date the dividends become payable to the holders of record.

(iii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest method, less any impairment losses. Amortisation of interest is included in Investment income on the Consolidated Statements of Comprehensive Income/(Loss). For the purposes of this classification, Loans and receivables are comprised of mortgages and loans, Interest and dividends receivable and other receivables included in Other assets on the Consolidated Balance Sheets.

2.6.1(b) Derecognition and offsetting

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire or it transfers the rights to receive the contractual cash flows of the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, which is normally the trade date. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability. Financial assets and liabilities are offset and the net amount presented on the Consolidated Balance Sheets when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

2.6 **Financial instruments** (continued)

2.6.2 Financial liabilities

2.6.2(a) Classification and recognition of financial liabilities

The Group has the following financial liabilities: (i) financial liabilities at FVTPL and (ii) other financial liabilities. Management determines the classification of financial liabilities at initial recognition.

(i) Financial liabilities at FVTPL

The Group's financial liabilities at FVTPL relate to deposit accounted annuity policies shown under Investment contract liabilities on the Consolidated Balance Sheets. Contracts recorded at FVTPL are measured at fair value at inception and each subsequent reporting period. Changes in fair value of investment contract liabilities are recorded in Gross change in contract liabilities on the Consolidated Statements of Comprehensive Income/(Loss).

(ii) Other financial liabilities

All remaining financial liabilities are classified as other financial liabilities which include Investment contract liabilities related to the deposit administration pension plans and self-funded group health policies, Payable arising from investment transactions, Insurance balance payable and Accounts payable and accrued liabilities. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

Payables arising from investment transactions and Accounts payable and accrued liabilities are considered short-term payables with no stated interest.

All other financial liabilities (including liabilities designated at FVTPL) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

2.6.2(b) Derecognition

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

2.6.3 Derivative financial assets

Investments in derivative instruments are measured at FVTPL and are considered to be held-for-trading. Derivatives are initially recognised at estimated fair value on the date into which a contract is entered. The attributable transaction costs are recognised in Investment income on the Consolidated Statements of Comprehensive Income/(Loss) as incurred. These investments in derivative instruments are subsequently carried at estimated fair value. Changes in the estimated fair value of instruments that do not qualify for hedge accounting are recognised in Investment income on the Consolidated Statements of Comprehensive Income/(Loss). The Group does not hold any derivatives classified as hedging instruments. Derivative financial assets are reported net under Investments on the Consolidated Balance Sheets.

2.6.4 Investment income

Interest is recorded in Investment income on the Consolidated Statements of Comprehensive Income/(Loss) as it accrues, using the effective interest method. Dividend income is recognised on the date the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

2.7 **Impairment of assets**

2.7.1 Impairment of financial assets

The carrying amounts of the Group's financial assets, except those classified under FVTPL, are reviewed at each reporting date for impairment and reversal of previously recognised impairment losses. These assets are considered impaired if there is objective evidence of impairment as a result of one or more loss events that have an impact that can be reliably determined based on estimated future cash flows of the asset. Objective factors that are considered when determining whether a financial asset or group of financial assets may be impaired include, but are not limited to, the following:

- negative rating agency announcements in respect of investment issuers and debtors;
- significant reported financial difficulties of investment issuers and debtors;
- actual breaches of credit terms such as persistent late payments or actual default;
- the disintegration of the active market(s) in which a particular asset is traded or deployed;
- adverse economic or regulatory conditions that may restrict future cash flows and asset recoverability;
- the withdrawal of any guarantee from statutory funds or sovereign agencies implicitly supporting the asset; and
- significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

2.7.1(a) Loans and receivables

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed individually for impairment. Those found not to be impaired are then collectively assessed for impairment. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for Management's judgments as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The impairment loss is recognised in Investment income on the Consolidated Statements of Comprehensive Income/(Loss) and reflected in an allowance account against the loans and receivables. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the impairment loss is reversed in Investment income on the Consolidated Statements of Comprehensive Income/(Loss).

2.7.1(b) Available-for-sale financial assets

When there is objective evidence that an available-for-sale asset is impaired, the loss accumulated in Other comprehensive income/(loss) is reclassified to the Consolidated Statements of Comprehensive Income/(Loss) in Investment income. The cumulative loss that is reclassified from Other comprehensive income/(loss) to Investment income is the difference between the amortised cost and the current fair value less any impairment loss recognised previously in Investment income on the Consolidated Statements of Comprehensive Income/(Loss). Impairment losses on available-for-sale equity securities are not reversed.

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

2.7 **Impairment of assets** (continued)

2.7.2 Impairment of non-financial assets

The carrying amounts of the Property and equipment are reviewed at each reporting date to determine if there is objective evidence of impairment. Objective factors that are considered when determining whether a non-financial asset may be impaired include, but are not limited to, the following:

- adverse economic, regulatory or environmental conditions that may restrict future cash flows and asset usage and/or recoverability;
- the likelihood of accelerated obsolescence arising from the development of new technologies and products; and
- the disintegration of the active market(s) to which the asset is related.

If objective evidence of impairment exists, then the asset's recoverable amount is estimated. An impairment loss is recognised in Depreciation of property and equipment on the Consolidated Statements of Comprehensive Income/(Loss) if the carrying amount of an asset exceeds its estimated recoverable amount. The recoverable amount of an asset is the greater of its value-in-use and its fair value less costs to sell. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets.

2.8 **Insurance, investment and service contracts**

Insurance contracts are those contracts where the Group has accepted significant insurance risk from the policyholders by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders.

2.8.1 Premiums

Premiums written on most life, annuity and health insurance contracts are recognised as revenue when due from the policyholder. For short-term insurance contracts, premiums written are earned on a pro-rata basis over the terms of the policies.

The reserve for unearned premiums represents that portion of premiums written that relates to the unexpired terms of the policies and is included in Insurance contract liabilities on the Consolidated Balance Sheets.

2.8.2 Receivables and payables related to insurance contracts

Receivables and payables related to insurance contracts are recognised when due and measured on initial recognition at the fair value of the consideration receivable or payable. Subsequent to initial recognition, Insurance balances receivable and Insurance balances payable are measured at amortised cost. The carrying value of Insurance balances receivable is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in Operating expenses on the Consolidated Statements of Comprehensive Income/(Loss). Insurance balances receivable and Insurance balances payable are derecognised when the derecognition criteria for financial assets and financial liabilities, as described in Note 2.6.1(b) have been met.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Insurance, investment and service contracts (continued)

2.8.3 Reinsurance

Reinsurance ceded premiums comprise the cost of reinsurance contracts into which the Group has entered. Reinsurance ceded is recognised from the date the reinsurer has contracted to accept the risks and the amount of premium can be measured reliably. The Reinsurers' share of unearned premium represents that part of reinsurance premiums ceded which are estimated to be earned in future financial periods. Unearned reinsurance commissions are recognised as a liability using the same principles and are shown under Insurance balances payable on the Consolidated Balance Sheets. The Reinsurers' share of claims provisions is estimated using the same methodology as the underlying losses. These represent the benefit derived from reinsurance agreements in force at the financial statements reporting date. Amounts due to or from reinsurers with respect to premiums or claims are included in Insurance balances payable or Insurance balances receivable on the Consolidated Balance Sheets.

The Group periodically assesses any reinsurance assets for impairment, with any impairment loss recognised in Operating expense on the Consolidated Statements of Comprehensive Income/(Loss) in the period in which any impairment is determined.

2.8.4 Insurance contract liabilities

Insurance contract liabilities shown on the Consolidated Balance Sheets include (i) life and annuity policy reserves and (ii) provision for unpaid and unreported claims.

(i) Life and annuity policy reserves

Life and annuity policy reserves are determined by the Group's actuaries and represent the amounts which, together with future premiums and investment income, are required to discharge the obligations under life and annuity contracts and to pay expenses related to the administration of these contracts. These reserves are determined using generally accepted actuarial practices according to standards established by the Canadian Institute of Actuaries ("CIA"). The CIA requires the use of the CALM for the valuation of actuarial liabilities for all lines of business. The actuarial liability reserves under CALM are calculated by projecting asset and liability cash flows under a variety of interest rate scenarios using best-estimate assumptions, together with margins for adverse deviations with respect to other contingencies pertinent to the valuation. The actuarial liability reserves make provision for the expected experience scenario and for adverse deviations in experience.

(ii) Provision for unpaid and unreported claims

Provision for unpaid and unreported claims represents the best estimate of the ultimate costs of claims in the course of settlement and claims incurred but not yet reported. The provision is continually reviewed and updated by Management and the Group's actuaries. Any adjustments resulting from the review process, as well as differences between estimates and ultimate payments, are reflected in Claims and adjustment expenses and Gross change in contract liabilities on the Consolidated Statements of Comprehensive Income/(Loss) in the year in which they are determined.

Provisions for unpaid and unreported claims are not discounted.

2.8.5 Investment contracts

Contracts issued that do not transfer significant insurance risk, but do transfer financial risk from the policyholder, are financial liabilities and are accounted for as investment contracts. Service components of investment contracts are treated as service contracts. Fees earned from the service components of investment contracts are included on the Consolidated Statements of Comprehensive Income/(Loss) under Commissions, management fees and other.

Liabilities for investment contracts are measured at FVTPL or amortised cost (Note 2.6.2).

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Insurance, investment and service contracts (continued)

2.8.5 Investment contracts (continued)

The following contracts are the investment contract liabilities for the Group:

(i) Deposit administration pension plans are plans where the Group's liability is linked to contributions received, plus a predetermined and guaranteed rate of return. The liability related to these plans is carried at amortised cost.

(ii) Self-funded group health policies are refund accounting agreements that provide for the retroactive adjustment of premiums based upon the claims experience of the policyholder. Under these agreements, any surplus arising is set off against future deficits or returned to the policyholder. Any deficit that may arise is set off against future surpluses or may be recovered in full, or in part, by lump sum payments from policyholders. As these agreements do not transfer insurance risk, funds received under these agreements are accounted for as investment contracts. Assets and liabilities arising from these types of policies are measured at amortised cost.

(iii) Deposit accounted annuity policies relate to policies that do not transfer significant insurance risk but do transfer financial risk from the policyholders and these are measured at FVTPL.

2.8.6 Other service contracts

Fee income from service contracts is recognised as revenue when services are rendered at either a point in time or over time. The Group's performance obligations are generally satisfied over time as the customer simultaneously receives and consumes the benefits of the services rendered.

Fee income from pension administration and policyholder administration under segregated fund arrangement are recognized based on a percentage of assets under management or another variable metric. Asset-based fees vary with assets under management, which are subject to market conditions and investor behaviors beyond the Group's control.

2.9 Investment Properties

Investment properties are real estate primarily held to earn rental income or held for capital appreciation. Properties that do not meet these criteria are classified as Property and equipment. Expenditures related to ongoing maintenance of properties subsequent to acquisition are expensed as incurred. Rental income from investment properties is recognised on a straight-line basis over the term of the lease. Investment properties are initially recognised at the transaction price including acquisition costs on the Consolidated Balance Sheets. These properties are subsequently measured at fair value with changes in values recorded in Investment income on the Consolidated Statements of Comprehensive Income/(Loss).

Fair values are evaluated regularly by an accredited independent valuation specialist, who holds a recognized and relevant professional qualification and who has recent experience in the valuation of properties in Bermuda.

2.10 Property and equipment

Owner-occupied properties and all other assets classified as Property and equipment are stated at cost less accumulated depreciation and impairment. Subsequent costs are included in the assets' carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The costs of the day-to-day servicing of Property and equipment are recognised as incurred in Operating expenses on the Consolidated Statements of Comprehensive Income/(Loss).

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

2.10 **Property and equipment** (continued)

Depreciation is calculated so as to write the assets off over their estimated useful lives at the following rates per annum:

Buildings 2.5% - 10%
Computer equipment 10% – 20%

The assets' residual values, useful lives and method of depreciation are reviewed regularly, at a minimum at the end of each fiscal year, and adjusted if appropriate. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is considered to be impaired and it is written down immediately to its recoverable amount. In the event of an improvement in the estimated recoverable amount, the related impairment may be reversed. Gains and losses on disposal of Property and equipment are determined by reference to their carrying amount, and are recognised in Commissions, management fees and other on the Consolidated Statements of Comprehensive Income/(Loss).

2.11 **Segregated funds**

Segregated funds are lines of business in which the Group issues a contract where the benefit amount is directly linked to the reported net asset values of the investments held in the particular segregated fund. Although the underlying assets are registered in the name of the Group and the segregated fund policyholder has no direct access to the specific assets, the contractual arrangements are such that the segregated fund policyholder bears the risks and rewards of the fund's investment performance.

The Group derives fee income, which is included within Commissions, management fees and other on the Consolidated Statements of Comprehensive Income/(Loss). Deposits to segregated funds are reported as increases in Segregated funds liabilities and are not reported on the Consolidated Statements of Comprehensive Income/(Loss).

Insurance premiums are treated as deposits and are not recorded as revenue on the Consolidated Statements of Comprehensive Income/(Loss). Fees charged to policyholders, related to insured risk and associated administrative costs are recorded in Commissions, management fees and other on the Consolidated Statements of Comprehensive Income/(Loss). Refer to Note 2.8.6.

Segregated fund assets are recorded at fair value based on net asset values reported by third parties such as investment managers and fund administrators. Segregated fund assets may not be applied against liabilities that arise from any other business of the Group. The investment results are reflected directly in segregated fund assets and liabilities.

2.12 **Employee benefits**

2.12.1 Post-employment benefits

The Group participates in the post-retirement medical benefit plan granted by the Parent where the Parent charges the Group an allocated share of the total cost of the benefits.

The Parent operates a post-employment medical benefit plan, which provides medical benefits to eligible retired employees and their spouses. The plan is closed to new entrants effective April 1, 2011. The Parent accrues the cost of these defined benefits over the periods in which the employees earn the benefits. The post-employment benefit liability is calculated using the projected unit credit actuarial cost method. The present value of the defined benefit liability is determined by discounting the estimate of future cash flows using interest rates of AA-rated corporate bonds that have terms to maturity that approximate the terms of the related post-employment benefit liability.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Employee benefits (continued)

2.12.1 Post-employment benefits (continued)

Re-measurement of the net defined benefit liability, which comprise actuarial gains and losses, are recognised in Other comprehensive income/(loss) on the Consolidated Statements of Comprehensive Income/(Loss). Interest expense and other expenses related to the post-employment medical benefit plan are recognised in Operating expenses on the Consolidated Statements of Comprehensive Income/(Loss).

2.12.2 Pensions

The Parent operates a defined contribution plan. On payment of contributions to the plan there is no further legal or constructive obligation to the Group. Contributions are recognised as employee benefits on the Consolidated Statements of Comprehensive Income/(Loss) under Operating expenses in the period to which they relate.

2.12.3 Stock-based compensation

The Parent has issued restricted shares to certain members of management. These restricted shares are recognised as an expense pro-rata over the vesting period, adjusted for the impact of any non-market vesting conditions. The total amount to be expensed is determined by reference to the fair value of the awards estimated at the grant date, excluding the impact of any non-market vesting conditions.

2.13 Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognised as a deduction from equity, net of any tax effects.

2.14 Leases

The Group is a lessor of assets, primarily in connection with office space leases. Transactions where substantially all risks and rewards incidental to ownership are transferred from the lessor to the lessee are accounted for as finance leases. All other leases are accounted for as operating leases. The Group's leases are all accounted for as operating leases.

The Group's assets held for leasing are all included in Property and equipment and Investment properties. Rental income from operating leases is recorded as revenue on a straight-line basis over the term of the lease. This is shown under Investment income on the Consolidated Statements of Comprehensive Income/(Loss).

2.15 Application of new and revised accounting standards

The Group has applied the following new and revised standards, relevant to the Group, which are issued by the IASB that are mandatorily effective for the Group for the accounting period beginning April 1, 2020.

2.15.1 2018 Conceptual Framework

Effective April 1, 2020, the Group adopted the revised Conceptual Framework for Financial Reporting ("2018 Conceptual Framework") which was issued in March 2018. The amendments were applied retrospectively. The 2018 Conceptual Framework provides revised definitions of an asset and a liability, as well as new guidance on measurement, derecognition, presentation and disclosure. The adoption of these amendments did not have a significant impact on the Group's Consolidated Financial Statements.

(Amounts in tables are expressed in thousands of Bermuda dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Application of new and revised accounting standards (continued)

2.15.2 Amendments to IAS 1 *Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*

Effective April 1, 2020, the Group adopted the amendments to IAS 1 *Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*. The amendments were applied retrospectively. The amendments clarify the definition of material and provide guidance to improve consistency in its application in IFRS standards. Adoption of these amendments did not have a significant impact on the Group's Consolidated Financial Statements.

2.16 Future accounting and reporting changes

There are a number of accounting and reporting changes issued under IFRS including those still under development by the IASB. A summary of the recently issued new accounting standards that will impact the Group in 2021 and beyond is as follows:

TOPIC	EFFECTIVE DATE FOR THE COMPANY	EXPECTED IMPACT
Amendments to IFRS 16 *COVID-19 Related Rent Concessions*	April 1, 2021	No significant impact
Annual Improvements to IFRS Standards 2018-2020	April 1, 2022	No significant impact
Amendments to IAS 16 *Property Plant and Equipment- Proceeds before Intended Use*	April 1, 2022	No significant impact
Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets -Onerous Contacts- Cost of fulfilling a Contracts*	April 1, 2022	No significant impact
Amendment to IAS 1 *Presentation of Financial Statements - Classification of Liabilities as Current or Non-current*	April 1, 2023	No significant impact
IFRS 9 *Financial Instruments*	April 1, 2023*	Impact assessment in progress
IFRS 17 *Insurance Contract*	April 1, 2023	Impact assessment in progress

* Deferral option was exercised, refer to discussion in 2.16.7.

2.16.1 Amendments to IFRS 16 *COVID-19 Related Rent Concessions*

In May 2020, the IASB issued amendments to IFRS 16 *COVID-19 Related Rent Concessions*; effective for annual periods beginning on or after June 1, 2020, with earlier application permitted. The amendment provides lessees with a practical expedient to not account for COVID-19-related rent concessions as lease modifications. Adoption of these amendments are not expected to have a significant impact on the Group's Consolidated Financial Statements.

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

2.16 **Future accounting and reporting changes** (continued)

2.16.2 *Annual Improvements to IFRS Standards 2018-2020*

In May 2020, the IASB issued Annual Improvements to IFRS Standards 2018-2020, which includes minor amendments to three IFRS standards applicable to our Consolidated Financial Statements. The amendments are effective for annual periods beginning on or after January 1, 2022, with earlier application permitted. Adoption of these amendments are not expected to have a significant impact on the Group's Consolidated Financial Statements.

2.16.3 Amendments to IAS 16 *Property Plant and Equipment- Proceeds before Intended Use*

In May 2020, the IASB issued Property, Plant and Equipment - Proceeds before Intended Use, which includes amendments to IAS 16 Property, Plant and Equipment. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The amendments are effective for annual periods beginning on or after January 1, 2022, with earlier application permitted. Adoption of these amendments are not expected to have a significant impact on the Group's Consolidated Financial Statements.

2.16.4 Amendments to IAS 37 *Onerous Contacts- Cost of fulfilling a Contract.*

In May 2020, the IASB issued Onerous Contracts - Cost of Fulfilling a Contract, which includes amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The amendments are effective for annual periods beginning on or after January 1, 2022. Adoption of these amendments are not expected to have a significant impact on the Group's Consolidated Financial Statements.

2.16.5 Amendment to IAS 1 *Classification of Liabilities as Current or Non-current*

In January 2020, the IASB issued Classification of Liabilities as Current and Non-current, which amends IAS 1 Presentation of Financial statements. The amendments are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted. The amendments clarify that the classification of a liability as current or non-current should be based on the right to defer settlement that is in existence at the end of the reporting period. The classification is unaffected by the expectations about whether an entity will exercise this right. Settlement of the liability refers to the transfer to counterparty of cash, equity instruments, other assets, or services. Adoption of these amendments are not expected to have a significant impact on the Group's Consolidated Financial Statements.

2.16.6 IFRS 9, *Financial Instruments*

In July 2014, the final version of IFRS 9 Financial Instruments (IFRS 9) was issued, which replaces IAS 39 Financial Instruments: Recognition and Measurement (IAS 39) and will be applied retrospectively, or on a modified retrospective basis. The project has been divided into three phases: classification and measurement, impairment of financial assets, and hedge accounting.

IFRS 9 provides that financial assets are classified and measured on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. IFRS 9 also introduces an impairment model for financial instruments not measured at fair value through profit or loss that requires recognition of expected losses at initial recognition of a financial instrument and the recognition of full lifetime expected losses if certain criteria are met. A new model for hedge accounting aligns hedge accounting with risk management activities. Revisions issued in July 2014 replace the existing incurred loss model used for measuring the allowance for credit

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

2.16 **Future accounting and reporting changes** (continued)

2.16.6 IFRS 9, *Financial Instruments* (continued)

losses with an expected loss model. In October 2017, the IASB issued narrow-scope amendments to IFRS 9. The amendments clarify the classification of certain prepayable financial assets and the accounting of financial liabilities following modification. Management is assessing the impact of this standard on the consolidated financial statements.

To address concerns about differing effective dates of IFRS 9 which is effective on January 1, 2018 and IFRS 17 Insurance Contracts which is effective on January 1, 2023, amendments to IFRS 4 Insurance Contracts was issued, which provide companies whose activities are predominantly related to insurance an optional temporary exemption from applying IFRS 9 until the effective date of IFRS 17. Based on an analysis performed as of March 31, 2018, the Group applied the temporary exemption as the predominance ratio reflecting the share of liabilities connected with insurance to total liabilities exceeds 90 percent. For the purpose of calculating the predominance ratio, liabilities connected with insurance include segregated fund liabilities of $1.3 billion as of March 31, 2018.

The Group will continue to apply IAS 39 until April 1, 2023. To enable a comparison with entities applying IFRS 9, entities that apply the deferral approach are required to disclose the following information:

- Fair value and changes in fair value separately for (a) those financial assets that pass the solely payments of principal and interest (SPPI) test, excluding any financial asset that meets the definition of held for trading in IFRS 9, or that is managed and whose performance is evaluated on a fair value basis and (b) all other financial assets, including financial assets that are managed and whose performance is evaluated on a fair value basis. Refer to Note 5.1.
- Credit ratings of financial assets that pass the SPPI test. Financial assets which pass the SPPI test are assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Refer to Note 5.1.

2.16.7 IFRS 17*, Insurance Contracts*

In May 2017, the IASB issued IFRS 17, which replaces IFRS 4. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 provides comprehensive guidance on accounting for insurance contracts. For non-life insurance contracts, IFRS 17 introduces mandatory discounting of loss reserves as well as a risk adjustment for non-financial risk. Further, IFRS 17 will change the presentation of insurance contract revenue, premiums written will no longer be presented in the statement of comprehensive income. For long-duration life insurance contracts, IFRS 17 is expected to have a significant impact on actuarial modelling, as more granular cash flow projections and regular updates of all assumptions will be required, either resulting in profit or loss or impacting the "contractual service margin", a separate component of the insurance liability representing unearned profits from in-force contracts.

In order to evaluate the effects of adopting IFRS 17 in the consolidated financial statements, a joint IFRS 17 and IFRS 9 Group Implementation Programme was set up and a third-party advisory team was hired. A steering committee comprising senior management from Finance, Risk, Operations and Investment Management oversees the work performed by the third-party advisory team and the working group. The third-party advisory team works with the technical committee in the assessment of the Group's accounting policies and methodologies and with the transformation committee for assessment of systems implications and data flows. The Group is evaluating the impact of adopting IFRS 17 on the financial statements which includes:

- drafting of the initial policy position papers
- modelling the transition impact on equity based on IFRS 17 and IFRS 9 accounting policy options and working assumption;

(Amounts in tables are expressed in thousands of Bermuda dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Future accounting and reporting changes (continued)

2.16.7 *IFRS 17 Insurance Contracts* (continued)

The Group's implementation programme is progressing in line with expectations. IFRS 17 is currently expected to be effective for the Group on April 1, 2023, and is to be applied retrospectively to each group of insurance contracts unless impracticable. If, and only if, it is impracticable to apply IFRS 17 retrospectively for a group of insurance contracts, an entity shall apply IFRS 17 using a modified retrospective approach or a fair value approach.

In November 2018, the IASB decided to defer the effective date of IFRS 17 and IFRS 9 by one year, to April 1, 2022. In March 2020, IASB decided to further defer the effective date by another year, to April 1, 2023. The Group is expecting that adoption of this standard will have a significant impact on the Group's consolidated financial statements.

2.17 **Impact of COVID 19**

In early 2020, many countries experienced an outbreak of the COVID-19 disease, which was later declared to be a global pandemic by the World Health Organization. Measures adopted by governments in countries worldwide to mitigate the spread have significantly impacted the global economy, which could deepen if the virus is prolonged. The Group continues to monitor and evaluate the impact of the pandemic on the Group's business which includes stress and scenario testing and has implemented processes for the continuation of operations and to support the well-being of customers, employees and broader communities. The risks associated with the COVID-19 pandemic are being managed in accordance with the Group's existing risk management framework. Business continuity plans are in effect across the Group, with a significant majority of employees continuing to work remotely to provide service to customers and maintain operations and technology functions. While the duration and impact of COVID-19 is highly uncertain, the Group's statutory capital remains well in excess of its minimum regulatory requirements and has sufficient margin to absorb the potential impact of this event.

3. CASH AND SHORT-TERM INVESTMENTS

	2021	**2020**
Cash in bank	27,504	28,497
Short-term investments	3,293	3,236
	30,797	31,733

Included in the cash in bank are cash that support the investment contract liabilities associated with deposit administration pension plans (Note 12) of $5.0 million (2020 – $7.7 million) and cash held as collateral of $Nil (2020 – $1.7 million) related to derivative transactions.

Bank overdrafts are repayable on demand are included as a component of cash in bank. As of March 31, 2021, the Group's bank overdraft position is $0.1 million (2020 - $Nil).

4. ASSETS AND LIABILITIES HELD-FOR-SALE

In March 2018, Management committed to a plan for the settlement of an outstanding mortgage loan receivable, which is fully collateralised via a first mortgage over a property in receivership that is situated in Bermuda. The settlement of the outstanding loan is dependent upon the sale of the collateral property. The sale of the collateral properties, previously presented as held-for-sale, was completed in March 2021.

(Amounts in tables are expressed in thousands of Bermuda dollars)

5. INVESTMENTS

5.1 Carrying values and estimated fair values of investments

The carrying values and estimated fair values of investments are as follows:

	31-Mar-21		31-Mar-20	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Available-for-sale				
Bonds	377,645	377,645	376,302	376,302
Equities	6,785	6,785	4,750	4,750
	384,430	384,430	381,052	381,052
Investments at FVTPL				
Bonds	21,012	21,012	4,769	4,769
	21,012	21,012	4,769	4,769
Loans and receivables				
Mortgages and loans	15,180	16,188	15,333	16,270
Policy loans	41	41	43	43
	15,221	16,229	15,376	16,313
Derivatives				
Other [(1)]	-	-	3,730	3,730
Foreign currency forward contracts	-	-	70	70
	-	-	3,800	3,800
Total Investments	**420,663**	**421,671**	**404,997**	**405,934**

(1) Other consists of interest rate swaps, credit default swaps, options and futures

Included in Available-for-sale Bonds are investments that support the investment contract liabilities associated with deposit administration pension plans (Note 12) of $226.3 million (2020 – $230.3 million). These investments are maintained under a Separate Account to provide the policyholders certain protections from creditors of the Group.

(Amounts in tables are expressed in thousands of Bermuda dollars)

5. **INVESTMENTS** (continued)

5.1 **Carrying values and estimated fair values of investments** (continued)

SPPI criterion
As discussed in Note 2.16.7, the Group has investments of $385.9 million (2020 - $362.1 million) that meet the SPPI criterion. This refers to bonds, mortgage loans and policy loans. The change in the fair value of these invested assets during the year is a gain of $3.9 million (2020 – loss of $5.4 million). In terms of credit quality of such assets (excluding mortgages), 99% (2020 – 98%) of these investments are above investment grade assets and the remaining 1% (2020 – 2%) are below investment grade assets.

Investments with a carrying value of $28.0 million (2020 - $34.4 million) do not have SPPI qualifying cash flows as at March 31, 2021. The change in the fair value of these invested assets during the year is a gain of $0.7 million (2020 - $1.2 million).

Derivatives and equities with a carrying value of $6.8 million (2020 – $8.5 million) do not meet the SPPI criterion as at March 31, 2021.

Investment in mortgages and loans presented as assets held-for-sale amounting to $Nil (2020 - $7.7 million) do not have SPPI qualifying cash flows as at March 31, 2021.

5.2 **Derivative financial instruments**

The Group's investment guidelines permit the investment managers to utilise exchange-traded futures and options contracts, over-the-counter (OTC) instruments including interest rate swaps, credit default swaps, interest rate swaptions and forward foreign currency contracts. Derivatives are used for yield enhancement, duration management, interest rate and foreign currency exposure management or to obtain an exposure to a particular financial market. These positions are monitored regularly. The Group may also use OTC or exchange traded managed derivatives to mitigate interest rate risk and foreign currency exposures. The Group principally has exposure to derivatives related to the following types of risks: foreign currency risk, interest rate risk and credit risk.

The Group has the following transactions and balances related to its derivative activities.

At March 31	**2021**	**2020**
Derivative assets	-	3,800
Derivative liabilities	-	(3,546)
Collateral [(1)]	-	1,783

[(1)] Collateral refers to cash held in favour of third parties, which is included in Cash and short-term investments on the Consolidated Balance Sheets.

The gains (losses) arising from the Group's derivative financial instruments recognised as Investment income on the Consolidated Statements of Comprehensive Income/(Loss) is as follows:

For the year ended March 31		**2021**	**2020**
Derivative financial instruments			
Foreign currency forward		-	315
Other derivatives [(1)]		-	2,400
	5.4	-	2,715

[(1)] Other derivatives consist of interest rate swaps, credit default swaps, options and futures.

5. **INVESTMENTS** (continued)

5.2 **Derivative financial instruments** (continued)

5.2.1 Futures

Futures provide the Group with participation in market movements, determined by the underlying instrument on which the future contract is based, without holding the instrument itself or the individual securities. This approach allows the Group more efficient and less costly access to the exposure than would be available by the exclusive use of individual fixed income and money market securities. Future contracts may also be used as substitutes for ownership of the physical securities. All futures contracts are held on a non-leveraged basis. An initial margin is provided, which is a deposit of cash and/or securities in an amount equal to a prescribed percentage of the contract value. The fair value of futures contracts is estimated daily and the margin is adjusted accordingly with unrealised gains or losses settled daily in cash and/or securities. Realised gains (losses) are recognised when the contract is closed.

Future contracts expose the Group to credit, market and liquidity risks. The Group is exposed to credit risks to the extent that the counterparties are not able to perform under the terms of the contract. Market risk arises when adverse changes occur in the estimated fair values of the underlying securities.

Liquidity risk represents the possibility that the Group may not be able to rapidly adjust the size of its forward positions at a reasonable price in times of high volatility and financial stress. Exchange-traded futures are however subject to a number of safeguards to ensure that obligations are met, including the use of clearing houses, the posting of margins and the daily settlements of unrealised gains and losses and counterparty credit risk evaluation. Credit, market and liquidity risk and how these risks are mitigated are disclosed in Note 13.

At March 31, 2021, the Group had no outstanding money market futures (2020 - long positions of $65.4 million and short positions of $54.3 million).

5.2.2 Options

The Group's investment guidelines permit the use of exchange-traded and OTC options, which are used to manage exposure to interest rate risk and also to hedge duration. Exchange-traded options are held on a similar basis to futures and are subject to similar safeguards. Options are contractual arrangements that give the purchaser the right but not the obligation, to either buy or sell an instrument at a specific set price at a predetermined future date. The Group may enter into option contracts that are secured by holdings in the underlying securities or by other means which permit immediate satisfaction of the Group's obligations.

At March 31, 2021, the Group had no options (2020 - long positions of $Nil and short position of $6.3 million).

5.2.3 Interest rate swaps

Swaps are used to manage interest rate exposure, portfolio duration or capitalise on anticipated changes in interest rate volatility without investing directly in underlying securities. Swaps are recorded at estimated fair values at the end of each period with unrealised gains and losses recorded in Investment income on the Consolidated Statements of Comprehensive Income/(Loss).

5. **INVESTMENTS** (continued)

5.2 **Derivative financial instruments** (continued)

5.2.3 Interest rate swaps (continued)

Interest rate swap agreements entail the exchange of commitments to pay or receive interest, such as an exchange of floating rate payments for fixed rate payments, with respect to a notional amount of principal. These agreements involve elements of credit and market risk. Such risks include the possibility that there may not be a liquid market, that the counterparty may default on its obligation to perform or that there may be unfavourable movements in interest rates. Credit risk is mitigated by making collateral calls to mitigate exposure and counterparty credit risk evaluation. Credit, market and liquidity risks and how these risks are mitigated are disclosed in Note 13.

At March 31, 2021, the Group had no open interest rate swaps (2020 - long positions of $Nil and short positions of $13.2 million).

5.2.4 Credit default swaps

Credit default swaps ("CDS") are used to manage exposure to the market or certain sectors of the market. CDS contract provides protection against the decline in the value of the underlying assets as a result of specified credit events such as default or bankruptcy. CDS requires the purchaser to pay a premium to the seller of the CDS contract in return for payment contingent on the occurrence of a credit event. The protection purchaser has recourse to the protection seller for the difference between the face value of the CDS contract and the fair value of the underlying asset at the time of the settlement. Neither the purchaser nor the seller under the CDS contract has recourse to the entity that issued the reference assets.

At March 31, 2021, the Group had no open CDS contracts (2020 - long position of $5.8 million and short positions of $8.4 million).

5.2.5 Foreign currency forwards

A foreign currency forward contract is a commitment to purchase or sell a foreign currency at a future date, at a defined rate. The Group may utilize currency forward contracts to gain exposure to a certain currency or market rate or manage the impact of fluctuations in foreign currencies on the value of its foreign currency denominated investments.

The notional amount of a derivative contract is the underlying quantity upon which payment obligations are calculated. A long position is equivalent to buying the underlying currency whereas short position is equivalent to having sold the underlying currency.

(Amounts in tables are expressed in thousands of Bermuda dollars)

5. **INVESTMENTS** (continued)

5.2 **Derivative financial instruments** (continued)

5.2.5 Foreign currency forwards (continued)

At March 31, 2021, the Group had no open foreign currency forward contracts.

The Group had the following open foreign currency forward contracts:

As at March 31	**2020**	
	Notional Short	**Notional Long**
South Korean Won	514,577	521,005
Japanese Yen	49,501	49,700
Indian Rupee	25,996	25,649
Sterling	3,637	1,808
Euro	1,867	353
Australian Dollar	596	602
Swiss Franc	335	332

At March 31, 2020, the U.S Dollar equivalent of notional value of outstanding foreign currency forward contracts with long positions and short positions amounted to $4.6 million and $8.5 million respectively.

5.3 **Reverse sale and repurchase agreements**

The Group entered into reverse sale and repurchase agreements (reverse repos) on investments during the year. The money received from these agreements where the Group is the borrower (i.e. where the Group is under an obligation to take the securities back) is shown on the Consolidated Balance Sheets as Payables arising from investment transactions. The securities delivered to the lender continue to be reported in Investments on the Consolidated Balance Sheets in accordance with their relevant category.

During the year, cash flows arising from these agreements amounted to sales and purchases of $68.6 million (2020 - $304.0 million) which are shown net in cash flows generated from investing activities on the Consolidated Statement of Cash Flows.

Transactions arising from these agreements are subject to master netting agreement that creates contingent right of offset that does not qualify for offsetting.

As of March 31, 2021 and 2020, the Group does not hold any outstanding balances arising from reverse repos.

(Amounts in tables are expressed in thousands of Bermuda dollars)

5. **INVESTMENTS** (continued)

5.4 **Investment income**

For the years ended March 31	**2021**	**2020**
Interest Income		
Bonds - available-for-sale	10,458	12,462
Bonds - at FVTPL	82	131
Mortgages and loans	55	626
Cash and other	9	90
	10,604	13,309
Dividend Income		
Equities - available-for-sale	69	141
Equities - at FVTPL	-	2
	69	143
Net realised and changes in unrealised gains and losses on investments		
Bonds - available-for-sale	5,724	7,205
Bonds - at FVTPL	(2,617)	389
Equities - at FVTPL	-	(50)
Equities - available-for-sale	-	(128)
Derivative financial instrument	(109)	2,574
Investment Property	-	(75)
	2,998	9,915
Other		
Amortisation of premium on Bonds	(1,354)	(1,046)
Net rental income and other	1,846	2,266
Impairment (charges) reversal on mortgages and loans [1]	(238)	(1,146)
	254	74
Investment income before deductions	13,925	23,441
Deductions		
Investment income relating to Deposit administration pension plans	(1,364)	(1,765)
Total Investment Income	**12,561**	**21,676**

[1] As at March 31, 2021 and 2020, the Group recorded an impairment on certain non-residential mortgages. The impairment recognized is the difference between the carrying value and the recoverable value, determined based on the market value of the underlying collateral property.

(Amounts in tables are expressed in thousands of Bermuda dollars)

5. **INVESTMENTS** (continued)

5.5 **Re-designation of Investments**

Effective April 1, 2016, the Group re-designated certain fixed income investments with a carrying value and fair value of $305.1 million from the held-for trading to the available-for-sale category. The valuation of these investments is based on Level 2 and 3 inputs in the fair value hierarchy, as defined in Note 6.

To the extent possible, Management intends to hold the investments for an indefinite period of time, taking into consideration the use of these assets for strategic asset/ liability management. These investments are not held for the purpose of being sold or repurchased in the near term, with the intention of profiting from short term price changes. Management believes that the users of the financial statements are better served by re-designating these investments to available-for-sale.

Management re-designated these investments to the available-for-sale category as allowed by IAS 39, *Financial Instruments*. These investments were designated at their fair value on April 1, 2017, and the effect of the change was applied prospectively in these financial statements from the date of re-designation.

The carrying value of the re-designated investments as of March 31, 2021 is $24.8 million (2020 - $39.9 million).

The table below sets out the amounts designated as Investment Income (interest/dividend income and amortization) on the Consolidated Statements of Comprehensive Income/(Loss) in respect to investments re-designated out of the held-for-trading category.

	2021		2020	
	Consolidated Statements of Comprehensive Income/(Loss)	Other Comprehensive Income	Consolidated Statements of Comprehensive Income/(Loss)	Other Comprehensive Income
Investment Income	1,409	-	2,092	-
Net unrealised gains (losses) of investments		2,333		(198)

If the investments had not been re-designated, net unrealized gains of $2.3 million (2020- net unrealized losses of $0.2 million) would have been recognized as Investment income on the Consolidated Statements of Comprehensive Income/(Loss).

The effective interest rates on trading investments re-designated as available-for-sale ranged from 5.7 percent to 6.4 percent (2020 – 5.0 percent to 5.4 percent) with expected recoverable cash flows of $15.4 million (2020 - $67.8 million).

6. **FAIR VALUE MEASUREMENT**

A number of the Group’s accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

6. **FAIR VALUE MEASUREMENT** (continued)

The Group determines the estimated fair value of each individual security utilizing the highest level inputs available. Prices for the majority of the Group's investment portfolio are provided by a third-party investment accounting firm whose pricing processes and the controls thereon are subject to an annual audit on both the operation and the effectiveness of those controls. The audit reports are available to clients of the firm and the report is reviewed annually by Management. In accordance with their pricing policy, various recognised reputable pricing sources are used including broker-dealers and pricing vendors. The pricing sources use bid prices where available, otherwise indicative prices are quoted based on observable market trade data. The prices provided are compared to the investment managers' pricing. The Group has not made any adjustments to any pricing provided by independent pricing services or its third-party investment managers for either year ending March 31, 2021 or 2020.

Level 1 investments are securities with quoted prices in active markets. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. The Group determines securities classified as Level 1 to include highly liquid U.S. treasuries, certain highly liquid short-term investments and quoted equity securities.

Level 2 investments are securities with quoted prices in active markets for similar assets or liabilities or securities valued using other valuation techniques for which all significant inputs are based on observable market data. Instruments included in Level 2 are valued via independent external sources using modeled or other valuation methods. Such methods are typically industry accepted standard and include:

- broker-dealer quotes;
- pricing models or matrix pricing;
- future cash flows;
- yield curves;
- interest rates;
- prepayment speeds; and
- default rates.

Other similar quoted instruments or market transactions may be used.

The Group determines securities classified as Level 2 to include short-term and fixed maturity investments and certain derivatives such as:

- US corporate bonds;
- Municipal, other government and agency bonds;
- Foreign corporate bonds;
- Mortgage/asset-backed securities;
- Bond and equity funds with listed underlying assets; and
- Derivatives, such as options, forward foreign exchange contracts, interest rate swaps and credit default swaps.

The fair value of investment properties was determined by external independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Group's investment properties annually. Fair value is based on market data from recent comparable transactions. These assets are classified as Level 2.

Fair value of the Investment contract liabilities (Deposit accounted annuity policies) is determined by using valuation techniques, such as discounted cash flow methods. A variety of factors are considered in the valuation techniques, including yield curve, credit spread and default assumptions, which have market observable inputs.

6. **FAIR VALUE MEASUREMENT** (continued)

The fair value of the majority of investments for accounts of segregated fund holders is based on net asset values reported by third parties such as investment managers and fund administrators. The fair value hierarchy of direct investments within investments for accounts of segregated fund holders, such as short-term securities, local equities and corporate debt securities, is determined according to valuation methodologies and inputs described above in the respective asset type sections.

The Group determines whether transfers have occurred between levels of the fair value hierarchy by re-assessing the categorisation at the end of each reporting period based on the lowest level input that is significant to the fair value measurement as a whole.

Level 3 investments are securities for which valuation techniques are not based on observable market data. The Group classifies hard to value assets and unquoted/private equities as Level 3 investments as the valuation technique incorporates both observable and unobservable inputs. These investments may be subject to certain lock-up provisions. The type of underlying investments held by the investee, which form the basis of the net asset valuation, include assets such as private business ventures, to which the Group does not have access. The Group considers net assets as a reasonable approximate fair value.

The Group has an established control framework with respect to the measurement of fair values. This includes an investment validation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the Chief Financial Officer. The Group's investment validation process includes a review of price movements relative to the market. Any significant discrepancies are investigated and discussed with investment managers and a valuation specialist. The process also includes regular reviews of significant observable inputs and valuation adjustments. Significant valuation issues are reported to the Board of Directors.

(Amounts in tables are expressed in thousands of Bermuda dollars)

6. FAIR VALUE MEASUREMENT (continued)

6.1 Assets and liabilities measured at fair value

The following table presents fair value of the Group's assets and liabilities measured at fair value in the Consolidated Balance Sheets, categorised by level under the fair value hierarchy.

March 31, 2021	Level 1	Level 2	Level 3	Total Fair Value
Cash and short-term investments	30,797	-	-	30,797
Interest and dividends receivables	-	2,209	-	2,209
Available-for-sale investments				
Bonds				
US government	43,305	-	-	43,305
US and foreign corporates	-	219,040	-	219,040
Municipal, other government and agency	-	43,427	-	43,427
Mortgage/asset-backed securities	-	56,942	-	56,942
Other - Investment in bond funds	-	14,930	-	14,930
	43,305	334,339	-	377,644
Equities				
Investment in equity funds	-	6,721	-	6,721
Private equity funds and unquoted equities	-	-	65	65
	43,305	341,060	65	384,430
Investments at FVTPL				
Bonds				
US government	21,012	-	-	21,012
Investment properties	-	500	-	500
Total assets at fair value	**95,114**	**343,769**	**65**	**438,948**
Liabilities				
Investment contract liabilities	-	328	-	328
Total liabilities at fair value	**-**	**328**	**-**	**328**
Segregated funds	**4,984**	**1,177,566**	**-**	**1,182,550**

(Amounts in tables are expressed in thousands of Bermuda dollars)

6. FAIR VALUE MEASUREMENT (continued)

6.1 Assets and liabilities measured at fair value (continued)

March 31, 2020	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Cash and short-term investments	31,733	-	-	31,733
Interest and dividends receivables	-	2,538	-	2,538
Available-for-sale investments				
Bonds				
US government	79,921	-	-	79,921
US and foreign corporates	-	201,187	-	201,187
Municipal, other government and agency	-	33,025	-	33,025
Mortgage/asset-backed securities	-	47,967	-	47,967
Other - Investment in bond funds	-	14,202	-	14,202
	79,921	296,381	-	376,302
Equities				
Investment in equity funds	-	4,658	-	4,658
Private equity funds and unquoted equities	-	-	92	92
	79,921	301,039	92	381,052
Investments at FVTPL				
Bonds				
US government	4,769	-	-	4,769
Derivatives	-	3,800	-	3,800
Investment properties	-	500	-	500
Total assets at fair value	**116,423**	**307,877**	**92**	**424,392**
Liabilities				
Investment contract liabilities	-	526	-	526
Payables arising from investment transactions	-	3,546	-	3,546
Total liabilities at fair value	**-**	**4,072**	**-**	**4,072**
Segregated funds	**3,571**	**862,529**	**-**	**866,100**

(Amounts in tables are expressed in thousands of Bermuda dollars)

6. **FAIR VALUE MEASUREMENT** (continued)

6.1 **Assets and liabilities measured at fair value** (continued)

The table below provides a fair value roll forward for the assets and liabilities measured at fair value for which significant unobservable inputs (Level 3) are used in the fair value measurement for the year ended March 31, 2021.

For the year ended March 31, 2021	**At FVTPL Equities**	**Available-for-sale Equities**	**Total**
Balance, beginning of year	-	92	92
Included in Investment income	-	-	-
Included in Other comprehensive income/(loss)	-	(27)	(27)
Sales/write off	-	-	$0
Assets based on Level 3 inputs	**-**	**65**	**65**

For the year ended March 31, 2020	**At FVTPL Equities**	**Available-for-sale Equities**	**Total**
Balance, beginning of year	151	368	519
Included in Investment income	(49)	(127)	(176)
Included in Other comprehensive income/(loss)	-	(28)	(28)
Sales/write off	(102)	(121)	(223)
Assets based on Level 3 inputs	**-**	**92**	**92**

During the year, there were no transfers made between the levels within the fair value hierarchy for Segregated funds during the year (2020 – $nil).

(Amounts in tables are expressed in thousands of Bermuda dollars)

6. FAIR VALUE MEASUREMENT (continued)

6.2 Assets and liabilities not measured at fair value

For assets and liabilities not measured at fair value in the Consolidated Balance Sheets, the following table discloses summarised fair value information categorised by level in the preceding hierarchy, together with the related carrying values.

March 31, 2021	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Carrying value**
Assets					
Mortgages and loans [1]	-	16,188	-	16,188	15,180
Policy loans	-	41	-	41	41
Total assets disclosed at fair value	-	**16,229**	-	**16,229**	**15,221**
Liabilities					
Investment contract liabilities [2]	-	245,756	-	245,756	248,211
Total liabilities disclosed at fair value	-	**245,756**	-	**245,756**	**248,211**

March 31, 2020	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Carrying value**
Assets					
Mortgages and loans [1]	-	16,270	-	16,270	15,333
Policy loans	-	43	-	43	43
Total assets disclosed at fair value	-	**16,313**	-	**16,313**	**15,376**
Liabilities					
Investment contract liabilities [2]	-	251,807	-	251,807	253,226
Total liabilities disclosed at fair value	-	**251,807**	-	**251,807**	**253,226**

(1) Fair value of mortgages and loans is determined by discounting expected future cash flows using current market rates.

(2) Fair value of Investment contract liabilities is based on the following methods:

a) Deposit administration pension plans - based on a discounted cash flow method. Factors considered in the valuation include current yield curve, plus appropriate spreads which have market observable inputs; and

b) Self – funded group health policies – the carrying value approximates the fair value due to the short-term nature of these investment contract liabilities.

6.3 Transfers of Level 1, Level 2 and Level 3 assets and liabilities

The Group's policy is to record transfers of assets and liabilities between levels at their fair values as at the end of each reporting period, consistent with the date of determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. There were no transfers between Levels 1, 2 or 3 during the year ended March 31, 2021 and 2020.

(Amounts in tables are expressed in thousands of Bermuda dollars)

7. INVESTMENT PROPERTY

Balance, March 31, 2019	575
Net unrealised gains (losses) from change in fair value	(75)
Balance, March 31, 2020	500
Net unrealised gains (losses) from change in fair value	-
Balance, March 31, 2021	**500**

Included in the Group's investment properties are residential properties. Investment properties are held for rental income and capital appreciation.

8. INSURANCE BALANCES RECEIVABLE

Insurance balances receivable are comprised of:

March 31, 2021	**Insured Employee Benefits**	**Life and Pensions**	**Total**
Due from policyholders, agents and brokers	2,787	-	2,787
Due from reinsurers	3,862	-	3,862
Total insurance balances receivable	**6,649**	**-**	**6,649**

March 31, 2020	**Insured Employee Benefits**	**Life and Pensions**	**Total**
Due from policyholders, agents and brokers	2,450	47	2,497
Due from reinsurers	3,558	-	3,558
Total insurance balances receivable	**6,008**	**47**	**6,055**

9. OTHER ASSETS

As at March 31	**2021**	**2020**
Other financial assets		
Fees receivable	2,044	1,764
Notes and other receivables	187	170
Total other financial assets	**2,231**	**1,934**
Prepaid expenses	2,126	933
Total other assets	**4,357**	**2,867**

(Amounts in tables are expressed in thousands of Bermuda dollars)

10. PROPERTY AND EQUIPMENT

	Land and buildings	Computer equipment	Other equipment	Total
Gross carrying amount				
Balance March 31, 2019	57,955	1,652	-	59,607
Additions	145	-	130	275
Retirements [1]	-	(1,652)	-	(1,652)
Balance March 31, 2020	**58,100**	**-**	**130**	**58,230**
Additions	1,052	-	358	1,410
Balance March 31, 2021	**59,152**	**-**	**488**	**59,640**
Accumulated depreciation				
Balance March 31, 2019	17,815	1,652	-	19,467
Depreciation charge for the year	1,582	-	-	1,582
Retirements [1]	-	(1,652)	-	(1,652)
Balance March 31, 2020	**19,397**	**-**	**-**	**19,397**
Depreciation charge for the year	1,614	-	30	1,644
Balance March 31, 2021	**21,011**	**-**	**30**	**21,041**
Net carrying amount, end of year				
As at March 31, 2020	38,703	-	130	38,833
As at March 31, 2021	**38,141**	**-**	**458**	**38,599**

(1) Certain computer equipment were retired. These assets were fully depreciated and were no longer used by the Group.

(Amounts in tables are expressed in thousands of Bermuda dollars)

11. INSURANCE CONTRACT LIABILITIES

The Group's Insurance contract liabilities and Reinsurers' share of claims provisions and unearned premiums are comprised of:

March 31, 2021	**Note**	**Gross**	**Ceded**	**Net**
Life and annuity policy reserves	11.1	181,130	(3,534)	177,596
Provision for unpaid and unreported claims	11.2	7,736	-	7,736
Provision for premiums rebate [1]		4,963	-	4,963
		193,829	(3,534)	190,295
Unearned premiums	11.4	-	(208)	(208)
Total insurance contract liabilities		**193,829**	**(3,742)**	**190,087**

March 31, 2020	**Note**	**Gross**	**Ceded**	**Net**
Life and annuity policy reserves	11.1	174,073	(3,110)	170,963
Provision for unpaid and unreported claims	11.2	8,733	-	8,733
		182,806	(3,110)	179,696
Unearned premiums	11.4	2	(184)	(182)
Total insurance contract liabilities		**182,808**	**(3,294)**	**179,514**

1 In March 2021, the Group launched a $4.9 million premium rebate scheme for all of its qualifying health insureds in recognition of the impact of COVID-19 related restrictions have had to healthcare access. The premium rebate measurement criteria, period of measurement applied to determine the qualified policyholders and the basis of allocation were determined and approved by the Group's Board. The premium rebates measurement criteria consider the policyholders' loss ratio experience and policy renewal condition. The amounts will be refunded in equal monthly installments over the policy year, with the amounts netted against the monthly premiums due from the policyholders. Premium rebate account is presented in the Consolidated Statement of Comprehensive Income/(Loss).

11.1 Life and annuity policy reserves

The table below sets out the Group's life and annuity policy reserves shown by type of product and by reportable segment. The majority of the Life and annuity policy reserves relate to policies issued to individuals domiciled in Bermuda.

(Amounts in tables are expressed in thousands of Bermuda dollars)

March 31, 2021	**Group Insurance**	**Life and pensions**	**Total**
Annuities	-	174,261	174,261
Long-term disability	5,045	-	5,045
Life	-	1,824	1,824
Life and annuity policy reserves	5,045	176,085	181,130
Reinsurers' share of claims provisions	(3,712)	178	(3,534)
Life and annuity policy reserves, net of reinsurance	**1,333**	**176,263**	**177,596**

March 31, 2020	**Group Insurance**	**Life and pensions**	**Total**
Annuities	-	167,266	167,266
Long-term disability	4,396	-	4,396
Life	-	2,411	2,411
Life and annuity policy reserves	4,396	169,677	174,073
Reinsurers' share of claims provisions	(3,326)	216	(3,110)
Life and annuity policy reserves, net of reinsurance	**1,070**	**169,893**	**170,963**

(Amounts in tables are expressed in thousands of Bermuda dollars)

11. **INSURANCE CONTRACT LIABILITIES** (continued)

11.1 **Life and annuity policy reserves** (continued)

The Reinsurers' share of claims provisions were assessed for impairment at year end and no impairment were identified. The composition of the assets supporting the net liabilities is as follows:

March 31, 2021	**Cash**	**Bonds**	**Mortgage and loans**	**Equities**	**Land and buildings**	**Total**
Annuities	1,652	142,660	9,113	5,110	15,726	174,261
Long-term disability	174	931	-	228	-	1,333
Life	328	1,344	-	330	-	2,002
Life and annuity policy reserves, net of reinsurance	**2,154**	**144,935**	**9,113**	**5,668**	**15,726**	**177,596**

March 31, 2020	**Cash**	**Bonds**	**Mortgage and loans**	**Equities**	**Land and buildings**	**Total**
Annuities	6,571	136,090	9,018	3,855	11,732	167,266
Long-term disability	180	806	-	84	-	1,070
Life	442	1,979	-	206	-	2,627
Life and annuity policy reserves, net of reinsurance	**7,193**	**138,875**	**9,018**	**4,145**	**11,732**	**170,963**

The Group examines the assumptions used in determining the Life and annuity policy reserves on an ongoing basis to ensure they appropriately reflect emerging experience and changes in risk profile. Annually the Group conducts a comprehensive review of all actuarial methods and assumptions. Changes to actuarial methods and assumptions used in determining Insurance contract liabilities will result in a change to the projected value of policy cash flows and therefore, to the Life and annuity policy reserves. The net impact of changes in actuarial methods and assumptions was an increase in reserves backing policyholder liabilities of $6.7 million (2020 – $6.7 million). These amounts are net of the impact of the reinsurance assets on policyholder liabilities of $3.5 million (2020 - $3.1 million).

The changes in the net life and annuity policy reserves, net of reinsurance are as follows:

March 31	**2021**	**2020**
Balance, beginning of year	170,963	167,186
Changes due to:		
Issuance of new policies	8,282	10,350
Normal in-force movement	(8,379)	(13,178)
Mortality/morbidity assumptions	(1,762)	(360)
Interest rate assumptions	8,790	7,057
Expense assumptions	(298)	-
Other	-	(92)
Balance, end of year	**177,596**	**170,963**

11. **INSURANCE CONTRACT LIABILITIES** (continued)

11.1 **Life and annuity policy reserves** (continued)

11.1.1 Key assumptions – Life and annuity policy reserves

ASSUMPTIONS, METHODOLOGY AND SENSITIVITIES	RISK MANAGEMENT
The risks associated with insurance contracts and in particular with life and annuity insurance contracts are complex and subject to a number of variables that complicate quantitative sensitivity analysis. To recognise the uncertainty involved in determining the best estimate assumptions a Provision for Adverse Deviation ("PfAD") is established. The PfAD is determined by including a margin for conservatism for each key assumption to allow for possible deterioration in experience and to help ensure the policy reserves will be adequate to pay for future benefits.	In conjunction with prudent business practices to manage both business and investment risks, the selection and monitoring of appropriate assumptions are designed to minimise the Group's exposure to measurement uncertainty.
(a) Mortality and morbidity risk Mortality refers to the likelihood of death. The mortality assumption is based on industry standard life insurance and standard annuity past and emerging experience. The Group's life insurance and annuity business is not sufficient to use company specific mortality tables. A five percent decrease in the best estimate assumption for annuitant mortality is estimated to increase the policy reserves by \$4.1 million, 2.4 percent (2020 - \$3.9 million, 2.4 percent). Morbidity refers to the incidence of accident and sickness as well as the recovery from the incidence. The morbidity assumptions are based on the industry standard morbidity tables for the long-term disability business. The frequency of claims is low and the risk is substantially reinsured.	The Group maintains underwriting standards to determine the insurability of applicants. Claim trends are monitored on an ongoing basis. To offset some of the mortality risk, the Group cedes a proportion of the risk with reinsurers. Mortality and morbidity are monitored regularly.

(Amounts in tables are expressed in thousands of Bermuda dollars)

11. **INSURANCE CONTRACT LIABILITIES** (continued)

11.1 **Life and annuity policy reserves** (continued)

11.1.1 Key assumptions – Life and annuity policy reserves (continued)

ASSUMPTIONS, METHODOLOGY AND SENSITIVITIES	**RISK MANAGEMENT**
(b) Investment returns and interest rate risk Assets are allocated to the different business segments. For each significant operating segment, CALM is used to project the cash flows from the supporting assets and the cash flows from the liabilities. The projected asset cash flows are combined with the projected cash flows from future asset sales and purchases to determine the expected investment returns for all future years. The CIA prescribes several representative reinvestment scenarios for use in CALM to determine the sensitivity of the Group's business to possible reinvestment risk. These represent a wide variety of interest rate scenarios. To provide a representative example, a 100 basis points increase in the best estimate investment return assumption decreases the total Life and annuity policy reserves by $14.3 million (2020 - $13.7 million). A 100 basis points decrease in the best estimate assumption increases the total Life and annuity policy reserves by $16.8 million (2020 – $16.0 million).	The Group's policy of closely matching the cash flows of assets with those of the corresponding liabilities is designed to mitigate the Group's exposure to future changes in interest rates. The interest rate risk positions in business segments are monitored on an ongoing basis. Under CALM, the re-investment rate is developed using interest rate scenario testing and reflects the interest rate risk positions. Bonds, equities, real estate and other non-fixed income assets are used to support long-dated obligations in the Group's annuity and pensions businesses, and for long-dated insurance obligations on contracts where the investment return risk is borne by the Group.
(c) Credit risk Credit risk is provided for by reducing investment yields assumed in the calculation of the policy reserves. Past Group and industry experience over the long term, in addition to ongoing reviews of the current portfolio, are used to project credit losses. In addition to the allowances for losses on invested assets due to interest rate risk, the policy reserves include a provision of $2.2 million (2020 – $2.1 million) to provide for future asset defaults and loss of asset value on current assets and future purchases.	For certain policies, the premiums and benefits reflect the Group's assumed level of future credit losses at contract inception or most recent contract adjustment date. The Group holds explicit provisions in actuarial liabilities for credit risk including PfAD.

11. **INSURANCE CONTRACT LIABILITIES** (continued)

11.1 **Life and annuity policy reserves** (continued)

11.1.1 Key assumptions – Life and annuity policy reserves

ASSUMPTIONS, METHODOLOGY AND SENSITIVITIES	**RISK MANAGEMENT**
(d) Expenses Operating expense assumptions reflect the projected costs of servicing and maintaining the in-force policies. The assumptions are derived from internal reviews of operating costs and include an allowance for inflation. A ten percent increase in the best estimate assumption for unit expenses would increase the policy reserves by approximately $0.5 million (2020- $0.6 million).	The Group prices its products to cover the expected costs of servicing and maintaining them. In addition, the Group monitors expenses quarterly, including comparisons of actual expenses to expense allowances used in pricing and valuation.

(Amounts in tables are expressed in thousands of Bermuda dollars)

11. **INSURANCE CONTRACT LIABILITIES** (continued)

11.2 Provision for unpaid and unreported claims

The table below sets out the reconciliation of provision for unpaid and unreported claims. These all relate to healthcare policies. The majority of these contracts are of a short-term nature.

For the years ended March 31	**2021**			**2020**		
	Provision for unpaid and unreported claims	**Reinsurers' share of claims provisions**	**Net**	**Provision for unpaid and unreported claims**	**Reinsurers' share of claims provisions**	**Net**
Balance, beginning of year	8,733	-	8,733	12,563	-	12,563
Claims and adjustment expenses incurred						
Current year	52,284	(1,998)	50,286	67,646	(2,326)	65,320
Prior years	944	-	944	477	-	477
	53,228	(1,998)	51,230	68,123	(2,326)	65,797
Claims and adjustment expenses paid						
Current year	(44,612)	1,998	(42,614)	(58,956)	2,326	(56,630)
Prior years	(9,613)	-	(9,613)	(12,997)	-	(12,997)
	(54,225)	1,998	(52,227)	(71,953)	2,326	(69,627)
Balance, end of year	**7,736**	**-**	**7,736**	**8,733**	**-**	**8,733**

The amount and timing of when claims are reported and paid from healthcare policies are typically resolved within one year.

11. **INSURANCE CONTRACT LIABILITIES** (continued)

11.3 **Key assumptions - Provision for unpaid and unreported claims**

ASSUMPTIONS AND METHODOLOGY	RISK MANAGEMENT
The risks associated with insurance contracts are complex and subject to a number of variables that complicate quantitative sensitivity analysis. Uncertainty over the timing and amount of future claim payments necessitate the holding of significant reserves for liabilities that may only emerge a number of accounting periods later. The key assumptions underlying the application of the actuarial methods and the estimate of unpaid claim liabilities are the expected development of paid and reported losses and the derivation of initial expected losses. Paid and reported loss development patterns are based on the Group's historical claims experience. These patterns are updated as of each annual evaluation to incorporate and reflect the most recent claims experience. The estimate of initial expected losses is most significant for immature policy periods, where it is given the greatest weight in determining unpaid claim liabilities. Initial expected losses are derived based on the Group's historical experience adjusted for the impact of inflationary trends on loss costs and the impact of historical changes in rates charged policyholders. As the experience in each policy year matures, the weight assigned to the initial expected losses decreases with greater weight assigned to actual loss experience. The actuarial analysis performed by the Group's actuaries employs commonly used actuarial techniques for estimating the Group's provision for unpaid and unreported claims. These include the Paid Loss Development Method, Reported Loss Development Method, the Bornhuetter-Ferguson Method (applied to both paid and reported losses), and the Case Reserve Development Method. The particular methods employed in the analysis of each reserve segment are judgmentally selected based on the applicability of each method and the availability of data to use each particular method. There have been no material changes in the assumptions or methodology underlying the actuarial analysis in the year under review.	The Group has policies and procedures in place to reduce the risk exposure, which includes a strict claims review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims. Further, the Group enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. The Group has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events. The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the Group's risk appetite as determined by management. Estimates of losses are continually reviewed and modified to reflect current conditions. Although management believes, based on the recommendations of the Group's actuaries, that the provision for unpaid and unreported claims will be adequate to cover the ultimate cost of losses to the financial statements reporting date, the provision is necessarily an estimate and claims may ultimately be settled for greater or lesser amounts. It is reasonably possible that management will revise this estimate significantly in the near term. Any subsequent differences are recorded in the Gross change in contract liabilities on the Consolidated Statements of Comprehensive Income/(Loss) in the period in which they are determined.

(Amounts in tables are expressed in thousands of Bermuda dollars)

11. INSURANCE CONTRACT LIABILITIES (continued)

11.4 Unearned premiums

The Group is exposed to pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluations are performed regularly to estimate future claims costs, related expenses, and expected profit in relation to unearned premiums. There was no premium deficiency at March 31, 2021 or 2020.

As at March 31	2021			2020		
	Unearned premiums	Reinsurers' share of unearned premiums	Net	Unearned premiums	Reinsurers' share of unearned premiums	Net
Balance, beginning of year	2	(184)	(182)	2	(200)	(198)
Premiums written during the year	96,687	(7,363)	89,324	108,911	(6,657)	102,254
Premiums earned during the year	(96,689)	7,339	(89,350)	(108,911)	6,673	(102,238)
Balance, end of year	**-**	**(208)**	**(208)**	**2**	**(184)**	**(182)**

12. INVESTMENT CONTRACT LIABILITIES

Carrying values and estimated fair values of the investment contract liabilities are as follows:

As at March 31	2021		2020	
	Carrying value	Fair value	Carrying value	Fair value
At amortised cost:				
Deposit administration pension plans	231,348	228,893	238,165	236,746
Self-funded group health policies	16,863	16,863	15,061	15,061
	248,211	**245,756**	**253,226**	**251,807**
At FVTPL:				
Deposit administration pension plans	328	328	526	526
Total investment contract liabilities	**248,539**	**246,084**	**253,752**	**252,333**

12.1 Investment contract liabilities at amortised cost

The change in investment contract liabilities measured at amortised cost is a result of the following:

March 31	2021	2020
Balance, beginning of year	253,226	241,518
Deposits	76,820	81,290
Withdrawals	(74,281)	(65,720)
Fees deducted	(3,491)	(3,744)
Interest	2,129	2,384
Other	(6,192)	(2,502)
Balance, end of year	**248,211**	**253,226**

For the year ended March 31, 2021, the net gain relating to Investment contract liabilities measured at amortised cost is $3.9 million (2020 - net gain of $4.6 million).

(Amounts in tables are expressed in thousands of Bermuda dollars)

12. INVESTMENT CONTRACT LIABILITIES (continued)

12.2 Investment contract liabilities at FVTPL

The change in Investment contract liabilities measured at FVTPL is a result of the following:

March 31	**2021**	**2020**
Balance, beginning of year	526	704
Included in net income [1]	9	23
Deposits	14	143
Withdrawals	(221)	(344)
Balance, end of year	**328**	**526**

[1] Amount is recorded under Change in contract liabilities on the Consolidated Statements of Comprehensive Income/(Loss). See Note 19.

13. RISK MANAGEMENT

13.1 Governance framework

The Group aligns its risk management functions with that of its Parent, the Argus Group. The Group prioritises the development of a forward looking risk management framework to deal appropriately with changes in the economic, social and regulatory environment in which it operates. The risk management deployed by the Group is based on the principles set down below, which are aligned with the Group's strategy and take into account the regulatory requirements, as well as the best market practices.

- A comprehensive risk management policy, with a forward-looking approach.

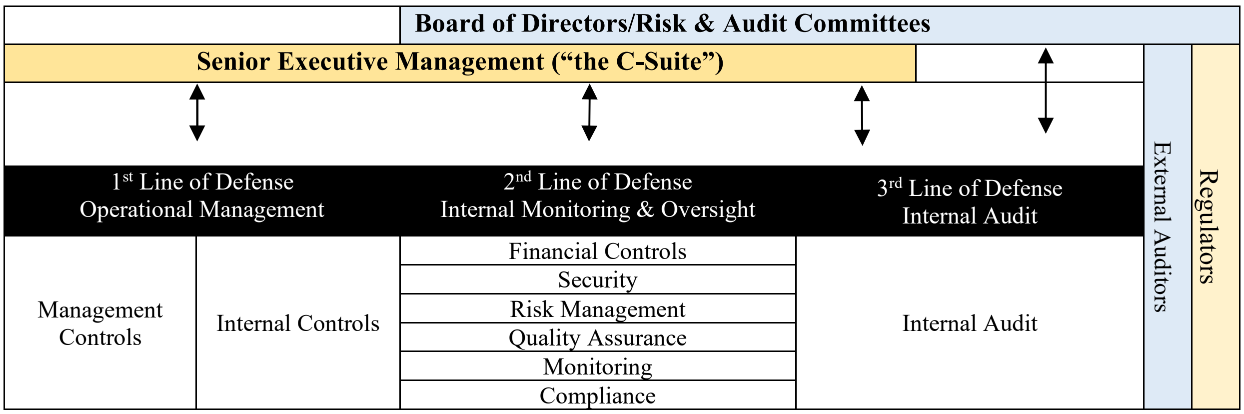
  The Board of Directors approves the Group's risk management policies and meets regularly to approve any commercial, regulatory and organizational requirements of such policies. These policies define the Group's identification of risk and its interpretation and sets out the risk profiles for the Group, to ensure the appropriate quality and diversification of assets and alignment of underwriting and reinsurance strategy to the corporate goals.

13. **RISK MANAGEMENT** (continued)

13.1 **Governance framework** (continued)

- Three lines of defense model.

  The Group has adopted the Three Lines of Defense model as shown below, which addresses how specific duties related to risks and controls are managed and coordinated within the Group.



13.2 **Operational risk and capital management**

The Group's capital base is structured to exceed regulatory targets, maintain satisfactory credit ratings, align the profile of assets and liabilities taking account of risks inherent in the businesses, provide flexibility to take advantage of growth opportunities and provide an adequate return to shareholders. Capital is managed on a consolidated basis under principles that consider all the risks associated with the businesses. It is also managed at the business unit level under the principles appropriate to the jurisdiction in which it operates. The Group's capital base consists of Share capital, Contributed surplus, Retained earnings and Accumulated other comprehensive income/(loss) as disclosed on the Consolidated Balance Sheets.

The Bermuda Monetary Authority (the "BMA") is the regulator of the Group. The laws and regulations of Bermuda require that the Group maintain a minimum amount of statutory capital and surplus based on the enhanced capital requirement. As of March 31, 2021, the amount of group statutory capital and surplus exceeds this regulatory requirement.

Management monitors the adequacy of the Group's capital from the perspective of Bermuda statutory requirements. The Bermuda Insurance Act 1978 and Related Regulations (the "Act") requires the Group to file an annual audited statutory financial return and meet minimum solvency margins and minimum liquidity ratios.

The statutory capital and surplus for the Group as at March 31, 2021 was $61.6 million (2020 - $60.2 million) and the minimum solvency margin of the Group was $20.1 million (2020 - $21.5 million).

The Bermuda Solvency Capital Requirement (BSCR) is the prescribed form of capital and solvency reporting in Bermuda, which was revised under new legislation enacted in 2008. The BSCR includes a standardised model used to measure the risk associated with an insurance subsidiary's assets, liabilities and premiums, and a formula to take account of catastrophe risk exposure. The BMA requires all insurers to maintain their statutory capital and surplus at a target level which is 120 percent of the amount calculated in accordance with the BSCR. As of March 31, 2021 and 2020, the statutory capital and surplus of the insurance subsidiaries exceeded this regulatory requirement.

13. **RISK MANAGEMENT** (continued)

13.2 **Operational risk and capital management** (continued)

In addition, minimum liquidity ratios must be maintained by Bermuda entities writing general insurance business whereby relevant assets, as defined by the Act, must exceed 75 percent of relevant liabilities. The Bermuda Insurance Act 1978 and Related Regulations limits the maximum amount of annual dividends and distributions that may be paid by the Group's insurance subsidiaries. Before reducing statutory capital by 15 percent or more or statutory capital and surplus by 25 percent or more, as set out in the prior year's statutory financial statements, the Group shall request the approval of the BMA. In addition, the Bermuda Companies Act 1981 limits the Group's ability to pay dividends and distributions to shareholders if there are reasonable grounds for believing that the Group would be unable to pay its liabilities as they become due, or if the realisable value of its assets would be less than the aggregate of its liabilities, issued share capital and contributed surplus accounts.

13.3 **Financial instrument risk management**

The Group has policies relating to the identification, measurement, monitoring, mitigation, and control of risks associated with financial instruments. The key risks related to financial instruments are credit risk, liquidity risk and market risks, which include currency, interest rate and other price risks, including equity risk.

13.3.1 Investment Risk

Investment guidelines are established by the Risk Committee of the Parent to manage this risk. Investment guidelines set parameters within which the Group's external investment managers must operate. Important parameters include guidelines on permissible asset classes, duration ranges, credit quality, currency, maturity, sectors, geographical, sovereign and issuer exposures. Compliance with guidelines is monitored on a quarterly basis. Any adjustments to the investment guidelines are approved by the Risk Committee and the Parent.

The Group's fixed maturity portfolios are managed by an external investment manager. The Group also has a diversified low volatility multi-strategy portfolio of bond and equity funds, and a small equity portfolio. The performance of the managers is monitored on an ongoing basis.

All portfolios duration is matched to the duration of the insurance liabilities, within an agreed range. The portfolios are invested in fixed maturity securities, fixed maturity funds and cash and cash equivalents. The portfolios may, at times, contain assets significantly in excess of those required to meet insurance liabilities or other defined funding needs.

The Group reviews the composition, duration and asset allocation of its investment portfolio on a regular basis in order to respond to changes in interest rates and other market conditions. If certain asset classes are anticipated to produce a higher return within management's risk tolerance, an adjustment in asset allocation may be made. Conversely, if the risk profile is expected to move outside of tolerance levels, adjustments may be made to reduce the risks in the portfolio.

The Risk committee of the Parent meets quarterly to ensure that the Group's strategic and tactical investment actions are consistent with investment risk preferences, appetite, risk and return objectives and tolerances.

13.3.2 Credit risk

The Group has exposure to credit risk, which is the risk that a counterparty will suffer a deterioration in perceived financial strength or be unable to pay amounts in full when due.

(Amounts in tables are expressed in thousands of Bermuda dollars)

13. **RISK MANAGEMENT** (continued)

13.3 **Financial instrument risk management** (continued)

13.3.2 Credit risk (continued)

The concentration of credit risk exposures held by insurers may be expected to be greater than those associated with other industries, due to the specific nature of reinsurance markets and the extent of investments held in financial markets. By the nature of the business, reinsurers interact with similar customers in similar markets. However, the Group uses a panel of reinsurers with global operations and diversified portfolios and limits its exposure to any one reinsurer.

Reinsurance is placed with counterparties that have a strong credit rating. Management regularly monitors and performs an assessment of creditworthiness of reinsurers.

13.3.2(a) Maximum exposure to credit risk

The following table summarises the Group's maximum exposure to credit risk related to financial instruments and insurance contracts. The maximum credit exposure is the carrying value of the financial assets and insurance assets net of any allowances for losses.

As at March 31	Note	**2021**	**2020**
Cash and short-term investments		30,797	31,733
Interest and dividends receivable		2,209	2,538
Bonds - at FVTPL and available-for-sale	5.1	398,657	381,071
Mortgages and loans	5.1	15,180	15,333
Policy loans	5.1	41	43
Derivative financial instruments	5.1	-	3,800
Other financial assets included in Other assets	8	2,231	1,934
Insurance balances receivable	7	6,649	6,055
Reinsurers' share of claims provisions	10	3,534	3,110
Total Consolidated Balance Sheet maximum credit exposure		**459,298**	**445,617**

Credit risk is mitigated by entering into collateral agreements for mortgages and loans. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Management monitors the value of the collateral, requests additional collateral when needed and performs an impairment evaluation on a regular basis. The Group manages credit risk by its specific investment diversification requirements such as investing by asset class, geography and industry, review of credit quality ratings for portfolio investments and an active credit risk governance, including independent monitoring and review and reporting to senior management and the Board.

(Amounts in tables are expressed in thousands of Bermuda dollars)

13. **RISK MANAGEMENT** (continued)

13.3 **Financial instrument risk management** (continued)

13.3.2 Credit risk (continued)

13.3.2(b) Concentration of credit risk

Concentrations of credit risk arise from exposures to a single debtor, a group of related debtors or group of debtors that have similar credit risk characteristics in that they operate in the same geographic region or in similar industries. The characteristics are similar in that changes in economic or political environments may impact their ability to meet obligations as they come due.

The following tables provide details of the carrying value of bonds and derivative financial instruments by industry sector and geographic distribution.

For the years ended March 31	**2021**	**2020**
Bonds available-for-sale and FVTPL issued or guaranteed by:		
Banking	97,460	99,939
Government and Agency	85,726	103,596
Asset Backed Securities	79,381	60,770
Communications	32,123	21,721
Oil and Gas	17,371	17,737
Manufacturing	14,577	10,953
Pharmaceutical	13,625	11,021
Utilities and Energy	9,524	8,327
Transportation	5,671	9,774
Insurance	4,773	5,418
Mining	3,149	1,720
Supranational	-	-
Other(1)	35,277	30,095
Total bonds	**398,657**	**381,071**
Derivative financial instruments issued or guaranteed by:		
Other(1)	-	3,800
Total derivative financial instruments	**-**	**3,800**

(1) Includes investments with less than $2 million of concentration of credit risk by industry sector or geographical distribution and bond funds of $14.9 million (2020 - $14.2 million).

(Amounts in tables are expressed in thousands of Bermuda dollars)

13. **RISK MANAGEMENT** (continued)

13.3 **Financial instrument risk management** (continued)

13.3.2 Credit risk (continued)

13.3.2(b) Concentration of credit risk (continued)

As at March 31	**2021**	**2020**
Geographical distribution of bonds available for sale and FVTPL is as follows:		
United States of America	302,016	286,492
Cayman Islands	22,554	12,704
United Kingdom	16,424	19,847
Japan	6,796	4,183
France	6,087	4,916
Switzerland	5,169	3,685
Netherlands	4,307	4,597
Mexico	4,303	5,121
Canada	3,565	5,379
Ireland	1,830	4,171
Australia	1,707	893
India	-	1,029
Other(1)	23,899	28,054
Total bonds	**398,657**	**381,071**
Geographical distribution of derivative financial instruments is as follows:		
United States of America	-	3,800
Total derivative financial instruments	**-**	**3,800**

(1) Includes investment with less than $2 million of concentration of credit risk by industry sector or geographical distribution and bond funds of $14.9 million (2020 - $14.2 million).

Mortgages comprise first mortgages on real property situated in Bermuda which include certain mortgages classified under Assets held-for-sale. Residential mortgages include mortgages for both single and multiple family dwellings. As at March 31, 2021, the Group's mortgages and loans amount to $15.2 million (2020 – $15.3 million).

(Amounts in tables are expressed in thousands of Bermuda dollars)

13. **RISK MANAGEMENT** (continued)

13.3 **Financial instrument risk management** (continued)

13.3.2 Credit risk (continued)

13.3.2(c) Asset quality

The following table provides an analysis of the carrying value of bonds and derivative financial instruments by rating.

March 31	**2021**	**2020**
Bond portfolio quality:		
AAA	137,866	135,517
AA	23,427	11,885
A	94,369	98,979
BBB	137,413	127,818
BB or lower	4,507	6,868
Not rated	1,075	4
Total bonds at FVTPL	**398,657**	**381,071**
Derivative financial instruments quality:		
Not Rated	-	3,800
Total derivative financial instruments	**-**	**3,800**

13.3.2(d) Allowance for credit losses on impaired investments

Mortgages and loans

Changes in the allowance for credit losses are as follows:

As at March 31	**2021**	**2020**
Balance, beginning of year	2,917	1,771
Net provisions made/(reversed) during the year - mortgages and loans	238	1,146
Balance, end of year	**3,155**	**2,917**

13.3.2(e) Age analysis of financial assets past due but not impaired

As at March 31, 2021, there were $4.3 million mortgages and loans and $0.1 million receivables from continuing operations (2020 - $12.1 million mortgages and loans and $0.1 million receivables from continuing operations) that were past due. Past due financial assets have a decrease in the allowance by $7.7 million (2020 – increase in allowance of $1.1 million) primarily driven by sale of a mortgage that was held for sale.

As at March 31, 2021, there were no (2020 - $7.7 million) past due receivable included in the assets-held-for sale. There were $nil (2020 - $nil) impairment recorded during the year.

13. **RISK MANAGEMENT** (continued)

13.3 **Financial instrument risk management** (continued)

13.3.3 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet all cash outflow obligations as they come due. The Group's asset-liability management process allows it to maintain its good financial position by ensuring that sufficient liquid assets are available to cover its potential funding requirements. The Group invests in various types of assets with a view to matching them with its liabilities. To strengthen its liquidity further, the Group actively manages and monitors its capital and asset levels, diversification and credit quality of its investments and cash forecasts and actual amounts against established targets.

The short-term (less than one year) liquidity needs are adequately met by maturing bonds, mortgages and loans, the sale of equities, as well as by current operating cash flows. Historically, the Deposit administration pension plan liabilities renew for further periods upon maturity and remain within the Group. Longer duration cash flows are also backed by a broader range of asset classes including equity and other non-fixed income assets.

Reinvestment strategies and policies are in place for maturing assets backing long-term liabilities and are reflected in the life and annuity policy reserves. Based on the Group's historical cash flows and current financial performance, management believes that the cash flow from the Group's operating activities will continue to provide sufficient liquidity for the Group to meet its contractual obligations and to pay other expenses, as they fall due.

(Amounts in tables are expressed in thousands of Bermuda dollars)

13. **RISK MANAGEMENT** (continued)

13.3 **Financial instrument risk management** (continued)

13.3.3 Liquidity risk (continued)

13.3.3 (a) Liability maturity profile

The following is an analysis by liability type of the estimated timing of net cash flows based on the Group's liabilities. The settlement profile is based on current estimates and historical trends and the actual timing of future cash flows may differ materially from the disclosure below.

March 31, 2021	**Within 1 year**	**2-5 years**	**6-10 years**	**Over 10 years**	**Total**
Life and annuity policy reserves - net of reinsurance [(1)]	14,602	53,894	55,828	102,061	226,385
Provision for unpaid and unreported claims - net of reinsurance [(1)]	7,736	-	-	-	7,736
Provision for premiums rebate	4,963	-	-	-	4,963
Insurance balances payable	6,448	-	-	-	6,448
Investment contract liabilities [(1)]	53,789	34,492	38,323	105,051	231,655
Accounts payable and accrued liabilities	11,389	-	-	-	11,389
Total from general fund liabilities	**98,927**	**88,386**	**94,151**	**207,112**	**488,576**

March 31, 2020	**Within 1 year**	**2-5 years**	**6-10 years**	**Over 10 years**	**Total**
Life and annuity policy reserves - net of reinsurance [(1)]	14,394	53,668	57,283	120,004	245,349
Provision for unpaid and unreported claims - net of reinsurance [(1)]	8,733	-	-	-	8,733
Insurance balances payable	4,496	-	-	-	4,496
Payables arising from investment transactions	3,546	-	-	-	3,546
Investment contract liabilities [(1)]	54,410	35,484	37,267	111,541	238,702
Accounts payable and accrued liabilities	7,851	-	-	-	7,851
Total from general fund liabilities	**93,430**	**89,152**	**94,550**	**231,545**	**508,677**

(1) These amounts shown above are based on estimated net cash flows which differ from the amounts shown on the Consolidated Balance Sheets which are based on discounted cash flows.

13.3.4 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market factors. Market factors include three types of risk: currency risk, interest rate risk and equity risk.

The Group has minimal exposure to currency risk, which is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

(Amounts in tables are expressed in thousands of Bermuda dollars)

13. **RISK MANAGEMENT** (continued)

13.3 **Financial instrument risk management** (continued)

13.3.4 Market risk (continued)

13.3.4(a) Interest rate risk

Interest rate risk is the potential for financial loss arising from changes in interest rates. Changes in market interest rates can impact the reinvestment of matured investments, as the returns available on the new investment may be significantly different from the returns previously achieved. The Group manages these risks through:

- Asset allocation and diversification of the investment portfolio;
- Investing in fixed income assets that closely match the life product liability cash flows for products with fixed and highly predictable benefit payments; and
- Quantifying and reviewing regularly the risk associated with the mismatch in portfolio duration and cash flow.

The impact of interest rate risk for the Group's actuarial liabilities and the assets supporting those liabilities is included in Note 11.

The Group issues deposit administration pension plans with a short term guaranteed rate of return. To the extent that the actual rate of return on the underlying funds differs from the guaranteed rate, the risk and rewards are borne by the Group. For this product, the Group ensures i) the liability and assets cash flows are closely matched, and ii) the valuation of the liability and asset are monitored regularly.

The sensitivity of other comprehensive income attributable to shareholders to changes in interest rates is shown below. There is no sensitivity of net earnings at March 31, 2021 and 2020.

As at March 31	**2021**	**2020**
Change in interest rate assumptions		
100 basis points increase	(6,356)	(5,527)
100 basis points decrease	6,378	5,548

13.3.4(b) Equity risk

Equity investments are held in accordance with the Group's investment policy as part of the well diversified asset portfolio that are appropriate for the Group. Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. If actual returns are lower than the expected returns, the Group's Life and annuity policy reserves will increase and will reduce the Group's net earnings. Overall, it is expected that the impact of an immediate ten percent increase in value across all equity markets would be an increase in Net Earnings and Other comprehensive income/(loss) of $Nil and $0.6 million respectively (2020 - $Nil and $0.5 million respectively); conversely the impact of a ten percent decrease would have an equal but opposite effect. The direct exposure to equity markets generally falls within the risk-taking philosophy of the Group's investment policy and is regularly monitored by management.

13. **RISK MANAGEMENT** (continued)

13.3 **Financial instrument risk management** (continued)

13.3.5 Limitations of sensitivity analysis

The sensitivity information given above and in Note 11 demonstrates the estimated impact of a change in a major input assumption while other assumptions remain unchanged. In reality, there are normally significant levels of correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear and larger or smaller impacts should not be interpolated or extrapolated from these results. Furthermore, estimates of sensitivity may become less reliable in unusual market conditions such as instances when risk free rates fall towards zero.

13.4 **Insurance risk management**

The principal risk the Group faces under insurance contracts is that the actual claims and benefit payments or the timing thereof differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Group is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is monitored by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The Group purchases reinsurance as part of its risks mitigation programme. Reinsurance is placed on both a proportional and non-proportional basis. The majority of proportional reinsurance is quota-share reinsurance which is taken out to reduce the overall exposure to mitigate both risk frequency and risk severity of the Group to certain classes of business. Non-proportional reinsurance is primarily excess-of-loss reinsurance designed to mitigate the Group's net exposure to catastrophe losses. Retention limits for the excess-of-loss reinsurance vary by product line and territory.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provisions and are in accordance with the reinsurance contracts. Although the Group has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Group's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Group substantially dependent upon any single reinsurance contract.

For details on insurance risk management policies of the Group, see Note 11.

(Amounts in tables are expressed in thousands of Bermuda dollars)

14. INSURANCE BALANCES PAYABLE

Insurance balances payable is comprised of:

March 31	**2021**	**2020**
Due to policyholders, agents and brokers	5,283	2,851
Due to reinsurers	1,165	1,645
Total insurance balances payable	**6,448**	**4,496**

15. PAYABLES ARISING FROM INVESTMENT TRANSACTIONS

Payables arising from investment transactions as at March 31, 2021 of $Nil (2020 - $3.5 million) pertain mainly to derivatives.

16. NET CHANGE IN UNEARNED PREMIUMS

For the years ended March 31	**2021**	**2020**
Gross change in unearned premiums	(2)	-
Change in unearned premiums on premiums ceded	(24)	16
Net change in unearned premiums	**(26)**	**16**

17. COMMISSIONS, MANAGEMENT FEES AND OTHER

Commission, management fees and other recognised during the year are as follows:

For the years ended March 31	**2021**	**2020**
Fee income service contracts		
Pension administration	10,232	9,287
Policyholder administration	2,852	3,272
Total fee income from service contracts	13,084	12,559
Reinsurance commission income	1,274	1,780
Total commissions, management fees and other	**14,358**	**14,339**

(Amounts in tables are expressed in thousands of Bermuda dollars)

18. REINSURANCE RECOVERIES

For the years ended March 31	**2021**	**2020**
Claims and adjustment expenses recovered from reinsurers	1,998	2,326
Policy benefits recovered from reinsurers	1,366	523
Total reinsurance recoveries	**3,364**	**2,849**

19. NET CHANGE IN CONTRACT LIABILITIES

For the year ended March 31	**2021**	**2020**
Gross change in contract liabilities:		
Insurance contracts	6,075	(2,330)
Investment contracts	(9)	(23)
	6,066	(2,353)
Change in reinsurers' share of claims provisions - insurance contracts	(424)	2,323
Net change in contract liabilities	**5,642**	**(30)**

20. OPERATING EXPENSES

Operating expenses incurred during the year are as follows:

For the years ended March 31	**2021**	**2020**
Allocated expenses and management fees	11,966	12,166
Employee benefits expense (see next page)	5,143	6,357
Professional fees	2,312	1,943
IT related expenses	1,808	1,301
General and corporate expenses	1,299	674
Provision for bad debts	1,134	773
Other expenses	510	796
Total operating expenses	**24,172**	**24,010**

(Amounts in tables are expressed in thousands of Bermuda dollars)

20. **OPERATING EXPENSES** (continued)

Employee benefits expense during the year is comprised of:

For the years ended March 31	**2021**	**2020**
Salaries and other short-term benefits	4,904	6,053
Pension costs	211	254
Post-employment medical benefits	16	25
Stock-based compensation	12	25
Total employee benefits expense	**5,143**	**6,357**

Pension costs arise from the Parent's defined contribution pension plan covering all full-time employees in Bermuda.

21. **RELATED PARTY TRANSACTIONS**

Significant related party transactions are as follows:

21.1 Operating expenses include the Group's allocation of group overhead expenses of $13.8 million (2020 - $13.5 million).

21.2 Netted in Operating expenses is the management fee of $0.3 million (2020 - $0.3 million) which was charged to recover the allocated costs of administering the insurance policies of an affiliate.

21.3 Due from parent includes surplus cash deposits with the Parent. These deposits are payable on demand and bears no interest.

21.4 Compensation of key personnel

Key personnel have been identified as the Board of Directors of the Group. These individuals have the authority and responsibility for planning, directing and controlling the activities of the Group. Fees paid to directors for the reporting period totaled $0.02 million (2020 - $0.02 million).

21.5 Mortgage loans

The Group has extended mortgage loans to certain Officers totaling $1.8 million as at March 31, 2021 (2020 - $1.9 million).

22. **DIVIDENDS AND RETURN OF CAPITAL TO PARENT**

The Group declared and paid dividends of $30.0 million (2020 - $12.1 million) during the year. Additionally, the Group paid $Nil (2020 - $Nil) return of capital to the Parent.

23. **INCOME TAXES**

Under Bermuda law, the Group received an undertaking from the Bermuda government exempting the Group from all Bermuda local income, withholding and capital gains taxes until 2035. At the present time no such taxes are levied in Bermuda.

(Amounts in tables are expressed in thousands of Bermuda dollars)

24. COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

For the years ended March 31	**2021**	**2020**
Available-for-sale investments – unrealized gains/(losses)	8,593	(5,712)
Re-measurement of post-employment medical benefit obligation	419	344
Total accumulated other comprehensive income/(loss)	**9,012**	**(5,368)**

25. SEGREGATED FUNDS

The assets for contracts held under the Segregated funds are allocated to Separate Accounts as authorised by the Bermuda Life Insurance Company Limited (Separate Accounts) Consolidation and Amendment Act 1998.

Changes to Segregated funds are as follows:

For the year ended March 31	**2021**	**2020**
Additions to Segregated Funds		
Contributions and transfers	119,896	115,553
Net investment income	27	37
Net increase/(decrease) in fair value of investments	335,066	(66,253)
Segregated Funds acquired	1,721	2,278
	456,710	**51,615**
Deductions from Segregated Funds		
Withdrawals, benefit payments and transfers to the General Fund	129,485	111,903
Operating expenses	10,775	10,056
	140,260	**121,959**
Net additions/(deductions) to/(from) Segregated Funds for the year	316,450	(70,344)
Segregated funds, beginning of year	866,100	936,444
Segregated Funds, end of year	**1,182,550**	**866,100**

(Amounts in tables are expressed in thousands of Bermuda dollars)

26. COMMITMENTS AND CONTINGENCIES

26.1 Group as a lessor

The Group has entered into non-cancellable commercial property leases on several floors of the Group's office building. These leases have remaining terms of between one and four years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

Future minimum lease rentals receivable under non-cancellable operating leases are as follows:

For the years ended March 31	2021	2020
Within one year	1,488	1,560
After one year but no more than five years	-	1,488
	1,488	**3,048**

26.2 Contingencies

The Group is contingently liable with respect to certain litigation and claims that arise in the normal course of business. There were no other contingent liabilities outside the normal course of business.

27. COMPARATIVES

Certain of the comparative figures in these consolidated financial statements and note disclosures have been reclassified to conform to the presentation adopted for the year ended March 31, 2021.

28. SUBSEQUENT EVENTS

There were no other material subsequent events that are required to be disclosed.