

BERMUDA LIFE INSURANCE COMPANY LIMITED

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

March 31, 2022



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Bermuda Life Insurance Company Limited

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Bermuda Life Insurance Company Limited and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of March 31, 2022 and 2021, and the related consolidated statements of operations, comprehensive operations, changes in equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2022 and 2021, and 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.

Basis for opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of management for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.



In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional scepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
August 11, 2022

BERMUDA LIFE INSURANCE COMPANY LIMITED

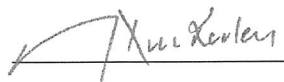
Consolidated Balance Sheets

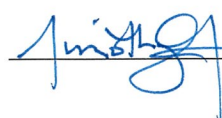
March 31, 2022 and 2021
(Expressed in thousands of Bermuda Dollars)

	Note	<u>2022</u>	<u>2021</u>
Assets			
Cash and short-term investments	3	26,532	30,797
Interest and dividends receivable		2,331	2,209
Investments	5, 6	416,924	420,663
Receivable for investments sold		2,400	2,408
Insurance balances receivable	8	7,992	6,649
Reinsurers' share of:			
Claims provisions	11	4,290	3,534
Unearned premiums	11	277	208
Other assets	9	4,669	4,357
Due from parent	20	-	14,000
Investment property	7	375	500
Property and equipment	10	37,325	38,599
Total general fund assets		<u>503,115</u>	<u>523,924</u>
Segregated fund assets	24	<u>1,203,738</u>	<u>1,182,550</u>
Total assets		<u>1,706,853</u>	<u>1,706,474</u>
Liabilities			
Insurance balances payable	14	6,071	6,448
Accounts payable and accrued liabilities		12,716	11,389
Due to parent	20, 21	14,361	-
Insurance contract liabilities	11	181,208	193,829
Investment contract liabilities	12	246,774	248,539
Total general fund liabilities		<u>461,130</u>	<u>460,205</u>
Segregated fund liabilities	24	<u>1,203,738</u>	<u>1,182,550</u>
Total liabilities		1,664,868	1,642,755
Equity			
Share capital		252	252
Contributed surplus		28,977	28,977
Retained earnings		26,276	25,478
Accumulated other comprehensive income/(loss)	23	<u>(13,520)</u>	<u>9,012</u>
Total equity attributable to the shareholder of the Group		<u>41,985</u>	<u>63,719</u>
Total equity and liabilities		<u>1,706,853</u>	<u>1,706,474</u>

The accompanying notes form part of these consolidated financial statements.

Signed on behalf of the Board

 Director

 Director

BERMUDA LIFE INSURANCE COMPANY LIMITED

Consolidated Statements of Comprehensive Income/(Loss)

Years ended March 31, 2022 and 2021
(Expressed in thousands of Bermuda Dollars)

	<u>Note</u>	<u>2022</u>	<u>2021</u>
Revenue			
Gross premiums written		104,354	101,650
Premiums rebate		180	(4,963)
Reinsurance ceded		<u>(7,596)</u>	<u>(7,363)</u>
Net premiums written		96,938	89,324
Net change in unearned premiums	15	<u>70</u>	<u>26</u>
Net premiums earned		97,008	89,350
Investment income	5, 7	9,792	12,561
Commissions, management fees and other	16	<u>15,425</u>	<u>14,358</u>
Total revenue		<u>122,225</u>	<u>116,269</u>
Expenses			
Policy benefits		16,364	16,397
Claims and adjustment expenses		65,616	54,225
Reinsurance recoveries	17	(4,057)	(3,364)
Gross change in contract liabilities	18	(8,440)	6,066
Change in reinsurers' share of claims provisions	18	<u>(756)</u>	<u>(424)</u>
Net benefits and claims		68,727	72,900
Commission expenses		373	504
Operating expenses	19	20,854	24,172
Depreciation and impairment of property and equipment	10	<u>1,473</u>	<u>1,644</u>
Total expenses		<u>91,427</u>	<u>99,220</u>
Net earnings for the year		30,798	17,049
Items that will not be reclassified to net earnings:			
Re-measurement of post-employment medical benefit obligation		100	75
Items that may subsequently be reclassified to net earnings:			
Change in unrealised gains (losses) on available-for-sale investments		<u>(22,632)</u>	<u>14,305</u>
Other comprehensive income/(loss) for the year		<u>(22,532)</u>	<u>14,380</u>
Total comprehensive income/(loss) for the year		<u><u>8,266</u></u>	<u><u>31,429</u></u>

The accompanying notes form part of these consolidated financial statements.

BERMUDA LIFE INSURANCE COMPANY LIMITED

Consolidated Statements of Changes in Equity

Years ended March 31, 2022 and 2021

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

	<u>Note</u>	<u>2022</u>	<u>2021</u>
Share capital			
Authorised, issued and fully paid:			
105,000 common shares of \$2.40 each (2020 - 105,000)		252	252
Contributed surplus			
Balance, beginning of year		28,977	28,977
Retained earnings			
Balance, beginning of year		25,478	38,429
Dividends to Parent	21	(30,000)	(30,000)
Net earnings for the year		30,798	17,049
Balance, end of year		26,276	25,478
Accumulated other comprehensive income/(loss)			
Balance, beginning of year		9,012	(5,368)
Other comprehensive income/(loss) for the year		(22,532)	14,380
Balance, end of year		(13,520)	9,012
Total equity		41,985	63,719

See accompanying notes to the consolidated financial statements.

BERMUDA LIFE INSURANCE COMPANY LIMITED

Consolidated Statements of Cash Flows

Years ended March 31, 2022 and 2021
(Expressed in thousands of Bermuda Dollars)

	<u>2022</u>	<u>2021</u>
Operating activities		
Net earnings for the year	30,798	17,049
Adjustments to reconcile net earnings to cash basis (Footnote (i) below)	(7,069)	(8,115)
Change in operating balances (Footnote (ii) below)	3,934	10,037
Dividend income received	381	69
Interest income received	9,459	9,567
	<u>37,503</u>	<u>28,607</u>
Investing activities		
Purchase of investments	(101,547)	(518,592)
Sale of investments	81,278	520,457
Purchase of property and equipment	(199)	(1,410)
	<u>(20,468)</u>	<u>455</u>
Financing activities		
Dividends paid to parent	(21,300)	(30,000)
	<u>(21,300)</u>	<u>(30,000)</u>
Net increase/(decrease) in cash and short-term investments	(4,265)	(936)
Cash and short-term investments, beginning of year	30,797	31,733
Cash and short-term investments, end of year	<u>26,532</u>	<u>30,797</u>
<i>Footnotes</i>		
(i) Provision for/(Recovery of) bad debts	(89)	956
Dividend income	(381)	(69)
Interest income	(10,518)	(10,604)
Investment income related to deposit administration pension plans	937	1,364
Net realised and unrealised (gains)/loss on investments and investment property	(33)	(2,998)
Amortisation of premiums on bonds	1,280	1,354
Depreciation and impairment of property and equipment	1,473	1,644
Impairment charges (reversal) on mortgages and loans	262	238
	<u>(7,069)</u>	<u>(8,115)</u>
(ii) Insurance balances receivable	(1,254)	(1,551)
Reinsurers' share of:		
Claims provision	(755)	(424)
Unearned premiums	(70)	(24)
Other assets	(312)	(1,490)
Due from (to) parent	19,661	2,152
Insurance balances payable	(377)	1,952
Accounts payable and accrued liabilities	1,427	3,614
Insurance contract liabilities	(12,621)	11,021
Investment contract liabilities	(1,765)	(5,213)
	<u>3,934</u>	<u>10,037</u>

See accompanying notes to the consolidated financial statements

BERMUDA LIFE INSURANCE COMPANY LIMITED

Notes to the Consolidated Financial Statements

March 31, 2022 and 2021

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

1. OPERATIONS

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

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

The consolidated financial statements as at and for the year ended March 31, 2022 were authorized for issue by the Board of Directors on August 11, 2022.

2. SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Statement of compliance

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

2.2 Basis of presentation

2.2.1 Basis of measurement

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

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

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

2.2.2 Presentation currency

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

BERMUDA LIFE INSURANCE COMPANY LIMITED

Notes to the Consolidated Financial Statements

March 31, 2022 and 2021

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of presentation (continued)

2.2.3 Use of critical estimates, judgments and assumptions

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

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

Note 2.8 – Insurance, investment and service contracts;

Note 2.9 and Note 7 – Investment property

Note 4 – Assets and liabilities held-for-sale

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

Note 2.7 – Impairment of assets;

Note 6 – Fair value measurement;

Note 11 – Insurance contract liabilities; and

Notes 5 and 12 – Investments and Investment contract liabilities.

2.3 Basis of consolidation

2.3.1 Business combinations

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

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

Amalgamation transactions

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

2.3.2 Subsidiaries

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

BERMUDA LIFE INSURANCE COMPANY LIMITED

Notes to the Consolidated Financial Statements

March 31, 2022 and 2021

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Cash and short-term investments

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

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

2.5 Assets and Liabilities Held-for-Sale

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

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

2.6 Financial instruments

2.6.1 Financial assets

2.6.1(a) Classification and recognition of financial assets

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

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

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

(i) Financial assets at FVTPL

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

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

BERMUDA LIFE INSURANCE COMPANY LIMITED

Notes to the Consolidated Financial Statements

March 31, 2022 and 2021

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

2.6.1 Financial assets (continued)

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

(ii) Available-for-sale financial assets

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

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

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

(iii) Loans and receivables

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

2.6.1(b) Derecognition and offsetting

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

BERMUDA LIFE INSURANCE COMPANY LIMITED

Notes to the Consolidated Financial Statements

March 31, 2022 and 2021

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

2.6.2 Financial liabilities

2.6.2(a) *Classification and recognition of financial liabilities*

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

(i) Financial liabilities at FVTPL

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

(ii) Other financial liabilities

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

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

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

2.6.2(b) *Derecognition*

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

2.6.3 Derivative financial assets

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

2.6.4 Investment income

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Impairment of assets

2.7.1 Impairment of financial assets

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

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

2.7.1(a) Loans and receivables

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

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

2.7.1(b) Available-for-sale financial assets

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

BERMUDA LIFE INSURANCE COMPANY LIMITED

Notes to the Consolidated Financial Statements

March 31, 2022 and 2021

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Impairment of assets (continued)

2.7.2 Impairment of non-financial assets

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

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

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

2.8 Insurance, investment and service contracts

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

2.8.1 Premiums

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

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

2.8.2 Receivables and payables related to insurance contracts

Receivables and payables related to insurance contracts are recognised when due and measured on initial recognition at the fair value of the consideration receivable or payable. Subsequent to initial recognition, Insurance balances receivable and Insurance balances payable are measured at amortised cost. The carrying value of Insurance balances receivable is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in Operating expenses on the Consolidated Statements of Comprehensive Income/(Loss). Insurance balances receivable and Insurance balances payable are derecognised when the derecognition criteria for financial assets and financial liabilities, as described in Note 2.6.1(b) and Note 2.6.2(b) have been met.

BERMUDA LIFE INSURANCE COMPANY LIMITED

Notes to the Consolidated Financial Statements

March 31, 2022 and 2021

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Insurance, investment and service contracts (continued)

2.8.3 Reinsurance

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

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

2.8.4 Insurance contract liabilities

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

(i) Life and annuity policy reserves

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

(ii) Provision for unpaid and unreported claims

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

Provisions for unpaid and unreported claims are not discounted.

2.8.5 Investment contracts

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

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

BERMUDA LIFE INSURANCE COMPANY LIMITED

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March 31, 2022 and 2021

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Insurance, investment and service contracts (continued)

2.8.5 Investment contracts (continued)

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

- (i) Deposit administration pension plans are plans where the Group's liability is linked to contributions received, plus a predetermined and guaranteed rate of return. The liability related to these plans is carried at amortised cost.
- (ii) Self-funded group health policies are refund accounting agreements that provide for the retroactive adjustment of premiums based upon the claims experience of the policyholder. Under these agreements, any surplus arising is set off against future deficits or returned to the policyholder. Any deficit that may arise is set off against future surpluses or may be recovered in full, or in part, by lump sum payments from policyholders. As these agreements do not transfer insurance risk, funds received under these agreements are accounted for as investment contracts. Assets and liabilities arising from these types of policies are measured at amortised cost.
- (iii) Deposit accounted annuity policies relate to policies that do not transfer significant insurance risk but do transfer financial risk from the policyholders and these are measured at FVTPL.

2.8.6 Other service contracts

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

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

2.9 Investment Properties

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

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

2.10 Property and equipment

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

BERMUDA LIFE INSURANCE COMPANY LIMITED

Notes to the Consolidated Financial Statements

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Property and equipment (continued)

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

Buildings 2.5% - 10%

Computer equipment 10% – 20%

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

2.11 Segregated funds

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

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

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

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

2.12 Employee benefits

2.12.1 Post-employment benefits

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Employee benefits (continued)

2.12.1 Post-employment benefits (continued)

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

2.12.2 Pensions

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

2.12.3 Stock-based compensation

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

2.13 Share capital

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

2.14 Leases

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

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

2.15 Application of new and revised accounting standards

The Group has applied the following new and revised standards, relevant to the Group, which are issued by the IASB that are mandatorily effective for the Group for the accounting period beginning April 1, 2021.

2.15.1 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. The adoption of these amendments did not have a significant impact on the Group's Consolidated Financial Statements.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Future accounting and reporting changes

There are a number of accounting and reporting changes issued under IFRS including those still under development by the IASB. A summary of the recently issued new accounting standards that will impact the Group in 2022 and beyond is as follows:

TOPIC	EFFECTIVE DATE FOR THE COMPANY	EXPECTED IMPACT
<i>Annual Improvements to IFRS Standards 2018-2020</i>	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>Onerous Contracts- Cost of fulfilling a Contract.</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
Amendments to IAS 1 and IFRS Practice Statement 2 <i>Disclosure of Accounting Policies</i>	April 1, 2023	Impact assessment in progress
Amendments to IAS 8 <i>Definition of Accounting Estimate</i>	April 1, 2023	No significant impact

* Deferral option was exercised, refer to discussion in 2.16.5.

2.16.1 *Annual Improvements to IFRS Standards 2018-2020*

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

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

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

2.16.3 *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.

March 31, 2022 and 2021

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Future accounting and reporting changes (continued)

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

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

2.16.5 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.

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

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

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

Management is assessing the impact of this standard in conjunction with IFRS 17, *Insurance Contracts* as discussed in Note 2.16.6.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Future accounting and reporting changes (continued)

2.16.6 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 will materially change the recognition and measurement of insurance contracts and corresponding presentation and disclosures in the financial statements. The requirements of IFRS 17 are complex and will result in significant changes in the accounting for insurance contracts and enhancements to the financial reporting systems and processes. The Group's adoption of IFRS 17 is effective 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.

The key features of new insurance standard are as follows:

- The IFRS 17 general measurement model requires insurance contract liabilities to be measured using: probability-weighted estimates of future cash flows, discounting, a risk adjustment for non-financial risk and a contractual service margin representing the unearned profit that will be recognized over the coverage period.

The premium allocation approach, an optional simplified measurement model is available for eligible group of insurance contracts.

For long-duration life insurance contracts, the new measurement model 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.

For non-life insurance contracts, IFRS 17 introduces mandatory discounting of loss reserves as well as a risk adjustment for nonfinancial risk.

- Upfront revenue recognition is not permitted. Mandatory early recognition of losses on onerous contracts.
- Change in value of market variables as part of insurance contract liabilities valuation may go through P&L or OCI.
- Several significant changes in the presentation and disclosures, such as
 - Insurance service result will comprise of insurance revenue, insurance service expense and insurance finance income or expense which are based on insurance services provided during the period. Gross written premium will no longer be presented in the Consolidated Statement of Comprehensive income/(Loss).
 - Non-distinct investment components, which are defined as amounts that are repayable in all circumstances, are required to be excluded from insurance revenue and expenses.
 - The quantitative and qualitative disclosure requirements in IFRS 17 are more extensive than the current reporting frameworks in many jurisdictions under IFRS 4.

The Group has dedicated significant resources to execute and oversee the multi-year cross functional implementation plan to manage operational, regulatory, and business associated with the implementation of IFRS 17 and IFRS 9.

A joint IFRS 17 and IFRS 9 Group Implementation Programme was set up and third-party consultants were hired. A steering committee comprising of Senior Management from Finance, Actuarial, Risk, Data, Operations and Investment Management oversees the work performed by the third-party consultants and the working group. The third-party consultants work with the technical committee in the assessment of the Group's accounting policies and methodologies and for assessment of systems implications and data flows.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Future accounting and reporting changes (continued)

2.16.6 IFRS 17, *Insurance Contracts* (continued)

The Group's implementation programme is progressing in line with expectations.

Narrow-scope amendments to IFRS 17 "Insurance Contracts" were issued in December 2021 and are effective on initial application of IFRS 17 and IFRS 9 "Financial Instruments" which the Company will adopt on April 1, 2023. The amendments remove accounting mismatches between insurance contract liabilities and financial assets in scope of IFRS 9 within comparative prior periods when initially applying IFRS 17 and IFRS 9. The amendments allow insurers to present comparative information on financial assets as if IFRS 9 were fully applicable during the comparative period. The Group is considering the effect of these amendments on its IFRS 9 transition disclosures.

The requirements of IFRS 17 are complex and some material judgements are still under review. The Group continues to analyse the impacts of the standard and recent amendments. The Group continues to monitor market developments in order to assess the impact of evolving interpretations and other changes.

2.16.7 *Amendments to IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting Policies*

In February 2021, the IASB issued amendments to IAS 1 Presentation of Financial Statements ("IAS 1") and IFRS Practice Statement 2 "Making Materiality Judgments", effective for annual reporting periods beginning on or after January 1, 2023, with early application permitted. The amendments to IAS 1 require companies to disclose their material accounting policies information rather than their significant accounting policies. The amendments to IFRS Practice Statement 2 provide guidance on the application of the "four-step materiality process" to support IAS 1 amendments. The Company is still assessing the impact of these amendments to the Group's financial statements.

2.16.8 *Amendments to IAS 8 Definition of Accounting Estimate*

In February 2021, the IASB issued amendments to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8"), effective for annual reporting periods beginning on or after January 1, 2023, with early application permitted. The amendments replace the definition of a change in accounting estimate with a definition of accounting estimates. They further clarify how companies should distinguish changes in accounting estimates from changes in accounting policies, and correction or errors. Adoption of these amendments are not expected to have a significant impact on the Group's Consolidated Financial Statements.

2.17 Impact of COVID 19

In early 2020, many countries experienced an outbreak of the COVID-19 disease, which was later declared to be a global pandemic by the World Health Organization. Measures adopted by governments in countries worldwide to mitigate the spread have significantly impacted the global economy. The Group continues to monitor and evaluate the impact of the pandemic on the Group's business. The risks associated with the COVID-19 pandemic are being managed in accordance with the Group's existing risk management framework. The most recent annual solvency assessment exercise indicates resilience against the financial impact of this event. The Group remains sufficiently capitalized on a current and forward-looking basis with no adverse impact to its ability to meet policyholder obligations.

2.18 The impact of the Ukraine Crisis on the Group

In February, 2022, Russia launched a military attack on neighboring country Ukraine. As the war continues to evolve and additional sanctions are imposed, the Group continues to monitor the impact of the crisis on its business. The Group currently faces no direct exposure to the war. There is minimal impact to balance sheet assets, no direct impact to investments or clients, and no market risk volatility correlated to the impact of inflation. The Group's current investment strategy remains appropriate.

BERMUDA LIFE INSURANCE COMPANY LIMITED

Notes to the Consolidated Financial Statements

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*(Amounts in tables are expressed in thousands of Bermuda dollars)***3. CASH AND SHORT-TERM INVESTMENTS**

	<u>2022</u>	<u>2021</u>
Cash in bank	23,144	27,504
Short-term investments	<u>3,388</u>	<u>3,293</u>
	<u>26,532</u>	<u>30,797</u>

Included in the cash in bank are cash that support the investment contract liabilities associated with deposit administration pension plans (Note 12) of \$3.2 million (2021 – \$5.0 million).

Bank overdrafts are repayable on demand are included as a component of cash in bank. As of March 31, 2022, the Group's bank overdraft position is \$Nil (2021 - \$0.1 million).

4. ASSETS AND LIABILITIES HELD-FOR-SALE

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

5. INVESTMENTS**5.1 Carrying values and estimated fair values of investments**

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

	<u>31-Mar-22</u>		<u>31-Mar-21</u>	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Available-for-sale				
Bonds	380,403	380,403	377,645	377,645
Equities	<u>7,279</u>	<u>7,279</u>	<u>6,785</u>	<u>6,785</u>
	<u>387,682</u>	<u>387,682</u>	<u>384,430</u>	<u>384,430</u>
Investments at FVTPL				
Bonds	15,779	15,779	21,012	21,012
	<u>15,779</u>	<u>15,779</u>	<u>21,012</u>	<u>21,012</u>
Loans and receivables				
Mortgages and loans	13,422	13,899	15,180	16,188
Policy loans	<u>41</u>	<u>41</u>	<u>41</u>	<u>41</u>
	<u>13,463</u>	<u>13,940</u>	<u>15,221</u>	<u>16,229</u>
Total Investments	<u>416,924</u>	<u>417,401</u>	<u>420,663</u>	<u>421,671</u>

Included in Available-for-sale Bonds are investments that support the investment contract liabilities associated with deposit administration pension plans (Note 12) of \$229.0 million (2021 – \$226.3 million). These investments are maintained under a Separate Account to provide the policyholders certain protections from creditors of the Group.

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5. INVESTMENTS (continued)

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

SPPI criterion

As discussed in Note 2.16.2, the Group has investments of \$375.3 million (2021 - \$385.9 million) that meet the SPPI criterion. This refers to bonds, mortgages and loans, and policy loans. The change in the fair value of these invested assets during the year is a loss of \$21.2 million (2021 - gain of \$3.9 million). In terms of credit quality of such assets (excluding mortgages), 99% (2021 - 99%) investments are above investment grade assets and the remaining 1% (2021 - 1%) are below investment grade assets.

Investments with a carrying value of \$34.3 million (2021 - \$28 million) do not have SPPI qualifying cash flows as at March 31, 2022. The change in the fair value of these invested assets during the year is a loss of \$0.9 million (2021 - gain of \$0.7 million).

Equities with a carrying value of \$7.3 million (2021 - \$6.8 million) do not meet the SPPI criterion as at March 31, 2022.

5.2 Reverse sale and repurchase agreements

The Group did not enter into reverse sale and repurchase agreements (reverse repos) on investments during the year. The money received from these agreements where the Group is the borrower (i.e. where the Group is under an obligation to take the securities back) is shown on the Consolidated Balance Sheets as Payables arising from investment transactions. The securities delivered to the lender continue to be reported in Investments on the Consolidated Balance Sheets in accordance with their relevant category.

During the year, cash flows arising from these agreements amounted to sales and purchases of \$Nil (2021 - \$68.6 million) which are shown net in cash flows generated from investing activities on the Consolidated Statement of Cash Flows.

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

As of March 31, 2022 and 2021, the Group does not hold any outstanding balances arising from reverse repos.

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5. INVESTMENTS (continued)

5.3 Investment income

For the years ended March 31	2022	2021
Interest Income		
Bonds - available-for-sale	9,932	10,458
Bonds - at FVTPL	113	82
Mortgages and loans	456	55
Cash and other	17	9
	<u>10,518</u>	<u>10,604</u>
Dividend Income		
Equities - available-for-sale	381	69
Net realised and changes in unrealised gains and losses on investments		
Bonds - available-for-sale	585	5,724
Bonds - at FVTPL	(506)	(2,617)
Equities - available-for-sale	79	-
Derivative financial instrument		(109)
Investment Property	(125)	-
	<u>33</u>	<u>2,998</u>
Other		
Amortisation of premium on Bonds	(1,280)	(1,354)
Net rental income and other	1,339	1,846
Impairment (charges) reversal on mortgages and loans ⁽¹⁾	(262)	(238)
	<u>(203)</u>	<u>254</u>
Investment income before deductions	<u>10,729</u>	<u>13,925</u>
Deductions		
Investment income relating to Deposit administration pension plans	(937)	(1,364)
	<u>(937)</u>	<u>(1,364)</u>
Total Investment Income	<u>9,792</u>	<u>12,561</u>

⁽¹⁾ As at March 31, 2022 and 2021, the Group recorded an impairment on certain non-residential mortgages. The impairment recognized is the difference between the carrying value and the recoverable value, determined based on the market value of the underlying collateral property.

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

6. FAIR VALUE MEASUREMENT

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

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

The Group determines the estimated fair value of each individual security utilizing the highest level inputs available. Prices for the majority of the Group's investment portfolio are provided by a third-party investment accounting firm whose pricing processes and the controls thereon are subject to an annual audit on both the operation and the effectiveness of those controls. The audit reports are available to clients of the firm and the report is reviewed annually by Management. In accordance with their pricing policy, various recognised reputable pricing sources are used including broker-dealers and pricing vendors. The pricing sources use bid prices where available, otherwise indicative prices are quoted based on observable market trade data. The prices provided are compared to the investment managers' pricing. The Group has not made any adjustments to any pricing provided by independent pricing services or its third-party investment managers for either year ended March 31, 2022 or 2021.

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

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

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

Other similar quoted instruments or market transactions may be used.

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

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

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

6. FAIR VALUE MEASUREMENT (continued)

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

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

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

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

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

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6. FAIR VALUE MEASUREMENT (continued)

6.1 Assets and liabilities measured at fair value

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

March 31, 2022	Level 1	Level 2	Level 3	Total Fair Value
Cash and short-term investments	26,532	-	-	26,532
Interest and dividends receivables	-	2,331	-	2,331
Available-for-sale investments				
Bonds				
US government	45,288	-	-	45,288
US and foreign corporates	-	208,161	-	208,161
Municipal, other government and agency	-	39,389	-	39,389
Mortgage/asset-backed securities	-	73,097	-	73,097
Other - Investment in bond funds	-	14,468	-	14,468
	45,288	335,115	-	380,403
Equities				
Investment in equity funds	-	7,279	-	7,279
	45,288	342,394	-	387,682
Investments at FVTPL				
Bonds				
US government	15,779	-	-	15,779
Investment property		375		375
Total assets at fair value	87,599	345,100	-	432,699
Liabilities				
Investment contract liabilities	-	156	-	156
Total liabilities at fair value	-	156	-	156
Segregated funds	8,804	1,194,934	-	1,203,738

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6. FAIR VALUE MEASUREMENT (continued)

6.1 Assets and liabilities measured at fair value (continued)

March 31, 2021	Level 1	Level 2	Level 3	Total Fair Value
Cash and short-term investments	30,797	-	-	30,797
Interest and dividends receivables	-	2,209	-	2,209
Available-for-sale investments				
Bonds				
US government	43,305	-	-	43,305
US and foreign corporates	-	219,040	-	219,040
Municipal, other government and agency	-	43,427	-	43,427
Mortgage/asset-backed securities	-	56,942	-	56,942
Other - Investment in bond funds	-	14,930	-	14,930
	43,305	334,339	-	377,644
Equities				
Investment in equity funds	-	6,721	-	6,721
Private equity funds and unquoted equities	-	-	65	65
	43,305	341,060	65	384,430
Investments at FVTPL				
Bonds				
US government	21,012	-	-	21,012
Investment properties	-	500	-	500
Total assets at fair value	95,114	343,769	65	438,948
Liabilities				
Investment contract liabilities	-	328	-	328
Total liabilities at fair value	-	328	-	328
Segregated funds	8,313	1,195,424	-	1,203,737

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*(Amounts in tables are expressed in thousands of Bermuda dollars)***6. FAIR VALUE MEASUREMENT (continued)****6.1 Assets and liabilities measured at fair value (continued)**

The table below provides a fair value roll forward for the assets and liabilities measured at fair value for which significant unobservable inputs (Level 3) are used in the fair value measurement for the year ended March 31, 2022.

For the year ended March 31, 2022	At FVTPL Equities	Available- for-sale Equities	Total
Balance, beginning of year	-	65	65
Included in Investment income	-	78	78
Included in Other comprehensive income/(loss)	-	(65)	(65)
Sales/write off	-	(78)	(78)
Assets based on Level 3 inputs	-	-	-

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

During the year, there were no transfers made between the levels within the fair value hierarchy for Segregated funds (2021 - \$nil).

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

6. FAIR VALUE MEASUREMENT (continued)

6.2 Assets and liabilities not measured at fair value

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

March 31, 2022	Level 1	Level 2	Level 3	Total fair value	Carrying value
Assets					
Mortgages and loans ⁽¹⁾	-	13,899	-	13,899	13,422
Policy loans	-	41	-	41	41
Total assets disclosed at fair value	-	13,940	-	13,940	13,463
Liabilities					
Investment contract liabilities ⁽²⁾	-	237,831	-	237,831	246,618
Total liabilities disclosed at fair value	-	237,831	-	237,831	246,618
March 31, 2021	Level 1	Level 2	Level 3	Total fair value	Carrying value
Assets					
Mortgages and loans ⁽¹⁾	-	16,188	-	16,188	15,180
Policy loans	-	41	-	41	41
Total assets disclosed at fair value	-	16,229	-	16,229	15,221
Liabilities					
Investment contract liabilities ⁽²⁾	-	245,756	-	245,756	248,211
Total liabilities disclosed at fair value	-	245,756	-	245,756	248,211

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

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

- a) Deposit administration pension plans - based on a discounted cash flow method. Factors considered in the valuation include current yield curve, plus appropriate spreads which have market observable inputs; and
- b) Self-funded group health policies – the carrying value approximates the fair value due to the short-term nature of these investment contract liabilities

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

The Group's policy is to record transfers of assets and liabilities between levels at their fair values as at the end of each reporting period, consistent with the date of determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. There were no transfers between Levels 1, 2 or 3 during the years ended March 31, 2022 and 2021.

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*(Amounts in tables are expressed in thousands of Bermuda dollars)***7. INVESTMENT PROPERTY**

Balance, March 31, 2020	500
Net unrealised gains (losses) from change in fair value	<u>-</u>
Balance, March 31, 2021	500
Net unrealised gains (losses) from change in fair value	<u>(125)</u>
Balance, March 31, 2022	<u>375</u>

Included in the Group's investment properties are residential properties. Investment properties are held for rental income and capital appreciation. During the year, an impairment of \$0.1 million (2021 - \$nil) was recorded to reflect the net appraised value of the property given the current deterioration in the asset's condition.

8. INSURANCE BALANCES RECEIVABLE

Insurance balances receivable, primarily relates to the insured employee benefits segment, are comprised of:

As at March 31	<u>2022</u>	<u>2021</u>
Due from policyholders, agents and brokers	3,363	2,787
Due from reinsurers	<u>4,629</u>	<u>3,862</u>
Total insurance balances receivable	<u>7,992</u>	<u>6,649</u>

9. OTHER ASSETS

As at March 31	<u>2022</u>	<u>2021</u>
Other financial assets		
Fees receivable	2,099	2,044
Notes and other receivables	<u>617</u>	<u>187</u>
Total other financial assets	<u>2,716</u>	<u>2,231</u>
Prepaid expenses	<u>1,953</u>	<u>2,126</u>
Total other assets	<u>4,669</u>	<u>4,357</u>

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*(Amounts in tables are expressed in thousands of Bermuda dollars)***10. PROPERTY AND EQUIPMENT**

	Land and buildings	Other equipment	Total
Gross carrying amount			
Balance March 31, 2020	58,100	130	58,230
Additions	1,052	358	1,410
Balance March 31, 2021	59,152	488	59,640
Additions	191	8	199
Balance March 31, 2022	59,343	496	59,839
Accumulated depreciation			
Balance March 31, 2020	19,397	-	19,397
Depreciation charge for the year	1,614	30	1,644
Balance March 31, 2021	21,011	30	21,041
Depreciation charge for the year	1,381	92	1,473
Balance March 31, 2022	22,392	122	22,514
Net carrying amount, end of year			
As at March 31, 2021	38,141	130	38,599
As at March 31, 2022	36,951	374	37,325

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*(Amounts in tables are expressed in thousands of Bermuda dollars)***11. INSURANCE CONTRACT LIABILITIES**

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

March 31, 2022	Note	Gross	Ceded	Net
Life and annuity policy reserves	11.1	171,363	(4,290)	167,073
Provision for unpaid and unreported claims	11.2	9,056	-	9,056
Provision for premiums rebate ¹		789	-	789
		<u>181,208</u>	<u>(4,290)</u>	<u>176,918</u>
Unearned premiums	11.4	-	(277)	(277)
Total insurance contract liabilities		<u>181,208</u>	<u>(4,567)</u>	<u>176,641</u>
March 31, 2021	Note	Gross	Ceded	Net
Life and annuity policy reserves	11.1	181,130	(3,534)	177,596
Provision for unpaid and unreported claims	11.2	7,736	-	7,736
Provision for premiums rebate ¹		4,963	-	4,963
		<u>193,829</u>	<u>(3,534)</u>	<u>190,295</u>
Unearned premiums	11.4	-	(208)	(208)
Total insurance contract liabilities		<u>193,829</u>	<u>(3,742)</u>	<u>190,087</u>

¹ In March 2021, the Group launched a \$4.9 million premium rebate scheme for all of its qualifying health insureds in recognition of the impact of COVID-19 related restrictions had to healthcare access. The premium rebate measurement criteria, period of measurement applied to determine the qualified policyholders and the basis of allocation were determined and approved by the Group's Board. The premium rebates measurement criteria consider the policyholders' loss ratio experience and policy renewal condition. The amounts are refunded in equal monthly installments over the policy year, with the amounts netted against the monthly premiums due from the policyholders. Premium rebate account is presented in the Consolidated Statement of Comprehensive Income/(Loss). As at March 31, 2022, \$0.2 million of rebates were forfeited due to insureds not meeting the above qualifying criteria.

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11. INSURANCE CONTRACT LIABILITIES (continued)

11.1 Life and annuity policy reserves

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

March 31, 2022	Group Insurance	Life and pensions	Total
Annuities	-	163,700	163,700
Long-term disability	5,952	-	5,952
Life	-	1,711	1,711
Life and annuity policy reserves	5,952	165,411	171,363
Reinsurers' share of claims provisions	(4,435)	145	(4,290)
Life and annuity policy reserves, net of reinsurance	1,517	165,556	167,073

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

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

March 31	2022	2021
Cash	561	2,154
Bonds	142,056	144,935
Mortgage and loans	7,894	9,113
Equities	6,477	5,668
Land and buildings	10,085	15,726
Total	167,073	177,596

Asset-liability management was changed in the current year combining life and annuity segments into a single asset segment.

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

11. INSURANCE CONTRACT LIABILITIES (continued)

11.1 Life and annuity policy reserves (continued)

The Group examines the assumptions used in determining the Life and annuity policy reserves on an ongoing basis to ensure they appropriately reflect emerging experience and changes in risk profile. Annually the Group conducts a comprehensive review of all actuarial methods and assumptions. Changes to actuarial methods and assumptions used in determining Insurance contract liabilities will result in a change to the projected value of policy cash flows and therefore, to the Life and annuity policy reserves.

The net impact of changes in actuarial methods and assumptions was an increase in reserves backing policyholder liabilities of \$5.9 million (2021 – \$6.7 million). These amounts are net of the impact of the reinsurance assets on policyholder liabilities of \$4.3 million (2021 - \$3.5 million).

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

March 31	<u>2022</u>	<u>2021</u>
Balance, beginning of year	177,596	170,963
Changes due to:		
Issuance of new policies	7,626	8,282
Normal in-force movement	(12,201)	(8,379)
Mortality/morbidity assumptions	(317)	(1,762)
Interest rate assumptions	(6,772)	8,790
Expense assumptions	1,141	(298)
Balance, end of year	<u>167,073</u>	<u>177,596</u>

11.1.1 Key assumptions – Life and annuity policy reserves

ASSUMPTIONS, METHODOLOGY AND SENSITIVITIES	RISK MANAGEMENT
<p>The risks associated with insurance contracts and in particular with life and annuity insurance contracts are complex and subject to a number of variables that complicate quantitative sensitivity analysis.</p> <p>To recognise the uncertainty involved in determining the best estimate assumptions a Provision for Adverse Deviation (“PfAD”) is established. The PfAD is determined by including a margin for conservatism for each key assumption to allow for possible deterioration in experience and to help ensure the policy reserves will be adequate to pay for future benefits.</p>	<p>In conjunction with prudent business practices to manage both business and investment risks, the selection and monitoring of appropriate assumptions are designed to minimise the Group’s exposure to measurement uncertainty.</p>

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

11. INSURANCE CONTRACT LIABILITIES (continued)

11.1 Life and annuity policy reserves (continued)

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

<u>ASSUMPTIONS, METHODOLOGY AND SENSITIVITIES</u>	<u>RISK MANAGEMENT</u>
<p>(a) Mortality and morbidity risk</p> <p>Mortality refers to the likelihood of death. The mortality assumption is based on industry standard life insurance and standard annuity past and emerging experience. The Group’s life insurance and annuity business is not sufficient to use company specific mortality tables.</p> <p>A five percent decrease in the best estimate assumption for annuitant mortality is estimated to increase the policy reserves by \$ 2.8 million, 1.7 percent (2021 - \$4.1 million, 2.4 percent).</p> <p>Morbidity refers to the incidence of accident and sickness as well as the recovery from the incidence. The morbidity assumptions are based on the industry standard morbidity tables for the long-term disability business. The frequency of claims is low and the risk is substantially reinsured.</p>	<p>The Group maintains underwriting standards to determine the insurability of applicants. Claim trends are monitored on an ongoing basis. To offset some of the mortality risk, the Group cedes a proportion of the risk with reinsurers.</p> <p>Mortality and morbidity are monitored regularly.</p>
<p>(b) Investment returns and interest rate risk</p> <p>Assets are allocated to the different business segments. For each significant operating segment, CALM is used to project the cash flows from the supporting assets and the cash flows from the liabilities. The projected asset cash flows are combined with the projected cash flows from future asset sales and purchases to determine the expected investment returns for all future years.</p> <p>The CIA prescribes several representative reinvestment scenarios for use in CALM to determine the sensitivity of the Group’s business to possible reinvestment risk. These represent a wide variety of interest rate scenarios. To provide a representative example, a 100 basis points increase in the best estimate investment return assumption decreases the total Life and annuity policy reserves by \$ 12.7 million (2021 - \$14.3 million). A 100 basis points decrease in the best estimate assumption increases the total Life and annuity policy reserves by \$ 14.8 million (2021 – \$16.8 million).</p>	<p>The Group’s policy of closely matching the cash flows of assets with those of the corresponding liabilities is designed to mitigate the Group’s exposure to future changes in interest rates. The interest rate risk positions in business segments are monitored on an ongoing basis. Under CALM, the re-investment rate is developed using interest rate scenario testing and reflects the interest rate risk positions.</p> <p>Bonds, equities, real estate and other non-fixed income assets are used to support long-dated obligations in the Group’s annuity and pensions businesses, and for long-dated insurance obligations on contracts where the investment return risk is borne by the Group.</p>

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*(Amounts in tables are expressed in thousands of Bermuda dollars)***11. INSURANCE CONTRACT LIABILITIES (continued)****11.1 Life and annuity policy reserves (continued)****11.1.1 Key assumptions – Life and annuity policy reserves (continued)**

ASSUMPTIONS, METHODOLOGY AND SENSITIVITIES	RISK MANAGEMENT
<p>(c) Credit risk</p> <p>Credit risk is provided for by reducing investment yields assumed in the calculation of the policy reserves. Past Group and industry experience over the long term, in addition to ongoing reviews of the current portfolio, are used to project credit losses. In addition to the allowances for losses on invested assets due to interest rate risk, the policy reserves include a provision of \$1.3 million (2021 – \$2.2 million) to provide for future asset defaults and loss of asset value on current assets and future purchases.</p>	<p>For certain policies, the premiums and benefits reflect the Group's assumed level of future credit losses at contract inception or most recent contract adjustment date. The Group holds explicit provisions in actuarial liabilities for credit risk including PfAD.</p>
<p>(d) Expenses</p> <p>Operating expense assumptions reflect the projected costs of servicing and maintaining the in-force policies.</p> <p>The assumptions are derived from internal reviews of operating costs and include an allowance for inflation.</p> <p>A ten percent increase in the best estimate assumption for unit expenses would increase the policy reserves by approximately \$0.6 million (2021- \$0.5 million).</p>	<p>The Group prices its products to cover the expected costs of servicing and maintaining them. In addition, the Group monitors expenses quarterly, including comparisons of actual expenses to expense allowances used in pricing and valuation.</p>

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11. INSURANCE CONTRACT LIABILITIES (continued)

11.2 Provision for unpaid and unreported claims

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

For the years ended

March 31

	2022			2021		
	Provision for unpaid and unreported claims	Reinsurers' share of claims provisions	Net	Provision for unpaid and unreported claims	Reinsurers' share of claims provisions	Net
Balance, beginning of year	7,736	-	7,736	8,733	-	8,733
Claims and adjustment expenses incurred						
Current year	66,890	(2,678)	64,212	52,284	(1,998)	50,286
Prior years	46	-	46	944	-	944
	<u>66,936</u>	<u>(2,678)</u>	<u>64,258</u>	<u>53,228</u>	<u>(1,998)</u>	<u>51,230</u>
Claims and adjustment expenses paid						
Current year	(55,199)	2,678	(52,521)	(44,612)	1,998	(42,614)
Prior years	(10,417)	-	(10,417)	(9,613)	-	(9,613)
	<u>(65,616)</u>	<u>2,678</u>	<u>(62,938)</u>	<u>(54,225)</u>	<u>1,998</u>	<u>(52,227)</u>
Balance, end of year	<u>9,056</u>	<u>-</u>	<u>9,056</u>	<u>7,736</u>	<u>-</u>	<u>7,736</u>

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

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*(Amounts in tables are expressed in thousands of Bermuda dollars)***11. INSURANCE CONTRACT LIABILITIES (continued)****11.3 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 and the impact of historical changes in rates charged policyholders. As the experience in each policy year matures, the weight assigned to the initial expected losses decreases with greater weight assigned to actual loss experience.</p> <p>The actuarial analysis performed by the Group's actuaries employs commonly used actuarial techniques for estimating the Group's provision for unpaid and unreported claims. These include the Paid Loss Development Method, Reported Loss Development Method, the Bornhuetter-Ferguson Method (applied to both paid and reported losses), and the Case Reserve Development Method. The particular methods employed in the analysis of each reserve segment are judgmentally selected based on the applicability of each method and the availability of data to use each particular method.</p> <p>There have been no material 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 a strict claims review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims. Further, the Group enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business.</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. 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 actuaries, that the provision for unpaid and unreported claims will be adequate to cover the ultimate cost of losses to the financial statements reporting date, the provision is necessarily an estimate and claims may ultimately be settled for greater or lesser amounts. It is reasonably possible that management will revise this estimate significantly in the near term. Any subsequent differences are recorded in the Gross change in contract liabilities on the Consolidated Statements of Comprehensive Income/(Loss) in the period in which they are determined.</p>

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Notes to the Consolidated Financial Statements

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

11. INSURANCE CONTRACT LIABILITIES (continued)

11.4 Unearned premiums

The Group is exposed to pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluations are performed regularly to estimate future claims costs, related expenses, and expected profit in relation to unearned premiums. There was no premium deficiency at March 31, 2022 or 2021.

As at March 31	2022			2021		
	Unearned premiums	Reinsurers' share of unearned premiums	Net	Unearned premiums	Reinsurers' share of unearned premiums	Net
Balance, beginning of year	-	(208)	(208)	2	(184)	(182)
Premiums written during the year	105,699	(7,526)	98,173	96,687	(7,363)	89,324
Premiums earned during the year	(105,699)	7,457	(98,242)	(96,689)	7,339	(89,350)
Balance, end of year	-	(277)	(277)	-	(208)	(208)

12. INVESTMENT CONTRACT LIABILITIES

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

As at March 31	2022		2021	
	Carrying value	Fair value	Carrying value	Fair value
At amortised cost:				
Deposit administration pension plans	229,131	220,344	231,348	228,893
Self-funded group health policies	17,487	17,487	16,863	16,863
	246,618	237,831	248,211	245,756
At FVTPL:				
Deposit administration pension plans	156	156	328	328
Total investment contract liabilities	246,774	237,987	248,539	246,084

12.1 Investment contract liabilities at amortised cost

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

March 31	2022	2021
Balance, beginning of year	248,211	253,226
Deposits	81,209	76,820
Withdrawals	(80,030)	(74,281)
Fees deducted	(3,219)	(3,491)
Interest	1,738	2,129
Other	(1,291)	(6,192)
Balance, end of year	246,618	248,211

For the year ended March 31, 2022, the net gain relating to Investment contract liabilities measured at amortised cost is \$3.0 million (2021 - net gain of \$3.9 million).

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

12. INVESTMENT CONTRACT LIABILITIES (continued)

12.2 Investment contract liabilities at FVTPL

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

March 31	<u>2022</u>	<u>2021</u>
Balance, beginning of year	328	526
Included in net income ⁽¹⁾	5	9
Deposits	11	14
Withdrawals	<u>(188)</u>	<u>(221)</u>
Balance, end of year	<u>156</u>	<u>328</u>

⁽¹⁾ Amount is recorded under Change in contract liabilities on the Consolidated Statements of Comprehensive Income/(Loss). See Note 18.

13. RISK MANAGEMENT

13.1 Governance framework

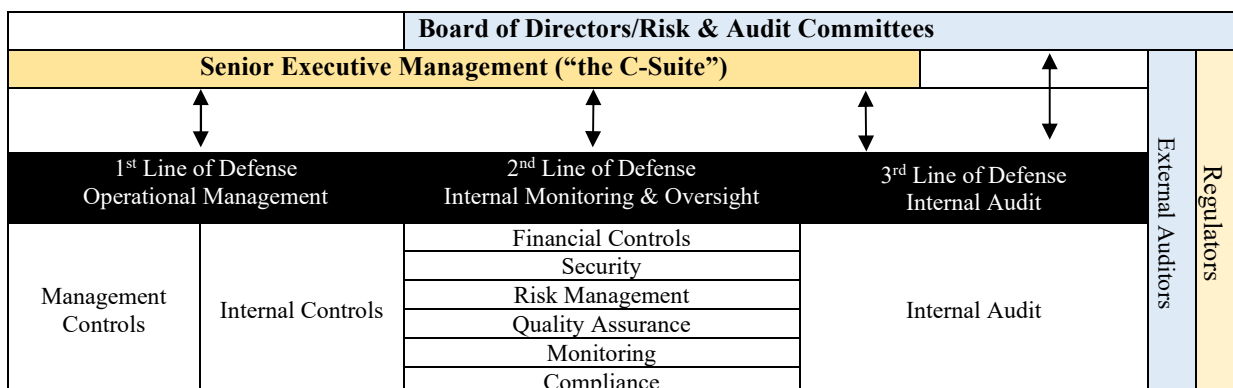
The Group aligns its risk management functions with that of its Parent, the Argus Group. The Group prioritises the development of a forward looking risk management framework to deal appropriately with changes in the economic, social and regulatory environment in which it operates. The risk management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

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

The Board of Directors approves the Group’s risk management framework including related policies. The Board and meets regularly and provide oversight to the implementation of an effective risk management framework. The risk management framework defines 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. The Group also ensures emerging risks and sustainability considerations are embedded within the risk management framework.

- Three lines of defense model.

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



13. RISK MANAGEMENT (continued)

13.2 Operational risk and capital management

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

The Bermuda Monetary Authority (the "BMA") is the regulator of the Group. The laws and regulations of Bermuda require that the Group maintain a minimum amount of statutory capital and surplus based on the enhanced capital requirement. As of March 31, 2022, the amount of group statutory capital and surplus exceeds this regulatory requirement.

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

The Group holds general business and long-term business insurance licenses. Prior to the issuance of the financial statement, the Group took remedial actions to comply with the minimum solvency margin requirements of the Act. The statutory capital and surplus for the Group as at March 31, 2022 was \$40.0 million (2021 - \$61.6 million) and the minimum solvency margin of the Group was \$21.0 million (2021 - \$20.1 million).

The Bermuda Solvency Capital Requirement (BSCR) is the prescribed form of capital and solvency reporting in Bermuda, which was revised under new legislation enacted in 2008. The BSCR includes a standardised model used to measure the risk associated with an insurance subsidiary's assets, liabilities and premiums, and a formula to take account of catastrophe risk exposure. The BMA requires all insurers to maintain their statutory capital and surplus at a target level which is 120 percent of the amount calculated in accordance with the BSCR. As of March 31, 2022 and 2021, the statutory capital and surplus of the insurance subsidiaries 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 Bermuda Insurance Act 1978 and Related Regulations limits the maximum amount of annual dividends and distributions that may be paid by the Group's insurance subsidiaries. Before reducing statutory capital by 15 percent or more or statutory capital and surplus by 25 percent or more, as set out in the prior year's statutory financial statements, the Group shall request the approval of the BMA. In addition, the Bermuda Companies Act 1981 limits the Group's ability to pay dividends and distributions to shareholders if there are reasonable grounds for believing that the Group would be unable to pay its liabilities as they become due, or if the realisable value of its assets would be less than the aggregate of its liabilities, issued share capital and contributed surplus accounts.

13.3 Financial instrument risk management

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

13. RISK MANAGEMENT (continued)

13.3 Financial instrument risk management (continued)

13.3.1 Investment Risk

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

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

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

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

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

13.3.2 Credit risk

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

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

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

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

13. RISK MANAGEMENT (continued)

13.3 Financial instrument risk management (continued)

13.3.2 Credit risk (continued)

13.3.2(a) Maximum exposure to credit risk

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

As at March 31	Note	2022	2021
Cash and short-term investments		26,532	30,797
Interest and dividends receivable		2,331	2,209
Bonds - at FVTPL and available-for-sale	5.1	396,182	398,657
Mortgages and loans	5.1	13,422	15,180
Policy loans	5.1	41	41
Other financial assets included in Other assets	9	2,716	2,231
Insurance balances receivable	8	7,992	6,649
Reinsurers' share of claims provisions	11	4,290	3,534
Total Consolidated Balance Sheet maximum credit exposure		453,506	459,298

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

13.3.2(b) Concentration of credit risk

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

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

13. RISK MANAGEMENT (continued)

13.3 Financial instrument risk management (continued)

13.3.2 Credit risk (continued)

13.3.2(b) Concentration of credit risk (continued)

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

For the years ended March 31	2022	2021
Bonds available-for-sale and FVTPL issued or guaranteed by:		
Asset Backed Securities	90,520	79,381
Banking	83,229	97,460
Government and Agency	83,191	85,726
Communications	37,719	32,123
Oil and Gas	16,330	17,371
Pharmaceutical	15,661	13,625
Manufacturing	13,391	14,577
Utilities and Energy	8,294	9,524
Insurance	5,385	4,773
Transportation	5,266	5,671
Mining	2,172	3,149
Other ⁽¹⁾	35,024	35,277
Total bonds	396,182	398,657

(1) Includes investments with less than \$2 million of concentration of credit risk by industry sector or geographical distribution and bond funds of \$14.5 million (2021 - \$14.9 million).

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

13. RISK MANAGEMENT (continued)

13.3 Financial instrument risk management (continued)

13.3.2 Credit risk (continued)

13.3.2(b) Concentration of credit risk (continued)

As at March 31	<u>2022</u>	<u>2021</u>
Geographical distribution of bonds available for sale and FVTPL is as follows:		
United States of America	289,982	302,016
Cayman Islands	39,784	22,554
United Kingdom	9,556	16,424
Japan	6,297	6,796
France	5,631	6,087
Switzerland	4,785	5,169
Mexico	4,109	4,303
Netherlands	4,040	4,307
Canada	3,307	3,565
Ireland	1,707	1,830
Australia	1,592	1,707
Other(1)	25,392	23,899
Total bonds	<u>396,182</u>	<u>398,657</u>

(1) Includes investment with less than \$2 million of concentration of credit risk by industry sector or geographical distribution and bond funds of \$14.5 million (2021 - \$14.9 million).

Mortgages comprise first mortgages on real property situated in Bermuda. Residential mortgages include mortgages for both single and multiple family dwellings. As at March 31, 2022, the Group's mortgages and loans amount to \$13.4 million (2021 – \$15.2 million).

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*(Amounts in tables are expressed in thousands of Bermuda dollars)***13. RISK MANAGEMENT** (continued)**13.3 Financial instrument risk management** (continued)**13.3.2 Credit risk** (continued)*13.3.2(c) Asset quality*

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

March 31	2022	2021
Bond portfolio quality:		
AAA	136,963	137,866
AA	48,653	23,427
A	86,381	94,369
BBB	121,325	137,413
BB or lower	2,519	4,507
Not rated	341	1,075
Total bonds at FVTPL	396,182	398,657

*13.3.2(d) Allowance for credit losses on impaired investments***Mortgages and loans**

Changes in the allowance for credit losses are as follows:

As at March 31	2022	2021
Balance, beginning of year	1,991	1,753
Net provisions made/(reversed) during the year - mortgages and loans	262	238
Balance, end of year	2,253	1,991

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

As at March 31, 2022, there were \$4.7 million mortgages and loans and \$1.0 million receivables from continuing operations (2021 - \$4.9 million mortgages and loans and \$0.1 million receivables from continuing operations) that were past due.

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

13. RISK MANAGEMENT (continued)

13.3 Financial instrument risk management (continued)

13.3.3 Liquidity risk

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

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

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

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

13. RISK MANAGEMENT (continued)

13.3 Financial instrument risk management (continued)

13.3.3 Liquidity risk (continued)

13.3.3 (a) Liability maturity profile

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

March 31, 2022	Within 1 year	2-5 years	6-10 years	Over 10 years	Total
Life and annuity policy reserves - net of reinsurance ⁽¹⁾	14,314	53,073	54,809	95,948	218,144
Provision for unpaid and unreported claims - net of reinsurance ⁽¹⁾	9,056	-	-	-	9,056
Provision for premiums rebate	789	-	-	-	789
Insurance balances payable	6,071	-	-	-	6,071
Investment contract liabilities ⁽¹⁾	55,957	34,278	36,650	102,398	229,283
Accounts payable and accrued liabilities	12,716	-	-	-	12,716
Total from general fund liabilities	98,903	87,351	91,459	198,346	476,059
March 31, 2021	Within 1 year	2-5 years	6-10 years	Over 10 years	Total
Life and annuity policy reserves - net of reinsurance ⁽¹⁾	14,602	53,894	55,828	102,061	226,385
Provision for unpaid and unreported claims - net of reinsurance ⁽¹⁾	7,736	-	-	-	7,736
Provision for premiums rebate	4,963	-	-	-	4,963
Insurance balances payable	6,448	-	-	-	6,448
Investment contract liabilities ⁽¹⁾	53,789	34,492	38,323	105,051	231,655
Accounts payable and accrued liabilities	11,389	-	-	-	11,389
Total from general fund liabilities	98,927	88,386	94,151	207,112	488,576

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

13.3.4 Market risk

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

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

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

13. RISK MANAGEMENT (continued)

13.3 Financial instrument risk management (continued)

13.3.4 Market risk (continued)

13.3.4(a) Interest rate risk

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

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

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

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

The sensitivity of other comprehensive income attributable to shareholders to changes in interest rates is shown below. There is no sensitivity of net earnings at March 31, 2022 and 2021.

As at March 31	<u>2022</u>	<u>2021</u>
Change in interest rate assumptions		
100 basis points increase	(6,317)	(6,356)
100 basis points decrease	<u>6,498</u>	<u>6,378</u>

13.3.4(b) Equity risk

Equity investments are held in accordance with the Group's investment policy as part of the well diversified asset portfolio that are appropriate for the Group. Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. If actual returns are lower than the expected returns, the Group's Life and annuity policy reserves will increase and will reduce the Group's net earnings. Overall, it is expected that the impact of an immediate ten percent increase in value across all equity markets would be an increase in Net Earnings and Other comprehensive income/(loss) of \$Nil and \$0.7 million respectively (2021 - \$Nil and \$0.6 million respectively); conversely the impact of a ten percent decrease would have an equal but opposite effect. The direct exposure to equity markets generally falls within the risk-taking philosophy of the Group's investment policy and is regularly monitored by management.

13. RISK MANAGEMENT (continued)

13.3 Financial instrument risk management (continued)

13.3.5 Limitations of sensitivity analysis

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

13.4 Insurance risk management

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

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

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

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

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

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*(Amounts in tables are expressed in thousands of Bermuda dollars)***14. INSURANCE BALANCES PAYABLE**

Insurance balances payable is comprised of:

March 31	2022	2021
Due to policyholders, agents and brokers	5,238	5,283
Due to reinsurers	833	1,165
Total insurance balances payable	6,071	6,448

15. NET CHANGE IN UNEARNED PREMIUMS

For the years ended March 31	2022	2021
Gross change in unearned premiums	-	(2)
Change in unearned premiums on premiums ceded	(70)	(24)
Net change in unearned premiums	(70)	(26)

16. COMMISSIONS, MANAGEMENT FEES AND OTHER

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

For the years ended March 31	2022	2021
Fee income service contracts		
Pension administration	11,822	10,232
Policyholder administration	2,657	2,852
Total fee income from service contracts	14,479	13,084
Reinsurance commission income	946	1,274
Total commissions, management fees and other	15,425	14,358

17. REINSURANCE RECOVERIES

For the years ended March 31	2022	2021
Claims and adjustment expenses recovered from reinsurers	2,678	1,998
Policy benefits recovered from reinsurers	1,379	1,366
Total reinsurance recoveries	4,057	3,364

18. NET CHANGE IN CONTRACT LIABILITIES

For the year ended March 31	2022	2021
Gross change in contract liabilities:		
Insurance contracts	(8,435)	6,075
Investment contracts	(5)	(9)
	(8,440)	6,066
Change in reinsurers' share of claims provisions - insurance contracts	(756)	(424)
Net change in contract liabilities	(9,196)	5,642

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19. OPERATING EXPENSES

Operating expenses incurred during the year are as follows:

For the years ended March 31	2022	2021
Allocated expenses and management fees	11,940	11,966
Employee benefits expense (see below)	3,422	5,143
Professional fees	2,029	2,312
IT related expenses	1,626	1,808
General and corporate expenses	1,334	1,299
Provision for/ (Recovery of) bad debts	(89)	1,134
Other expenses	592	510
Total operating expenses	20,854	24,172

Employee benefits expense during the year is comprised of:

For the years ended March 31	2022	2021
Salaries and other short-term benefits	3,282	4,904
Pension costs	130	211
Post-employment medical benefits	(1)	16
Stock-based compensation	11	12
Total employee benefits expense	3,422	5,143

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

20. RELATED PARTY TRANSACTIONS

Significant related party transactions are as follows:

21.1 Operating expenses include the Group's allocation of group overhead expenses of \$13.6 million (2021 - \$13.8 million).

21.2 Netted in Operating expenses is the management fee of \$0.3 million (2021 - \$0.3 million) which was charged to recover the allocated costs of administering the insurance policies of an affiliate.

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

21.4 Compensation of key personnel

Key personnel have been identified as the Board of Directors of the Group. These individuals have the authority and responsibility for planning, directing and controlling the activities of the Group. Fees paid to directors for the reporting period totaled \$0.02 million (2021 - \$0.02 million).

21.5 Mortgage loans

The Group has extended mortgage loans to certain Officers. These loans were fully settled as of March 31, 2022 (2021 - \$1.8 million).

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

21. DIVIDENDS AND RETURN OF CAPITAL TO PARENT

The Group declared dividends of \$30.0 million (2021 - \$30 million) where \$21.3 million (2021 - \$30.0 million) of which was paid during the year. The remaining dividend payable is going to be paid after year end.

The \$8.7 million dividend payable as at March 31, 2022 is recorded in Due to Parent account in the Consolidated Balance Sheet.

22. INCOME TAXES

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

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

For the years ended March 31	2022	2021
Available-for-sale investments – unrealized gains/(losses)	(14,039)	8,593
Re-measurement of post-employment medical benefit obligation	519	419
Total accumulated other comprehensive income/(loss)	(13,520)	9,012

24. SEGREGATED FUNDS

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

Changes to Segregated funds are as follows:

For the year ended March 31	2022	2021
Additions to Segregated Funds		
Contributions and transfers	176,083	119,896
Net investment income	37	27
Net increase/(decrease) in fair value of investments	31,755	335,066
Segregated Funds acquired	3,790	1,721
	211,665	456,710
Deductions from Segregated Funds		
Withdrawals, benefit payments and transfers to the General Fund	178,198	129,485
Operating expenses	12,279	10,775
	190,477	140,260
Net additions/(deductions) to/(from) Segregated Funds for the year	21,188	316,450
Segregated funds, beginning of year	1,182,550	866,100
Segregated Funds, end of year	1,203,738	1,182,550

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

25. COMMITMENTS AND CONTINGENCIES

25.1 Group as a lessor

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

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

For the years ended March 31	2022	2021
Within one year	1,071	1,488
After one year but no more than five years	2,141	-
More than five years	6	-
	<u>3,218</u>	<u>1,488</u>

25.2 Contingencies

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

26. COMPARATIVES

Certain of the comparative figures in these consolidated financial statements and note disclosures have been updated to conform to the presentation adopted for the year ended March 31, 2022.

27. SUBSEQUENT EVENTS

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