

# 2020 Annual Report

Manufacturers P&C Limited



# Independent Auditor's Report

## To the shareholder of Manufacturers P&C Limited

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the accompanying financial statements of Manufacturers P&C Limited ("the Company"), which comprise the statement of financial position as at 31 December 2020, and the statement of income, statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Manufacturers P&C Limited as at 31 December 2020 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' ("IESBA") International Standards Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Responsibilities of Management and those charged with Governance for the Financial Statements

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

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

The Board of Directors is responsible for overseeing the Company's financial reporting process.

# Independent Auditor's Report

## To the shareholder of Manufacturers P&C Limited

### Report on the Audit of the Financial Statements (continued)

#### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

# Independent Auditor's Report

To the shareholder of  
Manufacturers P&C Limited

## Report on the Audit of the Financial Statements (continued)

### Auditor's Responsibilities for the Audit of the Financial Statements

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

*Ernst & Young Ltd*

Barbados

26 March 2021

# Manufacturers P&C Limited

## Statement of Financial Position

As at December 31

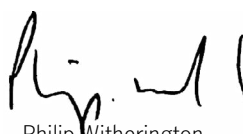
(Expressed in thousands of U.S. Dollars)

	2020	2019
<b>Assets</b>		
Cash and cash equivalents (Note 5)	\$ 192,159	\$ 208,761
Investments (Note 4)	184,793	197,127
Premiums receivable	15,347	26,117
Accrued investment income	1,268	1,318
Capital assets, net of accumulated depreciation	610	925
Other assets	358	320
Balance due from related companies (Note 5)	50,035	51
	\$ 444,570	\$ 434,619
<b>Liabilities</b>		
Loss reserves (Note 6)	\$ 79,714	\$ 151,700
Unearned premium reserve	10,602	6,950
Accounts payable and accrued liabilities	6,632	5,922
Balance due to related companies (Note 5)	234	141
	\$ 97,182	\$ 164,713
<b>Shareholder's Equity</b>		
Share capital (Note 8)	\$ 215,000	\$ 215,000
Retained earnings	114,353	57,370
Accumulated other comprehensive income (loss)	18,035	(2,464)
	\$ 347,388	\$ 269,906
	\$ 444,570	\$ 434,619

The accompanying notes are an integral part of these financial statements.



Claudio Macchi  
Director



Philip Witherington  
Director

# Manufacturers P&C Limited

## Statement of Income

For the year ended December 31

(Expressed in thousands of U.S. Dollars)

	<b>2020</b>	<b>2019</b>
<b>Revenue</b>		
Reinsurance premiums written (Note 6)	\$ 107,602	\$ 86,535
Change in unearned premium reserve	(3,652)	(2,891)
Reinsurance premiums earned	103,950	83,644
Investment income (Note 4)	6,426	11,160
	\$ 110,376	\$ 94,804
<b>Expenses</b>		
(Recovered) losses incurred (Note 6)	\$ (4,790)	\$ 14,200
Brokerage	3,490	2,735
General and administrative expenses	4,693	4,240
	\$ 3,393	\$ 21,175
<b>Net income</b>	<b>\$ 106,983</b>	<b>\$ 73,629</b>

The accompanying notes are an integral part of these financial statements.

## Manufacturers P&C Limited Statement of Comprehensive Income

For the year ended December 31

(Expressed in thousands of U.S. Dollars)

	<b>2020</b>		<b>2019</b>
Net income	\$ 106,983	\$	73,629
Other comprehensive income:			
Unrealized gain on investments	20,499		9,317
<b>Total comprehensive income</b>	<b>\$ 127,482</b>	<b>\$</b>	<b>82,946</b>

The accompanying notes are an integral part of these financial statements.

## Manufacturers P&C Limited Statement of Changes in Equity

For the year ended December 31

(Expressed in thousands of U.S. Dollars)

	2020	2019
<b>Common shares</b>		
Balance, beginning of year	\$ 215,000	\$ 290,000
Capital reduction (Note 8)	-	(75,000)
Balance, end of year	\$ 215,000	\$ 215,000
<b>Retained Earnings</b>		
Balance, beginning of year	\$ 57,370	\$ (16,028)
Opening adjustment at adoption of IFRS 16 (Note 3)	-	(231)
Net income	106,983	73,629
Common share dividends	(50,000)	-
Balance, end of year	\$ 114,353	\$ 57,370
<b>Accumulated other comprehensive income (loss)</b>		
Balance, beginning of year	\$ (2,464)	\$ (11,781)
Other comprehensive income	20,499	9,317
Balance, end of year	\$ 18,035	\$ (2,464)
<b>Total equity</b>	<b>\$ 347,388</b>	<b>\$ 269,906</b>

The accompanying notes are an integral part of these financial statements.



# Manufacturers P&C Limited

## Statement of Cash Flows

For the year ended December 31

(Expressed in thousands of U.S. Dollars)

	2020	2019
<b>Operating activities</b>		
Net income	\$ 106,983	\$ 73,629
Adjustment for non-cash items:		
Depreciation of capital assets	138	141
Depreciation right of use asset	111	132
Net realized foreign exchange losses (gains)	285	(48)
Net amortization of discount on bonds (Note 4)	(144)	(1,535)
Net gain on sale of investments (Note 4)	(1,157)	(1,685)
Gain on sale of capital assets	-	(22)
Net income adjusted for non-cash items	106,216	70,612
Net change in non-cash assets and liabilities (Note 10)	(106,733)	(29,096)
Lease interest paid	(14)	(21)
Net cash (used in) from operating activities	\$ (531)	\$ 41,495
<b>Investing activities</b>		
Net change in capital assets	\$ 65	\$ (609)
Purchase of investments	(3,995)	(247,086)
Proceeds from the sale and maturity of investments	37,999	233,975
Net cash from (used in) investing activities	\$ 34,069	\$ (13,720)
<b>Financing activities</b>		
Lease payments	(140)	(159)
Capital reduction (Note 8)	-	(75,000)
Shareholder dividends paid in cash	(50,000)	-
Net cash used in financing activities	\$ (50,140)	\$ (75,159)
<b>Cash and cash equivalents</b>		
Net decrease during the year	\$ (16,602)	\$ (47,384)
Balance, beginning of year	208,761	256,145
<b>Balance, end of year</b>	<b>\$ 192,159</b>	<b>\$ 208,761</b>
Cash and cash equivalents consist of:		
Cash	\$ 192,159	\$ 44,757
Short-term money markets	-	164,004
	\$ 192,159	\$ 208,761
<b>Supplemental disclosures on cash flow information:</b>		
Interest received	\$ 4,668	\$ 6,582

The accompanying notes are an integral part of these financial statements.

# Manufacturers P&C Limited

## Notes to the Financial Statements

December 31, 2020

(Expressed in thousands of U.S. Dollars)

### 1. Nature of Operations

Manufacturers P&C Limited (“the Company”) is a limited company incorporated under the Laws of Bermuda on June 26, 1986. The Company filed Articles of Continuance under the Laws of Barbados on January 1, 1996 and is a wholly owned subsidiary of Manulife Holdings (Bermuda) Limited (“MHBL”). MHBL is a wholly owned subsidiary of The Manufacturers Life Insurance Company (“MLI”), a company incorporated in Canada that is a wholly owned subsidiary of Manulife Financial Corporation (“MFC”), a publicly traded holding company incorporated in Canada.

The registered office of the Company is located at The Goddard Building, Haggatt Hall, St. Michael, Barbados.

The Company is principally engaged in the provision of reinsurance coverage for certain property and casualty insurance risks.

The financial statements of the Company as at and for the year ended December 31, 2020 were authorized for issue in accordance with a resolution of the directors on March 19, 2021.

### 2. Significant Accounting Policies

The significant accounting policies used, and the most significant judgments made by management in applying the accounting policies in the preparation of these financial statements are summarized below:

#### (a) Basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. Actual results may differ from these estimates. The most significant estimation processes relate to the determination of loss reserves and the fair value of certain financial instruments. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected. Although some variability is inherent in these estimates, management believes that the amounts recorded are appropriate.

The Company’s results and operations have been and may continue to be adversely impacted by the COVID-19 pandemic and the recent economic downturn. The adverse effects include but are not limited to declines in interest rates and potential reinsurance claims. The breadth and depth of these events and their duration contribute additional uncertainty around estimates in the preparation of the financial statements.

#### (b) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, cash held in liquidity pools and short-term securities which have a remaining term to maturity of three months or less from the original acquisition date. Short-term securities are carried at amortized cost which approximates fair value.

#### (c) Investments

Bonds are designated as available-for-sale and are carried at fair value. All investments are initially recognized at cost, being the fair value of the consideration given, including acquisition charges associated with the security. After initial recognition, investments are measured at fair value. Changes in fair value are recorded in other comprehensive income until the investment is derecognized or the investment is determined to be impaired.

For investments that are actively traded in organized financial markets, fair value is determined by reference to stock exchange quoted market prices at the close of business on or immediately before the date of statement of financial position. All marketable security transactions are recognized on the trade date.

Investments are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. The identification of impairment and the determination of recoverable amounts is an inherently uncertain process involving various assumptions and factors, including the financial condition of the counterparty, expected future cash flows, observable market prices and expected net selling prices. All investment securities for which the market value has been significantly below amortized cost for a considerable period of time are individually reviewed. A distinction is made between circumstances attributed to general market fluctuations and those attributed to issuer specific developments.

The impairment review focuses on issuer specific developments regarding financial condition and future prospects, taking into account the intent and ability to hold the securities under the Company’s long-term investment strategy. The amount of an impairment loss is measured as the difference between the investment’s carrying amount and the present value of estimated future cash flows discounted at the investment’s original effective interest rate. Impairment losses are recognized in income.

Realized gains and losses on disposal of available-for-sale investments, amortization of premiums or discounts arising on the acquisition of investments and impairment differences are recorded in income.

Interest income is recognized on an accrual basis using the effective interest method.

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 (not a forced liquidation or distressed sale) between market participants at the measurement date, that is, an exit value. When available, quoted market prices are used to determine fair value. If quoted market prices are not available, fair value is typically based upon alternative valuation techniques such as discounted cash flows, matrix pricing, consensus pricing services and other techniques. Broker quotes are generally used when external public vendor prices are not available.

The Company has a process in place that includes a review of price movements relative to the market, a comparison of prices between vendors, and a comparison to internal matrix pricing which uses predominately external observable data. Judgment is applied in adjusting external observable data for items including liquidity and credit factors.

#### **(d) Premiums**

Premiums are reflected in income evenly over the terms of the reinsurance contracts. Unearned premiums represent amounts that relate to the unexpired portion of the contract.

#### **(e) Capital assets**

Capital assets are carried at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated based on the cost of an asset less its residual value and is recognized in income on a straight-line basis over the estimated useful life ranging from three to ten years. Impairment losses are recorded in income to the extent the recoverable amount is less than the carrying amount.

#### **(f) Loss reserves**

The Company makes a provision for losses incurred but not reported, for the development of reported losses and for loss handling expenses advised by the ceding company in accordance with the terms of the contracts and supported by management estimates, and where appropriate, actuarial analysis. These estimates are continually reviewed and adjusted where necessary.

The determination of the provision for losses and related loss expenses is established by taking losses reported to the Company by ceding companies but which have not been paid and where appropriate add estimates for the expected losses incurred but not reported ("IBNR"). Ultimate losses may differ from the amounts recorded in the financial statements. Changes in the amount of loss reserves are recorded in income as part of losses incurred.

#### **(g) Insurance contract classification**

The contracts reinsured by the Company are considered insurance contracts under which the Company accepts significant insurance risk from a ceding company. A contract is considered to have significant insurance risk if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance at the inception of the contract. Once a contract has been classified as an insurance contract, it remains an insurance contract even if the insurance risk reduces significantly.

#### **(h) Foreign currency translation**

The financial statements are expressed in United States dollars, the functional currency of the economic environment in which the Company operates. Assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the reporting date. Revenue and expenses denominated in foreign currencies are translated at the average exchange rate prevailing during the year. Gains and losses arising from foreign currency translation are included in income.

#### **(i) Impairment of financial assets**

In addition to any impairment provision related to available-for-sale investments discussed above, a provision for impairment of other financial assets is established when there is objective evidence that the Company will not be able to collect amounts due. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in income.

#### **(j) Employee future benefits**

The Company maintains a defined contribution pension plan for eligible employees. The defined contribution plan provides pension benefits based on the accumulated contributions and investment earnings thereon. The cost of the defined contribution plan is the contribution provided by the Company and is recognized in income in the periods during which services are rendered by employees.

#### **(k) Leases**

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company applies a single recognition and measurement approach for leases, except short-term leases and leases of low-value assets. The Company recognizes the lease liability to make lease payments and right-of-use asset representing the right of use of the underlying asset. The asset and liability arise primarily from the real estate lease contract.

The Company has elected to expense lease payments on a straight-line basis for the lease with a lease term of 12 months or less or the underlying asset has a low value.

The right-of use asset is \$283 (2019—\$463) and is included with the capital assets and the lease liability \$334 (2019—\$527) is included with accounts payable and accrued liabilities on the balance sheet.

### **3. Accounting and Reporting Changes**

The accounting standards are consistent with those of the previous financial year except for standards noted below. Summaries of the relevant accounting standards adopted by the Company during 2020 and those that will become effective subsequently, are presented below:

#### **(a) Changes in accounting policies**

(i) Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"

Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" were issued in October 2018. The amendments are effective for annual periods beginning on or after January 1, 2020 and are to be applied prospectively. The amendments update the definition of material. Adoption of these amendments did not have a significant impact on the Company's Financial Statements.

#### **(b) Future accounting and reporting changes**

(i) IFRS 17 "Insurance Contracts" and IFRS 9 "Financial Instruments"

Amendments to IFRS 17 "Insurance Contracts" were issued in June 2020 and include a two-year deferral of the effective date along with other changes targeted to address implementation concerns and challenges raised by stakeholders. IFRS 17 as amended, is effective for years beginning on January 1, 2023, to be applied retrospectively. If full retrospective application to a group of contracts is impractical, the modified retrospective or fair value methods may be used.

In conjunction with the amendments to IFRS 17, the IASB also amended IFRS 4 "Insurance Contracts" to permit eligible insurers to apply IFRS 9 effective January 1, 2023, alongside IFRS 17.

The Company continues its assessment of IFRS 17 and continues to evaluate the potential impacts of all other changes including available accounting policy choices under IFRS 17 on the measurement of its insurance contract liabilities.

(ii) Annual Improvements 2018–2020 Cycle

Annual Improvements 2018–2020 Cycle was issued in May 2020 and is effective on or after January 1, 2022. The IASB issued four minor amendments to different standards as part of the Annual Improvements process, with the amendments to be applied prospectively. Adoption of these amendments is not expected to have a significant impact on the Company's Financial Statements.

(iii) Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16 were issued in August 2020 related to interest rate benchmark reform and are effective retrospectively for annual periods beginning January 1, 2021. The amendments provide relief from modification of financial assets and liabilities, and discontinuation of hedge relationships, when changing interest rate benchmarks from LIBOR to a replacement benchmark. The amendments include a practical expedient to treat changes in risk free rates as a change to a floating interest rate with an update to the effective rate of interest, rather than as a change in future cash flows which might require adjustments to carrying values through recording a modification gain or loss. Adoption of these amendments is not expected to have a significant impact on the Company's Financial Statements.

(iv) Amendments to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”

Amendments to IAS 37 “Provisions, Contingent Liabilities, and Contingent Assets” were issued in May 2020, and are effective on or after January 1, 2022, with earlier application permitted. The amendments address identifying onerous contracts and specify the cost of fulfilling a contract which includes all costs directly relate to the contract. These include incremental direct costs and allocations of other costs that relate directly to fulfilling the contract. Adoption of these amendments is not expected to have a significant impact on the Company's Financial Statements.

## 4. Investments

### (a) Invested assets

For the year ended December 31	2020		2019	
	Term to maturity	Fair Value	Fair Value	Fair Value
Government bonds	<1 year	\$ 14,128	\$	-
	1–5 years	1,340		46,431
	>5 years	126,740		111,542
		142,208		157,973
Corporate bonds	<1 year	2,005		2,014
	1–5 years	21,123		22,182
	>5 years	19,457		14,958
		42,585		39,154
<b>Total</b>		\$ 184,793	\$	197,127

Since all invested assets are classified as available-for-sale, investments are carried at their fair values as at December 31, 2020. Fair values for bonds are determined with reference to quoted bid prices where available. When such prices are not available, fair values are determined using techniques which include security specific interest rates and discounted cash flows based on observable market data.

### (b) Investment income

Investment income is comprised as follows:

For the year ended December 31	2020		2019	
Interest Income	\$	4,618	\$	6,715
Net amortization of discount on bonds		144		1,535
Net amortization of discount on short-term money markets		507		1,225
Net gain on sale of investments		1,157		1,685
	\$	6,426	\$	11,160

## 5. Related Party Transactions

All related party transactions are on an arm's length basis on normal commercial terms and amounts due from and to related parties are unsecured, interest free and payable on demand except the balance with Manulife Financial Asia Limited ("MFAL").

The Company entered into a loan agreement with MFAL, an affiliate, under which MFAL borrowed \$50,000. The loan bears interest at a rate of Libor plus 0.50%, payable monthly, and is repayable at the earlier of (i) demand, or (ii) the option of MFAL, or (iii) maturity date of March 23, 2021.

### (a) Balances due from related companies

For the year ended December 31	2020	2019
Manulife Financial Asia Limited	\$ 50,001	\$ -
Manufacturers Life Reinsurance Limited	26	44
Manulife Data Services Inc.	4	6
Manulife Investment Management International Holdings Limited	3	-
Manufacturers Life Insurance Company (Barbados Branch)	1	1
	\$ 50,035	\$ 51

### (b) Balances due to related companies

For the year ended December 31	2020	2019
John Hancock Life Insurance Company (U.S.A.)	\$ 180	\$ 84
Manufacturers Life Insurance Company	51	54
Manufacturers Life Reinsurance Limited	3	3
	\$ 234	\$ 141

### (c) Liquidity pool

The Company participates in a liquidity pool of an affiliate, Manulife Management Services Ltd. as set forth in the terms of a Grid Note dated April 3, 2006. The maximum aggregate amount that the Company can invest into this liquidity pool is \$500,000. The balance held in the liquidity pool was \$190,826 (2019—\$43,568) and is included in cash and cash equivalents of \$192,159 (2019—\$208,761). The interest earned was \$120 (2019—\$780).

### (d) General and administrative expenses

Included in general and administrative expenses is an amount of \$615 (2019—\$579), which represents amounts charged under agreements whereby certain administrative services are provided by affiliated companies.

### (e) Compensation of key management personnel

Key management personnel of the Company are those that have the authority and responsibility for planning, directing, and controlling the activities of the Company. Directors (both executive and non-executive) and senior management are considered key personnel. Accordingly, the summary of compensation of key management personnel is as follows:

For the year ended December 31	2020	2019
Short-term employee benefits	\$ 2,427	\$ 2,332
Pension contribution	72	70
	\$ 2,499	\$ 2,402

## 6. Loss reserves and reinsurance premiums written

The change in loss reserves during the year was a result of the following:

<b>For the year ended December 31</b>	<b>2020</b>	<b>2019</b>
Balance, beginning of the year	\$ 151,700	\$ 180,291
Foreign exchange on opening balance	18	40
(Recovered) losses incurred relating to contracts written in:		
Current year	2,499	9,827
Prior year	(7,289)	4,373
Total (recovered) losses incurred	(4,790)	14,200
Losses paid relating to contracts written in:		
Current year	(582)	-
Prior year	(66,632)	(42,831)
Total losses paid	(67,214)	(42,831)
Balance, end of the year	\$ 79,714	\$ 151,700

As discussed in Note 7(d), the Company is exposed to losses arising from catastrophic events. The Company established a provision, the majority of which is IBNR, for the catastrophes likely to impact its portfolio for the 2020 calendar year.

In addition, the Company continues to receive assessments of the reserve portfolio for prior years in conjunction with client advice and industry development analysis and reserves of \$7,289 were released.

Due to the uncertainty of the overall and individual impact of the series of major losses to our treaties, the amounts reserved may ultimately be settled in total for amounts lesser or greater than the reserve established, and the difference may be material.

The following table shows the impact of reinstatement premiums on the Company's reported premium income:

<b>For the year ended December 31</b>	<b>2020</b>	<b>2019</b>
Gross premiums	\$ 104,757	\$ 80,113
Reinstatement premiums <sup>(1)</sup>		
Current year	812	2,098
Prior Year	2,033	4,324
Reinsurance premiums written	\$ 107,602	\$ 86,535

<sup>(1)</sup> The 2020 amount represents reinstatement premiums related to 2020 loss reserves offset by amounts released related to prior years. The 2020 amount consist of reinstatement premiums established for 2020 loss reserves and adjustments for prior years.

## 7. Risk Management

The Company employs an enterprise-wide approach to all risk taking and risk management activities. The Company's enterprise risk management framework sets out policies and standards of practice related to governance, identification and monitoring, measurement and control, and mitigation of key risks. Individual risk management strategies are in place for each specific key risk within the Company's broad risk categories: market and liquidity which includes market price, interest rate, foreign currency and liquidity risks, credit, underwriting, and operational.

### (a) Market price and interest rate risk

Due to the nature of the insurance business, invested assets, and insurance liabilities as well as revenues and expenses are impacted by movements in capital markets, interest rates, and credit spreads. Accordingly, the Company considers these risks together in managing its asset and liability positions and ensuring that risks are properly managed. These risks are referred to collectively as market price and interest rate risk—the risk of loss resulting from adverse movements in market price, interest rates and credit spreads.

The following table shows the potential impact on shareholder's equity of a change of one per cent in interest rates:

As at December 31, 2020	1% change in interest rates	
	+100bps	-100bps
Invested assets	\$ (25,603)	\$ 30,752

As at December 31, 2019		
Invested assets	\$ (22,919)	\$ 28,794

The Company is exposed to interest rate risk in the event of a mismatch between the cash flows from the assets and liabilities. Management has established policies and guidelines for the matching of assets and liabilities designed to keep this exposure within acceptable limits. The yields on the Corporate bonds range from 1.8 per cent to 4.5 per cent (2019—1.8 per cent to 5.5 per cent) and on the Government bonds from 2.3 per cent to 2.9 per cent (2019—1.6 per cent to 2.9 per cent).

### (b) Credit risk

The Company is exposed to credit risk from default of investments held in its asset portfolio. Management has established policies and guidelines for limiting exposure to credit risk by restricting concentration by issuer, rating, sector and geographic region. At December 31, 2020, investment grade 'A' and higher bonds comprise 91 per cent (2019—92 per cent) of the portfolio. Government bonds represented 85 per cent (2019—87 per cent) of the bond portfolio graded 'A' and above. U.S. Treasury Bonds comprise 100 per cent (2019—100 per cent) of the Government bond portfolio. None of the issuers of bonds included in the portfolio has defaulted in interest or principal repayments.

As at December 31, 2020, the Company's fixed income invested assets include bonds, which have primarily cash cashflows that qualify as solely payments of principal and interest ("SPPI") and were investment grade-rated with ratings ranging between AAA to BBB.

Management believes that the credit risk relating to short-term financial assets which comprise cash and cash equivalents, premium receivables, balances due from related companies and accrued investment income are mitigated by the close monitoring of these balances and by the high credit quality of the financial institutions and insurance companies with which the Company transacts business.

### (c) Foreign currency risk

The Company's strategy of matching the currency of its assets with the currency of the liabilities that these assets support results in minimal financial exposure related to foreign currency fluctuations. It is the Company's policy to invest no less than 60 per cent of assets backing its capital in U.S. dollar denominated assets. As a result, the Company is exposed to foreign currency fluctuations on the remaining balance, however, 100 per cent (2019—100 per cent) of the assets were denominated in U.S. dollars and therefore there was no impact on earnings from changes in foreign currency on assets during 2020 and 2019, respectively.

### (d) Underwriting risk

The Company's business is providing property catastrophe retrocession protection to clients. The Company, therefore, has a material overall exposure to natural hazards, such as earthquakes, hurricanes, tsunamis, winter storms, floods, fires, tornados, and other natural disasters.

The underwriting risk stems from the possibility that the frequency and severity of catastrophic events differ from those assumed when pricing the product. The Company manages its exposure to underwriting risk by adhering to conservative pricing, including peer review by MLI and maintaining clear underwriting guidelines and limits.

### (e) Liquidity risk

Liquidity risk is the risk that sufficient funds are not available to meet both expected and unexpected cash and/or collateral demands in a timely and cost-effective manner. Under stressed conditions, unexpected cash demands could arise primarily from the notification of catastrophic losses by ceding companies.

The Company manages its exposure to liquidity risk by maintaining a sufficient proportion of its assets in highly liquid investments and investment grade marketable securities to support its operations and contingent liquidity demands. In addition, the Company sets guidelines on asset allocations, limit structures and maturity profiles of assets in order to ensure sufficient funding is available to meet insurance obligations. Financial liabilities are all due within one year of the statement of financial position.

## 8. Share Capital

### Authorized share capital:

The Company is authorized to issue an unlimited number of common shares of no par value and cumulative redeemable preferred shares.

Share capital:

	2020		2019	
	Number of Common Shares	Amount	Number of Common Shares	Amount
Balance, beginning of year	390,000	\$ 215,000	390,000	\$ 290,000
Capital reduction		-		(75,000)
Balance, end of year	390,000	\$ 215,000	390,000	\$ 215,000

In 2019, the Company remitted \$75,000 to MHBL in the form of a capital reduction.

## 9. Taxation

Under the provisions of the *Exempt Insurance Act*, CAP. 308A, sec 29(2), the Company is liable to tax at eight per cent of the first Barbados dollars (“BBD”) \$250 (U.S. dollars equivalent \$125) of taxable income and at the rate of zero per cent in respect of all other taxable income in excess of BBD \$250 (U.S. dollars equivalent \$125).

Effective 1 January 2019, the *Exempt Insurance Act* (“EIA”) was repealed, and the Company is classified as a Class 2 Insurance Company and is subject to tax at a rate of two per cent under the *Insurance Act*. However, since the Company was licensed under the EIA as at 17 October 2017 it has elected to be grandfathered and therefore continues to operate under the existing basis until 30 June 2021.

## 10. Net Change in Non-Cash Assets and Liabilities

For the year ended December 31	2020	2019
Net change in non-cash assets and liabilities consists of:		
Decrease (increase) in premiums receivable	\$ 10,770	\$ 4,461
Decrease (increase) in accrued investment income	50	(132)
Increase in balance due from related companies	(49,984)	(11)
(Increase) decrease in other assets	(38)	14
Decrease in loss reserves	(71,986)	(28,591)
Increase in unearned premium reserve	3,652	2,891
Increase in accounts payable and accrued liabilities	710	1,251
Increase (decrease) in balance due to related companies	93	(57)
	\$ (106,733)	\$ 29,096

## 11. Contingencies

Pursuant to the terms of certain reinsurance contracts, the third-party relationship banks have irrevocable letters of credit in the amount of \$2,200 (2019—\$5,240) to reinsured parties on behalf of the Company. These letters of credit are intended to provide security to the reinsured parties in the event that the Company is unable to fulfill its obligations under the existing contracts. These letters of credit have no fixed expiration date and are cancellable at the discretion of the holder or upon the cancellation or commutation of the underlying contract.

The Company normally records claims as and when notified by reinsured counterparties. In the ordinary course of business, it is the Company's policy to book reserves relating to such claims in the amount notified by the counterparty. However, from time to time, these claims may be disputed and become the subject of arbitration or other proceedings. In such circumstances, the amount settled may be more or less than the amount reserved, and the difference may be material. Management believes that all notified claims have been adequately reserved.



## 12. Fair Value of Financial Instruments

Financial instruments refer to assets or liabilities which are contracts that ultimately give rise to a right for one party to receive an asset and an obligation for another party to deliver an asset.

Fair value is 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 fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- i) in the principal market for the asset or liability, or
- ii) in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Fair values reflect management's best estimates of the amounts at which instruments could be exchanged in a current transaction between willing parties and are generally calculated based on the characteristics of the instrument and the current economic and competitive environment.

The methods and assumptions used to estimate the fair value of each class of financial instrument for which it is practical to estimate a value are as follows:

### (a) Short-term financial assets and liabilities

The cost based carrying value of these assets and liabilities is a reasonable estimate of their fair value because of the short maturity of these instruments. Short-term financial assets comprise cash equivalents, premiums receivable, balance due from related companies, and accrued investment income. Short-term financial liabilities comprise accounts payable and accrued liabilities and balance due to related companies.

### (b) Investments

The Company categorizes its fair value measurements according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined as follows:

Level 1: Fair value measurements that reflect unadjusted, quoted prices in active markets for identical assets and liabilities that the Company has the ability to access at the measurement date reflecting market transactions.

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in inactive markets, inputs that are observable that are not prices (such as interest rates, credit risks, etc.) and inputs that are derived from or corroborated by observable market data. Most bonds are classified within Level 2.

Level 3: Fair value measurements using significant non-market observable inputs. These include valuations for assets and liabilities that are derived using data, some or all of which is not market observable, including assumptions about risk. Level 3 securities might include less liquid securities including securities that have little or no price transparency.

In determining the fair value of its financial instruments, the Company uses observable market data, when available, and minimizes the use of unobservable inputs to the extent possible.

The following table presents the Company's assets and liabilities that are carried at fair value, by level under the fair value hierarchy:

<b>As at December 31, 2020</b>	<b>Total Fair Value</b>		<b>Level 1</b>		<b>Level 2</b>		<b>Level 3</b>	
Assets:								
Bonds								
AFS	\$	184,793	\$	-	\$	184,793	\$	-
<b>Total assets carried at fair value</b>	\$	184,793	\$	-	\$	184,793	\$	-
<b>As at December 31, 2019</b>								
Assets:								
Bonds								
AFS	\$	197,127	\$	-	\$	197,127	\$	-
<b>Total assets carried at fair value</b>	\$	197,127	\$	-	\$	197,127	\$	-

Both the fair value and the basis for determining the fair value of investments are disclosed in Note 4 of these financial statements. There were no transfers between the levels during 2020 (2019—none).

### 13. Stock-Based Compensation

MFC's Global Share Ownership Plan ("GSOP") allows qualifying employees to choose to apply up to five per cent of their annual base earnings toward the purchase of common shares. The Company matches a percentage of the employee's eligible contributions up to a maximum amount. All contributions are used to purchase common shares in the open market. The Company has made contributions in the amount of \$7 (2019—\$6).

In addition to GSOP, the ultimate holding company of the Company also granted \$29 (2019—\$26) Restricted Share Units ("RSU") to certain employees of the Company. The fair value of the RSUs granted during the year was \$22.65 per unit, as at December 31, 2020 (2019—\$26.36 per unit). Each RSU entitles the holder to receive payment equal to the market value of one common share, plus credited dividends, at the time of vesting, subject to any performance conditions. RSUs granted in February 2020 will vest after 36 months from their grant date and the related compensation expense is recognized over these periods, except where the employee is eligible to retire prior to a vesting date, in which case the cost is recognized over the period between the grant date and the date on which the employee is eligible to retire. Compensation expense related to RSUs was \$31 for the year ended December 31, 2020 (2019—\$32).

### 14. Capital Management

The Company's policy is to maintain a strong capital base by routinely monitoring its capital adequacy from a Barbados solvency requirement and other insurance standards where appropriate. The Company employs risk based capital requirements, to ensure that the Company is able to absorb losses due to underpricing of the reinsurance product; to absorb an unexpected decline in the value of Company's assets; to provide a buffer for the potential undervaluation of the Company's unpaid claim liabilities and to provide a mechanism for financing the growth of the Company.

The Company is incorporated under the *Barbados Companies Act* CAP. 308 and operates under the provisions of the *Insurance Act*. Under the latter, the Company is required to comply with certain minimum capital and solvency criteria. The Company complied with all external regulatory requirements during the current and previous financial years.

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Manulife Financial Corporation is a leading international financial services group that helps people make their decisions easier and lives better. With our global headquarters in Toronto, Canada, we operate as Manulife across our offices in Canada, Asia, and Europe, and primarily as John Hancock in the United States. We provide financial advice, insurance, and wealth and asset management solutions for individuals, groups and institutions. At the end of 2020, we had more than 37,000 employees, over 118,000 agents, and thousands of distribution partners, serving over 30 million customers. As of December 31, 2020, we had \$1.3 trillion (US\$1.0 trillion) in assets under management and administration, and in the previous 12 months we made \$31.6 billion in payments to our customers. Our principal operations are in Asia, Canada and the United States where we have served customers for more than 155 years. We trade as 'MFC' on the Toronto, New York, and the Philippine stock exchanges and under '945' in Hong Kong.



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