

**ARGUS 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 Argus Insurance Company Limited**

We have audited the accompanying consolidated financial statements of Argus Insurance Company Limited and its subsidiary (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 Argus Insurance Company Limited and its subsidiary 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

# ARGUS INSURANCE COMPANY LIMITED

## Consolidated Balance Sheets

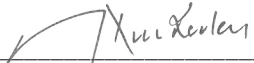
March 31, 2021 and March 31, 2020

(Expressed in thousands of Bermuda dollars)

	<u>Note</u>	<u>2021</u>	<u>2020</u>
<b>Assets</b>			
Cash and short-term investments	3	10,252	6,007
Investments	4	21,404	19,847
Insurance balances receivable	5	5,561	5,086
Reinsurers' share of:			
Claims provisions	10	5,048	3,065
Unearned premiums	10	7,473	7,121
Deferred policy acquisition costs	6	153	181
Other assets		69	59
Due from parent	16	495	44
Investment in associate	7	3,093	2,831
Investment property	8	2,399	2,399
Land and building	9	1,532	435
<b>Total assets</b>		<b>57,479</b>	<b>47,075</b>
<b>Liabilities</b>			
Insurance contract liabilities	10	19,717	17,043
Insurance balances payable	12	5,129	3,619
Due to associate	16	1,824	229
Accounts payable and accrued liabilities		546	572
<b>Total liabilities</b>		<b>27,216</b>	<b>21,463</b>
<b>Equity</b>			
Share capital		17,506	17,506
Contributed surplus	17	-	-
Retained earnings		11,341	7,932
Accumulated other comprehensive income	18	1,416	174
<b>Total equity attributable to the shareholder of the Group</b>		<b>30,263</b>	<b>25,612</b>
<b>Total equity and liabilities</b>		<b>57,479</b>	<b>47,075</b>

The accompanying notes form part of these consolidated financial statements.

Signed on behalf of the Board

  
Director

  
Director

**ARGUS INSURANCE COMPANY LIMITED**

Consolidated Statements of Comprehensive Income  
 Year ended March 31, 2021 and March 31, 2020  
 (Expressed in thousands of Bermuda dollars)

	<u>Note</u>	<u>2021</u>	<u>2020</u>
<b>Income</b>			
Gross premiums written	10, 16	31,763	31,137
Reinsurance ceded	10	<u>(21,869)</u>	<u>(21,141)</u>
Net premiums written		9,894	9,996
Net change in unearned premiums	13	<u>(62)</u>	<u>23</u>
Net premiums earned		9,832	10,019
Investment income	4, 8	159	481
Share of gain/(loss) from associate	7	262	25
Commissions and other income	12, 14	<u>9,405</u>	<u>6,919</u>
Total income		<u>19,658</u>	<u>17,444</u>
<b>Expenses</b>			
Claims and adjustment expenses	10	6,289	13,192
Reinsurance recoveries	10	(3,558)	(8,322)
Gross change in contract liabilities		2,260	1,503
Change in reinsurers' share of claims provisions		<u>(1,983)</u>	<u>(1,012)</u>
<b>Net benefits and claims</b>		3,008	5,361
Commission expenses	6	1,589	1,446
Operating expenses	15, 16	6,575	6,384
Amortisation and depreciation	9	<u>77</u>	<u>675</u>
		11,249	13,866
Net earnings for the year		8,409	3,578
<b>Other comprehensive income/(loss)</b>			
Items that will not be reclassified to net earnings:			
Remeasurement of post-employment medical benefit obligation		(18)	(19)
Items that are, or may subsequently be, reclassified to net earnings:			
Change in unrealized gains/(losses) on available-for-sale investments		<u>1,260</u>	<u>(400)</u>
<b>Other comprehensive income/(loss) for the year</b>	18	1,242	(419)
<b>Total comprehensive income/(loss) for the year</b>		<u><u>9,651</u></u>	<u><u>3,159</u></u>

*The accompanying notes form part of these consolidated financial statements.*

**ARGUS INSURANCE COMPANY LIMITED**

Consolidated Statements of Changes in Equity  
 Year ended March 31, 2021 and March 31, 2020

*(Expressed in thousands of Bermuda dollars, except the number of shares)*

	<u>Note</u>	<u>2021</u>	<u>2020</u>
<b>Share capital</b>			
Authorised:			
10,000,000 common shares \$2.40 each (2020 - 10,000,000)		24,000	24,000
Issued and fully paid:			
7,294,049 shares (2020 - 7,294,049 shares)		17,506	17,506
<b>Contributed surplus</b>			
Balance, beginning of year		-	1,494
Return of capital to parent	17	-	(1,494)
Balance, end of year		-	-
<b>Retained earnings</b>			
Balance, beginning of year		7,932	7,314
Net earnings for the year		8,409	3,578
Dividends	17	(5,000)	(2,960)
Balance, end of year		11,341	7,932
<b>Accumulated comprehensive income</b>			
Balance, beginning of year		174	593
Other comprehensive income/(loss) for the year		1,242	(419)
Balance, end of year		1,416	174
Total equity		<u>30,263</u>	<u>25,612</u>

## ARGUS INSURANCE COMPANY LIMITED

Consolidated Statements of Cash Flows  
 Year ended March 31, 2021 and March 31, 2020  
 (Expressed in thousands of Bermuda dollars)

	<u>2021</u>	<u>2020</u>
<b>Operating activities</b>		
Net earnings for the year	8,409	3,578
Adjustments to reconcile net earnings to cash basis (Footnote (i) below)	(1,055)	(810)
Change in operating balances (Footnote (ii) below)	2,510	(46)
Interest income received	434	702
Dividend income received	256	1,811
Cash generated from operating activities	<u>10,554</u>	<u>5,235</u>
<b>Investing activities</b>		
Purchase of investments	(1,335)	(637)
Sale of investments	1,200	-
Renovations of land and building	(1,174)	(30)
Cash (used in)/generated from investing activities	<u>(1,309)</u>	<u>(667)</u>
<b>Financing activities</b>		
Return of capital to parent	-	(1,494)
Dividend paid	(5,000)	(2,960)
Cash used in financing activities	<u>(5,000)</u>	<u>(4,454)</u>
Net increase in cash and short-term investments	4,245	114
Cash and short-term investments, beginning of year	6,007	5,893
Cash and short-term investments, end of year	<u>10,252</u>	<u>6,007</u>
<b>Footnotes:</b>		
(i) Adjustments to reconcile net earnings to cash basis:		
Interest income	(434)	(703)
Dividend income	(256)	(1,811)
Actuarial (gain)/loss	(18)	(19)
Net realized and changes in unrealized (gains)/losses on investments	(162)	17
Change in fair value of investment property	-	1,176
(Increase)/decrease in investment in associates	-	(120)
Share of (gain)/loss from associates	(262)	(25)
Amortisation and depreciation	77	675
	<u>(1,055)</u>	<u>(810)</u>
(ii) Change in operating balances:		
Insurance balances receivable	(475)	(1,071)
Due from parent	(451)	2,296
Reinsurers' share of:		
Claims provisions	(1,983)	(1,012)
Unearned premiums	(352)	(491)
Other assets	(10)	(29)
Deferred policy acquisition costs	28	(37)
Insurance contract liabilities	2,674	1,971
Insurance balances payable	1,510	(2,095)
Due to associate	1,595	229
Accounts payable and accrued liabilities	(26)	193
	<u>2,510</u>	<u>(46)</u>

## ARGUS INSURANCE COMPANY LIMITED

Notes to the Consolidated Financial Statements

March 31, 2021 and March 31, 2020

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

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### 1. Operations

Argus Insurance Company Limited (the “Company”), was incorporated on May 31, 1961 and has its registered office at The Argus Building, 14 Wesley Street, Hamilton, Bermuda HM 11. The Company is a wholly owned subsidiary of Argus Group Holdings Limited (the “Parent”), a Bermuda public company. The Company underwrites certain risks in the property and casualty classes.

The Company is the sole shareholder of Newstead Belmont Hills Development Company No.2 Ltd., a company incorporated in Bermuda on January 22, 2009 that operates as a property holding company. The Company and its subsidiary (the “Group”) operate in Bermuda.

### 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.

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

#### 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 in the Consolidated Balance Sheet:

- Financial assets and financial liabilities at fair value through profit or loss (“FVTPL”) are measured at fair value;
- Available-for-sale financial assets are measured at fair value;
- Investment properties are measured at fair value; 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 assets and liabilities in 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 which is on par with United States (US) dollars.

## ARGUS INSURANCE COMPANY LIMITED

Notes to the Consolidated Financial Statements

March 31, 2021 and March 31, 2020

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

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### 2. Significant accounting policies (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 may 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 in the consolidated financial statements is included in the following notes:

*Note 4* Investments;

*Note 7* Investment in associate; and

*Note 8* Investment property.

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 2.6* Impairment of assets;

*Note 2.8* Insurance contracts; and

*Note 10* Insurance contract liabilities.

### 2.3 Basis of Consolidation

#### 2.3.1 Subsidiaries

Subsidiaries are entities controlled by the Company. The Company 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 the subsidiary are included in the consolidated financial statements from the date on which control commences until the date that control ceases.

The Group's consolidated financial statements include the financial statements of the Company and its subsidiary after all intercompany accounts and transactions have been eliminated. The accounting policies of the subsidiary have been changed where necessary to align them with the policies adopted by the Group.

#### 2.3.2 Investment in associate

Associates are those entities in which the Group has significant influence, but not control, over the financial and operational policies. Significant influence is normally presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Other indicators that may provide evidence of significant influence include representation on the board of directors of the investee, participation in policy-making processes and provision of technical information.

Investment in associates are initially recognised at cost, which includes transaction costs. Thereafter, the investment is measured using the equity method. Under the equity method, the Group records its proportionate share of income and loss from such investments and its proportionate share of other income and loss from such investments in the Consolidated Statement of Comprehensive Income. Certain associates have different accounting policies from the Group and, as a result, adjustments have been made to align the associate's accounting policies with the Group.



## ARGUS INSURANCE COMPANY LIMITED

Notes to the Consolidated Financial Statements

March 31, 2021 and March 31, 2020

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

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### 2. Significant accounting policies (continued)

#### 2.3.2 Investment in associate (continued)

Investments in associated companies are derecognized when the Group loses significant influence. Any retained interest in the entity is remeasured at its fair value. The difference between the carrying amount of the retained investment at the date when significant influence is lost and its fair value is recognised in Share of earnings in associates in the Consolidated Statements of Comprehensive Income.

#### 2.4 Cash and short-term investments

Cash and short-term investments include cash balances cash equivalents and time deposits with maturities of three months or less from the date of purchase. Interest on these balances is recorded on the accruals basis and included in Investment income.

#### 2.5 Financial instruments

##### 2.5.1 Financial assets

###### *2.5.1(a) Classification and initial recognition of financial assets*

The Group has the following classifications of 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. The Group recognizes loans and receivables at their date of inception. All other financial assets (including assets designated as FVTPL) are recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument. Balances pending settlement as a result of sales and purchases are reflected in the Consolidated Balance Sheets as Receivable from 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 in the Consolidated Statements of Comprehensive Income as incurred. FVTPL financial instruments are measured at fair value, and changes therein are recognised in Investment income in the Consolidated Statements of Comprehensive Income. Interest or dividend income earned from these financial assets is recorded in Investment income in the Consolidated Statements of Comprehensive Income. Interest income are net of investment management fees.

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

Available-for-sale financial assets include equity investments, investments in bond funds and investments in equity funds and private equity funds. 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 may be sold in response to needs for liquidity, in response to changes in market conditions or in response to stay within 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 and presented in the Consolidated Statements of Comprehensive Income. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to the Consolidated Statements of Comprehensive Income.

## ARGUS INSURANCE COMPANY LIMITED

Notes to the Consolidated Financial Statements

March 31, 2021 and March 31, 2020

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

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### 2. Significant accounting policies (continued)

#### 2.5 Financial instruments (continued)

##### 2.5.1 Financial assets (continued)

###### (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 in the Consolidated Statements of Comprehensive Income.

###### 2.5.1(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 in the Consolidated Balance Sheet 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.

#### 2.5.2 Financial liabilities

##### 2.5.2(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.

###### (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 for investments purchased 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.

## ARGUS INSURANCE COMPANY LIMITED

Notes to the Consolidated Financial Statements

March 31, 2021 and March 31, 2020

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

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### 2. Significant accounting policies (continued)

#### 2.5 Financial instruments (continued)

##### 2.5.2 Financial liabilities (continued)

##### 2.6.2(b) Derecognition

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

##### 2.5.3 Investment income

Interest is recorded in Investment income in the Consolidated Statements of Comprehensive Income 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.

#### 2.6 Impairment of assets

##### 2.6.1 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 the 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.

## ARGUS INSURANCE COMPANY LIMITED

Notes to the Consolidated Financial Statements

March 31, 2021 and March 31, 2020

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

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### 2. Significant accounting policies (continued)

#### 2.6 Impairment of assets (continued)

##### 2.6.1 Impairment of financial assets (continued)

###### 2.6.1(a) *Loans and Receivables*

The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables 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 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 in the Consolidated Statements of Comprehensive Income and reflected in an allowance account against the 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 in the Consolidated Statements of Comprehensive Income.

###### 2.6.1(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 is reclassified to the Consolidated Statements of Comprehensive Income in Investment income. The cumulative loss that is reclassified from Other comprehensive income to Investment income is the difference between the amortized cost and the current fair value less any impairment loss recognised previously in Investment income in the Consolidated Statements of Comprehensive Income. Impairment losses on available-for-sale equity securities are not reversed.

###### 2.6.1(c) *Investment in associates*

When there is objective evidence that an Investment in an associate is impaired, an impairment loss is measured by comparing the recoverable amount of the investment with its carrying value.

An impairment loss is recognised in Share of gain/(loss) of associates in the Consolidated Statement of Comprehensive Income. Reversal of a previously recognized impairment loss is made if there has been a favourable change in the estimates used to determine the recoverable amount.

## ARGUS INSURANCE COMPANY LIMITED

Notes to the Consolidated Financial Statements

March 31, 2021 and March 31, 2020

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

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### 2. Significant accounting policies (continued)

#### 2.6 Impairment of assets (continued)

##### 2.6.2 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets comprised of Land and building and Intangible assets 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 Amortization and depreciation in the Consolidated Statements of Comprehensive Income 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.

#### 2.7 Investment property

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

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

#### 2.8 Insurance 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.

## ARGUS INSURANCE COMPANY LIMITED

Notes to the Consolidated Financial Statements

March 31, 2021 and March 31, 2020

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

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### 2. Significant accounting policies (continued)

#### 2.8 Insurance contracts (continued)

##### 2.8.1 Premiums and acquisition costs

Premiums written 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 in the Consolidated Balance Sheets.

Costs related to the acquisition of insurance premiums are charged to the Consolidated Statements of Comprehensive Income over the period of the policy. Acquisition costs are comprised of commissions and those associated with unearned premiums are deferred and amortised to income over the periods in which the premiums are earned. This is shown as Deferred policy acquisition costs in the Consolidated Balance Sheets. Policy acquisition costs related to unearned premiums are only deferred to the extent that they can be expected to be recovered from the unearned premiums. If the unearned premiums are insufficient to pay expected claims and expenses, a premium deficiency is recognised initially by writing down the deferred policy acquisition costs asset and subsequently by establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision). Deferred policy acquisition costs written off as a result of this test cannot subsequently be reinstated.

##### 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 in the Consolidated Statements of Comprehensive Income.

Insurance balances receivable and Insurance balances payable are derecognised when the derecognition criteria for financial assets and financial liabilities, as described in Note 2.5.1(b) have been met.

##### 2.8.3 Reinsurance

Reinsurance ceded premiums comprise the cost of reinsurance contracts into which the Group has entered. Reinsurance ceded premiums are 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 ceded premiums 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 in 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 date of the financial statements. Amounts due to or from reinsurers with respect to premiums or claims are included in Insurance balances payable or Insurance balances receivable in the Consolidated Balance Sheets.

The Group periodically assesses any reinsurance assets for impairment, with any impairment loss recognised in Operating expenses in the Consolidated Statements of Comprehensive Income in the period in which any impairment is determined.

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

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### 2. Significant accounting policies (continued)

#### 2.8 Insurance contracts (continued)

##### 2.8.4 Insurance contract liabilities

Insurance contract liabilities shown in the Consolidated Balance Sheets include the provision for unpaid and unreported claims.

The 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, as well as differences between estimates and ultimate payments, are reflected in Claims and adjustment expenses and Gross change in contract liabilities in the Consolidated Statements of Comprehensive Income in the year in which they are determined.

The provision for unpaid and unreported claims is not discounted.

#### 2.9 Land and building

Owner-occupied properties and all other assets classified as Land and building 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 Land and building are included in Operating expenses in the Consolidated Statements of Comprehensive Income.

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

Buildings - 2.5%

Improvements - 10% to 20%

The assets' residual values, useful lives and method of depreciation are reviewed regularly, at 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 Land and building are determined by reference to their carrying amount, and are recognised in Commissions and other income in the Consolidated Statements of Comprehensive Income.

#### 2.10 Employee benefits

##### 2.10.1 Post-employment benefits

The Parent operates a post-employment medical benefit plan for the benefit of its employees. The plan is closed to new entrants effective April 1, 2011. The Group operates a post-employment medical benefits plan granted by the Parent where the Parent charges the Group an allocated share of the total cost of the benefits. 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

## ARGUS INSURANCE COMPANY LIMITED

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### 2. Significant accounting policies (continued)

#### 2.10 Employee benefits (continued)

##### 2.10.1 Post-employment benefits (continued)

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

##### 2.10.2 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 Parent. Contributions are recognised as employee benefits in the Consolidated Statements of Comprehensive Income under Operating expenses in the period to which they relate.

##### 2.10.3 Stock-based compensation

The Parent has issued restricted shares to eligible employees. These restricted shares are recognised as an expense pro-rata over the vesting period. 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.

#### 2.11 Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

#### 2.12 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 included in Land and building and Investment property. 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 in the Consolidated Statements of Comprehensive Income.



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Notes to the Consolidated Financial Statements

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### 2. Significant accounting policies (continued)

#### 2.13 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.

##### 2.13.1 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.

##### 2.13.2 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.

#### 2.14 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 <i>COVID-19 Related Rent Concessions</i>	April 1, 2021	No significant impact
Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	April 1, 2021	Impact assessment in progress
Annual Improvements to IFRS Standards 2018-2020	April 1, 2022	No significant impact
Amendments to IAS 16 <i>Property Plant and Equipment- Proceeds before Intended Use</i>	April 1, 2022	No significant impact
Amendments to IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets -Onerous Contracts- Cost of fulfilling a Contracts</i>	April 1, 2022	No significant impact
Amendment to IAS 1 <i>Presentation of Financial Statements - Classification of Liabilities as Current or Non-current</i>	April 1, 2023	No significant impact
IFRS 9 <i>Financial Instruments</i>	April 1, 2023*	Impact assessment in progress
IFRS 17 <i>Insurance Contract</i>	April 1, 2023	Impact assessment in progress

\* Deferral option was exercised, refer to discussion in 2.14.7

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### 2. Significant accounting policies (continued)

#### 2.14 Future accounting and reporting changes (continued)

##### 2.14.1 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.

##### 2.14.2 *Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS16)*

In August 2020, the IASB finalized and published Interest Rate Benchmark Reform Phase 2 which includes amendments to; IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS16, effective for annual periods beginning on or after January 1, 2021; with earlier application permitted. The amendments address issues that might affect financial reporting after the reform of an interest rate benchmark including an alternative benchmark interest rate. The Group is still assessing the impact of the adoption of these amendments on the Group's Consolidated Financial Statements.

##### 2.14.3 *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.

##### 2.14.4 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.

##### 2.14.5 Amendments to IAS 37 *Onerous Contracts- 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.

##### 2.14.6 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.

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

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### 2. Significant accounting policies (continued)

#### 2.14 Future accounting and reporting changes

##### 2.14.7 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 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.

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 4.1.
- 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 4.1.

##### 2.14.8 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.

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### 2. Significant accounting policies (continued)

#### 2.14 Future accounting and reporting changes

##### 2.14.8 IFRS 17, *Insurance Contracts* (continued)

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;

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.

#### 2.15 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

As at March 31	<b>2021</b>	<b>2020</b>
Cash at bank and in hand	8,331	4,104
Short-term investments	1,921	1,903
Total	<u>10,252</u>	<u>6,007</u>

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### 4. Investments

#### 4.1 Carrying values and estimated fair values of investments

As at March 31	2021		2020	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Available-for-sale:				
Investment in bond fund	16,505	16,505	15,701	15,701
Investments in equity fund and private equity	4,899	4,899	2,946	2,946
Equities – carried at cost	-	-	1,200	1,200
Total investments	<u>21,404</u>	<u>21,404</u>	<u>19,847</u>	<u>19,847</u>

As of March 31, 2021, an investment in a privately held insurance company provided full return of capital of \$1.2 million.

#### SPPI criterion:

As discussed in Note 2.14.7, the Group has investment in funds primarily invested in bonds amounting to \$16.5 million (2020 – \$15.7 million) that do not meet the SPPI criterion. The bonds credit rating has been discussed in Note 11.3.2(c). The change in the fair value of these invested assets during the year is a loss of \$0.6 million (2020 – gain of \$0.2 million).

Investments in equity funds with a carrying value of \$4.9 million (2020 – \$4.1 million) do not meet the SPPI criterion as at March 31, 2021.

#### 4.2 Investment income

<i>For the years ended March 31</i>	<u>2021</u>	<u>2020</u>
Interest income:		
Investment in bond fund – available-for-sale	219	615
Cash and other	215	88
	<u>434</u>	<u>703</u>
Dividend income:		
Equities - available-for-sale	256	1,811
Net realised and unrealised gains/(loss) on investments:		
Equities – available-for-sale	-	(17)
Investment Properties	-	(1,176)
	<u>-</u>	<u>(1,193)</u>
Other:		
Net rental income/(loss) and other	(531)	(840)
Total investment income	<u>159</u>	<u>481</u>

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

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### 4.3 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.

The Group determines the estimated fair value of each individual security utilising 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 operating and design 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 and 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 modelled or other valuation methods. Such methods are typically industry accepted standard and include:

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

Other similarly quoted instruments or market transactions may be used.

The Group determines securities classified as Level 2 to include short-term investments and Bond and Equity Funds with listed underlying assets.

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.

The carrying values of certain short-term assets and liabilities approximate fair value.

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### 4. Investments (continued)

#### 4.3 Fair value measurement (continued)

Level 3 investments are securities for which valuation techniques are not based on observable market data. The Group classifies unquoted/ private equities as Level 3, 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 value as a reasonable approximate of 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.

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.

#### 4.3.1 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.

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>March 31, 2021</b>				
Cash and short-term investments	10,252	-	-	10,252
Available-for-sale:				
Investment in bond funds	-	16,505	-	16,505
Investment in equity funds	-	3,209	-	3,209
Unquoted equities	-	-	1,690	1,690
	<u>10,252</u>	<u>19,714</u>	<u>1,690</u>	<u>31,656</u>
Investment Property	-	2,399	-	2,399
Total assets at fair value	<u>10,252</u>	<u>22,113</u>	<u>1,690</u>	<u>34,055</u>
<b>March 31, 2020</b>				
Cash and short-term investments	6,007	-	-	6,007
Available-for-sale:				
Investment in bond funds	-	15,701	-	15,701
Investment in equity funds	-	2,224	-	2,224
Unquoted equities	-	-	722	722
	<u>6,007</u>	<u>17,925</u>	<u>722</u>	<u>24,654</u>
Investment Property	-	2,399	-	2,399
Total assets at fair value	<u>6,007</u>	<u>20,324</u>	<u>722</u>	<u>27,053</u>

As discussed in Note 4.1, fair value could not be reliably measured for an equity investments with carrying amounts totaling \$nil million (2020 - \$1.2 million).

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### 4. Investments (continued)

#### 4.3.2 Transfers of assets and liabilities within the fair value hierarchy

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 transactions volume and frequency are indicative of an active market. During the year ended March 31, 2021 and 2020, there were no transfers between Levels 1, 2 or 3.

The table below provides a fair value roll forward for the available-for-sale equities measured at fair value for which significant unobservable inputs (Level 3) are used in the fair value measurement for the year.

<i>For the years ended March 31</i>	<u>2021</u>	<u>2020</u>
Balance, beginning of year	722	693
Included in Other Comprehensive Income	(132)	29
Purchases	<u>1,100</u>	<u>-</u>
Balance, end of year	<u>1,690</u>	<u>722</u>

### 5. Insurance balances receivable

The Group's insurance balances receivable is comprised mainly of \$5.6 million (2020 - \$5.1 million) of balances due from policyholders.

### 6. Deferred policy acquisition costs

The reconciliation between opening and closing deferred policy acquisition costs is shown below:

<i>As at March 31</i>	<u>2021</u>	<u>2020</u>
Balance, beginning of year	181	144
Deferral during the year	1,561	1,483
Commission expense for the year	<u>(1,589)</u>	<u>(1,446)</u>
Balance, end of year	<u>153</u>	<u>181</u>



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### 7. Investment in associates

The Group's investment in associate is comprised of 40.7 percent (2020 – 40.7 percent) investment in Corner Development Limited (CDL) and another immaterial investment in a private company. These companies are domiciled in Bermuda and the Group has significant influence over the companies operational and financial policies. CDL's revenue mainly comes from rental income generated from two commercial real estate properties located in Bermuda that CDL owns. The Group's investments are measured under the equity method, which resulted in a valuation of \$3.1 million as at March 31, 2021 (2020 - \$2.8 million). The Group recorded a share of gains amounting to \$0.3 million as at March 31, 2021 (2020 – \$nil), which included dividends received of \$nil million (2020 - \$0.1 million).

The financial information of CDL includes the following:

	<u>2021</u>	<u>2020</u>
Total assets	11,890	11,608
Liabilities	4,954	5,223
Net income/(loss)	463	(184)

The Group has issued a guarantee in respect of its proportionate share of a term bank loan facility totaling \$4.7 million (2020 - \$4.9 million) for this office building which is owned by CDL.

### 8. Investment property

Investment properties are held primarily for resale and for rental income under operating lease agreements. All investment properties are stated at fair value. Included in Group's investment properties are fractional apartment units.

The Group has entered into operating leases for its investment property. The rental income arising during the year amounted to \$nil (2020 – \$nil), which is included in Investment income in the Consolidated Statements of Comprehensive Income. Direct operating expenses included within Investment income arising in respect of such properties during the year were \$0.3 million (2020 – \$0.5 million).

There are no restrictions on the investment property. The Group has no contractual obligations to purchase, construct or develop the investment property other than normal service charge arrangements.

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### 8. Investment property (continued)

Balance, March 31, 2019	3,575
Net unrealised gains (losses) from change in fair value	<u>(1,176)</u>
Balance, March 31, 2020	2,399
Net unrealised gains (losses) from change in fair value	<u>-</u>
Balance, March 31, 2021	<u>2,399</u>

### 9. Property and Equipment

	<u>Land and Buildings</u>	<u>Office Equipment</u>	<u>Total</u>
Gross carrying amount			
Balance, March 31, 2019	9,702	-	9,702
Additions	30	-	30
Balance, March 31, 2020	9,732	-	9,732
Additions	892	282	1,174
Balance, March 31, 2021	<u>10,624</u>	<u>282</u>	<u>10,906</u>
			-
Accumulated depreciation			
Balance, March 31, 2019	8,622	-	8,622
Depreciation for the year	675	-	675
			-
Balance, March 31, 2020	9,297	-	9,297
Depreciation for the year	66	11	77
Balance, March 31, 2021	<u>9,363</u>	<u>11</u>	<u>9,374</u>
Net carrying amount			
As at March 31, 2020	<u>435</u>	<u>-</u>	<u>435</u>
As at March 31, 2021	<u>1,261</u>	<u>271</u>	<u>1,532</u>

Depreciation of \$0.08 million (2020 - \$0.7 million) refers to the depreciation of capitalised costs arising from major building renovations and the acquisition of office equipment. As of March 31, 2021, the net carrying amount of the building relates to capitalized building renovations with remaining useful lives ranging from one to ten years (2020- one to seven years).

There were no impairments recognized for the year ended March 31, 2021 and 2020.

## ARGUS INSURANCE COMPANY LIMITED

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### 10. Insurance contract liabilities

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

<u>March 31, 2021</u>	<u>Note</u>	<u>Gross</u>	<u>Ceded</u>	<u>Net</u>
Provision for unpaid and unreported claims	10.1	10,135	(5,048)	5,087
Unearned premiums	10.6	9,582	(7,473)	2,109
Total insurance contract liabilities		<u>19,717</u>	<u>(12,521)</u>	<u>7,196</u>
<u>March 31, 2020</u>	<u>Note</u>	<u>Gross</u>	<u>Ceded</u>	<u>Net</u>
Provision for unpaid and unreported claims	10.1	7,875	(3,065)	4,810
Unearned premiums	10.6	9,168	(7,121)	2,047
Total insurance contract liabilities		<u>17,043</u>	<u>(10,186)</u>	<u>6,857</u>

#### 10.1 The table below sets out the provision for unpaid and unreported claims shown by line of business:

##### March 31, 2021

	<u>Gross</u>	Reinsurers' share of claims	<u>Net Total</u>
Healthcare	1,645	\$ (181)	1,464
Fire	1,280	(1,060)	220
Motor	6,393	(3,640)	2,753
Accident and liability	698	(53)	645
Marine	119	(114)	5
Provision for unpaid and unreported claims	<u>10,135</u>	<u>\$ (5,048)</u>	<u>5,087</u>

##### March 31, 2020

	<u>Gross</u>	Reinsurers' share of claims	<u>Net Total</u>
Healthcare	1,278	\$ (275)	1,003
Fire	987	(883)	104
Motor	4,699	(1,786)	2,913
Accident and liability	649	93	742
Marine	262	(214)	48
Provision for unpaid and unreported claims	<u>7,875</u>	<u>\$ (3,065)</u>	<u>4,810</u>

**ARGUS INSURANCE COMPANY LIMITED**

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**10.2 The reconciliation of the provision for unpaid and unreported claims is as follows:**

<i>As at March 31</i>	<b>2021</b>			<b>2020</b>		
	Provisions for unpaid and unreported claims	Reinsurance Assets	Net	Provisions for unpaid and unreported claims	Reinsurance Assets	Net
Balance, beginning of year	<u>7,875</u>	<u>(3,065)</u>	<u>4,810</u>	<u>6,372</u>	<u>(2,053)</u>	<u>4,319</u>
Claims and adjustment expenses incurred						
Current year	8,047	(4,172)	3,875	14,764	(9,105)	5,659
Prior years	<u>502</u>	<u>(1,369)</u>	<u>(867)</u>	<u>(69)</u>	<u>(229)</u>	<u>(298)</u>
	<u>8,549</u>	<u>(5,541)</u>	<u>3,008</u>	<u>14,695</u>	<u>(9,334)</u>	<u>5,361</u>
Claims and adjustment expenses paid						
Current year	(3,424)	2,153	(1,271)	(10,491)	7,188	(3,303)
Prior years	<u>(2,865)</u>	<u>1,405</u>	<u>(1,460)</u>	<u>(2,701)</u>	<u>1,134</u>	<u>(1,567)</u>
	<u>(6,289)</u>	<u>3,558</u>	<u>(2,731)</u>	<u>(13,192)</u>	<u>8,322</u>	<u>(4,870)</u>
Balance, end of year	<u>10,135</u>	<u>(5,048)</u>	<u>5,087</u>	<u>7,875</u>	<u>(3,065)</u>	<u>4,810</u>

## ARGUS INSURANCE COMPANY LIMITED

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

### 10. Insurance contract liabilities (continued)

#### 10.3 Key Assumptions - provision for unpaid and unreported claims

ASSUMPTIONS AND METHODOLOGY	RISK MANAGEMENT
<p>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.</p> <p>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. As the experience in each policy year matures, the weight assigned to the initial expected losses decreases with greater weight assigned to actual losses experience.</p> <p>The actuarial analysis performed by the Group's consulting actuary employs commonly used actuarial techniques for estimating the Group's provision for unpaid and unreported claims. These include the Paid and Reported Loss Development Method the Bornhuetter-Ferguson Method (applied to both paid and reported losses), and the Estimated Loss Ratio 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.</p> <p>There have been no significant changes in the assumptions or methodology underlying the actuarial analysis in the year under review.</p>	<p>The Group has policies and procedures in place to reduce the risk exposure, which includes 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.</p> <p>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 (e.g., hurricanes, earthquakes and flood damage). 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.</p> <p>Estimates of losses are continually reviewed and modified to reflect current conditions. Although Management believes, based on the recommendations of the Group's consulting actuaries, that the provision for unpaid and unreported claims will be adequate to cover the ultimate cost of losses to the date of the financial statements, 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 period in which they are determined.</p>

## ARGUS INSURANCE COMPANY LIMITED

Notes to the Consolidated Financial Statements

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

### 10. Insurance contract liabilities (continued)

#### 10.4 Sensitivities

The estimate of the Group's unpaid claim liabilities is sensitive to a large number of variables and assumptions. The estimate of unpaid claim liabilities for each policy year and reserving line of business is particularly sensitive to the underlying loss development patterns and initial expected losses utilised within each methodology.

The Group's loss reserve specialist provides a range of reasonable reserve estimates that is intended to recognise the inherent uncertainty in the estimate of unpaid claim liabilities and that another actuary, using an alternative set of reasonable assumptions, could produce a different, but reasonable, estimate of unpaid claim liabilities. The following table provides the range of reasonable reserve estimates, as provided by the Group's consulting actuary, which highlights the sensitivity of the estimate of unpaid claim liabilities to the underlying assumptions and judgments.

	Impact on equity	
	Low	High
Gross	511	(797)
Net	437	(552)

#### 10.5 Claims development table

The following tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each reporting date, together with cumulative payments to date.

##### Gross claims

Accident year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Estimate of ultimate liability(1)											
as at end of accident year	5,244	5,441	6,335	41,687	4,106	7,711	6,824	4,952	14,764	8,047	
one year later	4,929	5,032	7,007	41,488	3,613	7,596	6,384	4,837	15,009	-	
two years later	5,072	4,977	7,277	41,379	3,504	7,213	6,952	4,730	-	-	
three years later	4,911	5,065	6,446	41,590	3,373	7,086	6,741	-	-	-	
four years later	5,379	5,165	6,224	41,543	3,263	6,955	-	-	-	-	
five years later	5,283	5,031	6,149	41,536	3,229	-	-	-	-	-	
six years later	5,247	5,125	6,126	41,652	-	-	-	-	-	-	
seven years later	5,185	4,854	6,125	-	-	-	-	-	-	-	
eight years later	5,198	4,842	-	-	-	-	-	-	-	-	
nine years later	5,210	-	-	-	-	-	-	-	-	-	
Current estimate of cumulative liability	5,210	4,842	6,125	41,652	3,229	6,955	6,741	4,730	15,009	8,047	102,541
Cumulative payments to date	(5,200)	(4,787)	(6,125)	(41,482)	(3,202)	(6,913)	(5,733)	(3,463)	(12,078)	(3,423)	(92,406)
Reserves in respect of prior years											-
Total gross liability	10	55	-0	170	27	42	1,008	1,267	2,931	4,624	10,135

## ARGUS INSURANCE COMPANY LIMITED

Notes to the Consolidated Financial Statements

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

### 10. Insurance contract liabilities (continued)

#### 10.5 Claims development table (continued)

##### Net claims

Accident year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Estimate of net ultimate liability <sup>(1)</sup>											
as at end of accident year	3,635	3,318	2,732	5,493	3,026	3,365	4,197	3,922	5,660	3,875	
one year later	3,526	3,044	2,735	5,509	2,638	3,350	4,087	3,442	5,187	-	
two years later	3,632	3,031	3,145	5,625	2,582	2,955	4,601	3,260	-	-	
three years later	3,517	3,134	2,954	5,719	2,326	2,783	4,308	-	-	-	
four years later	3,677	3,127	2,761	5,549	2,373	2,661	-	-	-	-	
five years later	3,603	3,120	2,657	5,552	2,316	-	-	-	-	-	
six years later	3,602	3,198	2,660	5,658	-	-	-	-	-	-	
seven years later	3,506	2,964	2,655	-	-	-	-	-	-	-	
eight years later	3,509	2,953	-	-	-	-	-	-	-	-	
nine years later	3,515	-	-	-	-	-	-	-	-	-	
Current estimate of net cumulative liability	3,515	2,953	2,655	5,658	2,316	2,661	4,308	3,260	5,187	3,875	36,387
Cumulative payments to date	(3,505)	(2,897)	(2,655)	(5,503)	(2,301)	(2,634)	(3,864)	(2,594)	(4,090)	(1,256)	(31,299)
Reserves in respect of prior years											(1)
Total net liability	10	56	0	155	15	27	444	666	1,097	2,619	5,087

#### 10.6 Unearned premiums

The Group is exposed to a pricing risk to the extent that unearned premiums are insufficient to meet the related future policy cost. Evaluations are performed regularly to estimate future claim costs, related expenses, and expected profit in relation to unearned premiums. There were no premium deficiencies identified at March 31, 2020 or 2019.

<i>As at March 31</i>	2021			2020		
	Unearned Premiums	Reinsurers' share of Unearned premiums	Net	Unearned Premiums	Reinsurers' share of Unearned premiums	Net
Balance, beginning of year	9,168	(7,121)	2,047	8,700	(6,630)	2,070
Premiums written during the year	31,763	(21,869)	9,894	31,137	(21,141)	9,996
Premiums earned during the year	(31,349)	21,517	(9,832)	(30,669)	20,650	(10,019)
Balance, end of year	9,582	(7,473)	2,109	9,168	(7,121)	2,047

# ARGUS INSURANCE COMPANY LIMITED

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## 11. Risk management

### 11.1 Governance framework

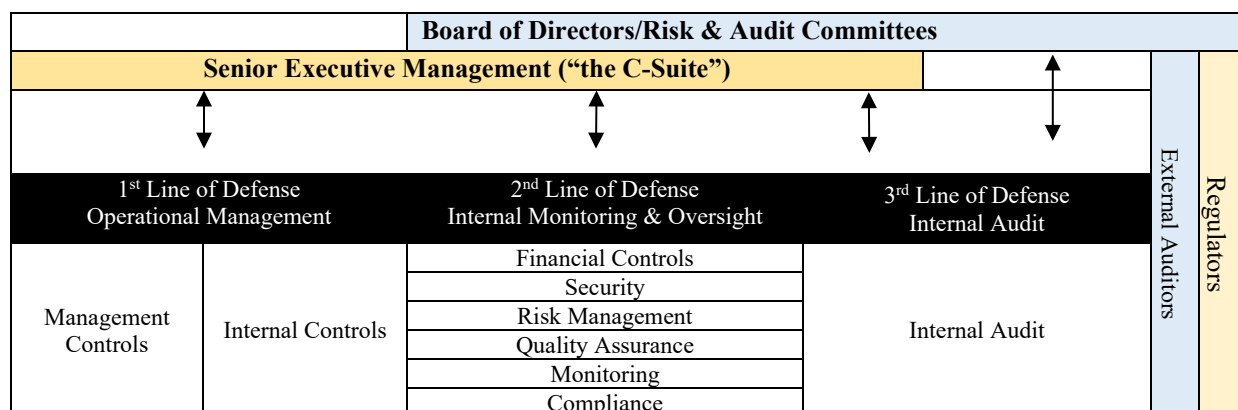
The Group aligns its risk management functions with that of its Parent, the Argus Group. The Group prioritises the development of a forward looking risk management framework to deal appropriately with changes in the economic, social and regulatory environment in which it operates. The risk management 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.

- 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.



### 11.2 Operational risk and Capital management

#### 11.2.1 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 under principles that consider all the risks associated with the businesses. The Group’s capital base consists of Share capital, Contributed surplus, Retained Earning and Accumulated other comprehensive income as disclosed in the Consolidated Balance Sheets.

The Bermuda Insurance Act 1978 and Related Regulations (the Act) require the Group to meet minimum solvency margins. Statutory capital and surplus for the Group as at March 31, 2021 was \$31.1 million (2020 - \$26.1 million) and the minimum amount required to be maintained by the Group was \$4.7 million (2020 - \$5.1 million). The Group’s statutory capital and surplus are different from shareholder’s equity due to certain items that are capitalised under IFRS but expensed or have a different valuation basis for statutory reporting, or are not admitted under the Act.



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

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### 11. Risk management (continued)

#### 11.2 Operational risk and Capital management (continued)

##### 11.2.1 Capital management (continued)

The Bermuda Monetary Authority (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 and 2020, the amount of group statutory capital and surplus exceeds this regulatory requirement.

The Bermuda Solvency Capital Requirements (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 insurer'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 Group exceeded this regulatory requirement.

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 Act limits the maximum amount of annual dividends and distributions that may be paid by the Company. 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 Company shall request the approval of the BMA. The Act also limits the Company's ability to pay dividends and distributions to shareholders if there are reasonable grounds for believing that the Company 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. The Group meets all requirements of the Act and there are no additional restrictions on the distribution of Retained earnings.

#### 11.3 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, interest rate and other price risks including equity risks.

##### 11.3.1 Investment Risk

Investment policy is established by the Risk Committee of the Board of Directors to manage this risk. Investment policy sets 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 policy are approved by the Risk Committee and the Board of Directors.

The Group 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 include investment in funds that invests in fixed maturity securities, fixed maturity funds and short-term investments. 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 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.

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### 11. Risk management (continued)

#### 11.3 Financial instrument risk management (continued)

##### 11.3.2 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. 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 the creditworthiness of reinsurers.

##### *11.3.2(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.

	<u>Note</u>	<u>2021</u>	<u>2020</u>
Cash and short-term investments		10,252	6,007
Investment in bond fund – at available-for-sale	4.1	16,505	15,701
Insurance balances receivable	5	5,561	5,086
Due from parent	16	495	44
Reinsurers' share of claims provisions	10	5,048	3,065
Total Consolidated Balance Sheet maximum credit exposure		<u>37,861</u>	<u>29,903</u>

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 of Directors.

##### *11.3.2(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 Group holds investments in bond funds of \$16.5 million at March 31, 2021 (2020 - \$15.7 million).

##### *11.3.2(c) Asset Quality*

###### Bonds by credit rating

The Group's investment in funds had a weighted average rating of A+ in 2021 (2020 - A-) related to the underlying investments.

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### 11. Risk management (continued)

#### 11.3 Financial instrument risk management (continued)

##### 11.3.3 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 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, the sale of equities, as well as by current operating cash flows. Longer duration cash flows are also backed by a broader range of asset classes including equity and other non-fixed income assets.

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.

#### Maturity profiles

For insurance contract liabilities and reinsurance assets, maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities. Unearned premiums and the Reinsurers' share of unearned premiums have been excluded from the analysis as they are not contractual obligations.

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

<i>As at March 31, 2021</i>	Within 1 year	2-5 years	6-10 years	Over 10 years	Total
Provision for unpaid and unreported claims net of reinsurance	2,848	2,153	86	-	5,087
Insurance balances payable	5,129	-	-	-	5,129
Due to associate	1,824	-	-	-	1,824
Accounts payable and accrued liabilities	546	-	-	-	546
	<u>10,347</u>	<u>2,153</u>	<u>86</u>	<u>-</u>	<u>12,586</u>
 <i>As at March 31, 2020</i>	 Within 1 year	 2-5 years	 6-10 years	 Over 10 years	 Total
Provision for unpaid and unreported claims net of reinsurance	2,812	1,935	61	2	4,810
Insurance balances payable	3,619	-	-	-	3,619
Due to associate	229	-	-	-	229
Accounts payable and accrued liabilities	572	-	-	-	572
	<u>7,232</u>	<u>1,935</u>	<u>61</u>	<u>2</u>	<u>9,230</u>

## ARGUS INSURANCE COMPANY LIMITED

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

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### 11. Risk management (continued)

#### 11.3 Financial instrument risk management (continued)

##### 11.3.4 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 risk: currency risk, interest rate risk and equity risk. The Group has no exposure to currency risk which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

##### *11.3.4(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 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.

Management considers that there is no material net interest rate risk on fixed-income investments which support the insurance contract liabilities.

##### *11.3.4(b) Equity Risk*

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The direct exposure to equity markets generally falls within the risk-taking philosophy of the Parent's investment policy and is regularly monitored by Management.

##### 11.3.5 Limitations of Sensitivity Analysis

The sensitivity information given in Note 10 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 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 interest rate fall towards zero.

### 11.4 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.

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### 11. Risk management (continued)

#### 11.4 Insurance risk management (continued)

The Group purchases reinsurance as part of its risk 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.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision 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 not dependent on a single reinsurer nor are the operations of the Group substantially dependent upon any single reinsurance contract.

### 12. Insurance balances payable

Insurance balances payable at year end is composed of:

<i>As at March 31</i>	<u>2021</u>	<u>2020</u>
Due to policyholders, agents and brokers	1,778	1,183
Due to reinsurers	907	122
Deferred commission income	<u>2,444</u>	<u>2,314</u>
Total Insurance balances payable	<u>5,129</u>	<u>3,619</u>

The deferred commission income relates to the unearned portion of the commission income arising from the reinsurance contracts.

A reconciliation of the change in deferred commission income is shown below:

<i>For the years ended March 31</i>	<u>2021</u>	<u>2020</u>
Balance, beginning of year	2,314	2,129
Deferral during the year	9,535	7,104
Income for the year	<u>(9,405)</u>	<u>(6,919)</u>
Balance, end of year	<u>2,444</u>	<u>2,314</u>

### 13. Net change in unearned premiums

<i>For the years ended March 31</i>	<u>2021</u>	<u>2020</u>
Gross change in unearned premiums	(414)	(468)
Change in unearned premiums on premiums ceded	<u>352</u>	<u>491</u>
Net change in unearned premiums	<u>(62)</u>	<u>23</u>

### 14. Commissions and other income

Commissions and other income consists of ceding commission of \$7.3 million (2020 - \$6.9 million) and profit commission of \$2.2 million (2020 - \$0.1 million) derived from the reinsurance contracts of the Group.

## ARGUS INSURANCE COMPANY LIMITED

Notes to the Consolidated Financial Statements

March 31, 2021 and March 31, 2020

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

### 15. Operating expenses

Operating expenses incurred during the year are as follows:

For the years ended March 31	<u>2021</u>	<u>2020</u>
Employee benefits expense (see table below)	1,815	2,327
Parent allocated expenses	3,589	3,413
Other expenses	1,171	644
	<u>6,575</u>	<u>6,384</u>

Employee benefits expense during the year is composed of:

For the years ended March 31	<u>2021</u>	<u>2020</u>
Salaries and other short-term benefits	1,737	2,213
Pension costs (1)	80	107
Post-employment benefit	(4)	(2)
Stock-based compensation	2	9
	<u>1,815</u>	<u>2,327</u>

(1) Pension costs arise from the Parent's defined contribution pension plan covering all full-time employees.

### 16. Related party transactions

Significant related party transactions are as follows:

16.1 Gross premium written includes \$0.1 million (2020 - \$0.2 million) of premiums for the insurance-related products and services provided to various affiliates.

16.2 Operating expenses include the Group's allocation of Parent overhead expenses of \$3.1 million (2020 - \$3.1 million) and a management fee expense of \$0.5 million (2020 - \$0.3 million).

16.3 Commission expense include commission paid to an affiliate for brokerage services provided amounting to \$1.1 million (2020 - \$0.9 million).

16.4 Due from parent of \$0.5 million (2020 - \$0.04 million) includes surplus cash deposits with the Parent and due to associate of \$1.8 million (2020 - \$0.2 million) includes surplus cash deposits with the Company. These deposits are available on demand and are used by the Group to fund its cash requirements. These deposits have no formal terms of repayment and bears no interest.

16.5 Compensation of key personnel

Key Management personnel have been identified as the external Board of Directors of the Group. Fees paid to directors for the reporting period totaled \$0.01 million (2020 - \$0.01 million).

### 17. Dividends and return of capital to parent

The Company declared and paid cash dividends of \$5.0 million (2020 - \$3.0 million) to its Parent during the year. Additionally, the Company paid \$nil (2020 - \$1.5 million) as return of capital to its Parent.

## ARGUS INSURANCE COMPANY LIMITED

Notes to the Consolidated Financial Statements

March 31, 2021 and March 31, 2020

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

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### 18. Accumulated other comprehensive income

For the years ended March 31	<u>2021</u>	<u>2020</u>
Remeasurement of post-employment medical benefit obligation	(22)	(4)
Available-for-sale investments	<u>1,438</u>	<u>178</u>
Total accumulated other comprehensive income	<u>1,416</u>	<u>174</u>

### 19. Commitments and contingencies

The Group is contingently liable with respect to certain litigation and claims that arise in the normal course of business.

### 20. Taxation

Under current Bermuda law, the Group is not required to pay any taxes in Bermuda on either income or capital gains. The Group has received an undertaking from the Minister of Finance in Bermuda that in the event of any such taxes being imposed, the Group will be exempt from taxation until the year 2035.

### 21. Comparative figures

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. These reclassifications have no impact on net earnings or equity.

### 22. Subsequent events

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