

2021 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 2021, and the statement of loss, statement of comprehensive loss, 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 2021 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 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 (continued)

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

5 April 2022

Manufacturers P&C Limited

Statement of Financial Position

As at December 31

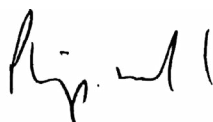
(Expressed in thousands of U.S. Dollars)

	2021	2020
Assets		
Cash and cash equivalents (Note 5)	\$ 181,636	\$ 192,159
Investments (Note 4)	225,001	184,793
Premiums receivable	33,269	15,347
Accrued investment income	1,479	1,268
Capital assets, net of accumulated depreciation	508	610
Deferred tax asset (Note 9)	661	-
Other assets	469	358
Balance due from related companies (Note 5)	31	50,035
	\$ 443,054	\$ 444,570
Liabilities		
Loss reserves (Note 6)	\$ 219,829	\$ 79,714
Unearned premium reserve	10,989	10,602
Accounts payable and accrued liabilities	3,926	6,632
Balance due to related companies (Note 5)	139	234
	\$ 234,883	\$ 97,182
Shareholder's Equity		
Share capital (Note 8)	\$ 215,000	\$ 215,000
(Accumulated deficit) retained earnings	(16,024)	114,353
Accumulated other comprehensive income	9,195	18,035
	\$ 208,171	\$ 347,388
	\$ 443,054	\$ 444,570

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



Claudio Macchi
Director



Philip Witherington
Director

Manufacturers P&C Limited Statement of Loss

For the year ended December 31

(Expressed in thousands of U.S. Dollars)

	2021	2020
Revenue		
Reinsurance premiums written (Note 6)	\$ 118,776	\$ 107,602
Change in unearned premium reserve	(387)	(3,652)
Reinsurance premiums earned	118,389	103,950
Investment income (Note 4)	4,791	6,426
	\$ 123,180	\$ 110,376
Expenses		
Losses incurred (recovered) (Note 6)	\$ 150,658	\$ (4,790)
Brokerage	3,632	3,490
General and administrative expenses	1,928	4,693
	\$ 156,218	\$ 3,393
Net (loss) income before taxes	\$ (33,038)	\$ 106,983
Income tax (Note 9)	661	-
Net (loss) income after taxes	(32,377)	106,983

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

Manufacturers P&C Limited Statement of Comprehensive Loss

For the year ended December 31

(Expressed in thousands of U.S. Dollars)

	2021	2020
Net (loss) income	\$ (32,377)	\$ 106,983
Other comprehensive income:		
Unrealized (loss) gain on investments	(8,840)	20,499
Total comprehensive (loss) income	\$ (41,217)	\$ 127,482

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)

	2021	2020
Common shares		
Balance, beginning of year and end of year	\$ 215,000	\$ 215,000
(Accumulated deficit) Retained earnings		
Balance, beginning of year	\$ 114,353	\$ 57,370
Net (loss) income	(32,377)	106,983
Common share dividends	(98,000)	(50,000)
Balance, end of year	\$ (16,024)	\$ 114,353
Accumulated other comprehensive income		
Balance, beginning of year	\$ 18,035	\$ (2,464)
Other comprehensive (loss) income	(8,840)	20,499
Balance, end of year	\$ 9,195	\$ 18,035
Total equity	\$ 208,171	\$ 347,388

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)

	2021	2020
Operating activities		
Net (loss) income before taxation	\$ (33,038)	\$ 106,983
Adjustment for non-cash items:		
Depreciation of capital assets	134	138
Depreciation right of use asset	113	111
Net realized foreign exchange losses	151	285
Net amortization of discount on bonds (Note 4)	(79)	(144)
Net gain on sale of investments (Note 4)	(363)	(1,157)
Gain on sale of capital assets	(41)	-
Net (loss) income adjusted for non-cash items	(33,123)	106,216
Net change in non-cash assets and liabilities (Note 10)	169,461	(106,733)
Lease interest paid	(9)	(14)
Net cash from (used in) operating activities	\$ 136,329	\$ (531)
Investing activities		
Net change in capital assets	\$ (104)	\$ 65
Purchase of investments	(77,381)	(3,995)
Proceeds from the sale and maturity of investments	28,772	37,999
Net cash (used in) from investing activities	\$ (48,713)	\$ 34,069
Financing activities		
Lease payments	\$ (139)	\$ (140)
Shareholder dividends paid in cash	(98,000)	(50,000)
Net cash used in financing activities	\$ (98,139)	\$ (50,140)
Cash and cash equivalents		
Net decrease during the year	\$ (10,523)	\$ (16,602)
Balance, beginning of year	192,159	208,761
Balance, end of year	\$ 181,636	\$ 192,159
Cash and cash equivalents consist of:		
Cash and liquidity pool	\$ 181,636	\$ 192,159
Supplemental disclosures on cash flow information:		
Interest received	\$ 4,138	\$ 4,668

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

Manufacturers P&C Limited

Notes to the Financial Statements

December 31, 2021

(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, 2021 were authorized for issue in accordance with a resolution of the directors on March 25, 2022.

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

The Company’s results and operations have been and may continue to be adversely impacted by COVID-19, including any variants, and the resulting economic downturn. The adverse effects include but are not limited to declines in interest rates, potential reinsurance claims and disruption of business operations. The breadth and depth of these events and their duration contribute additional uncertainty around estimates used in determining the carrying value of certain assets and liabilities included in these financial statements.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, cash held in a liquidity pool in the form of demand promissory notes. Liquidity pool notes are carried at amortized cost which approximates fair value. Refer to note 5.

(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 a right-of-use asset representing the right to use the underlying asset and a lease liability to make lease payments. The asset and liability arise primarily from the Company's real estate lease contract.

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

The right-of-use asset is \$170 (2020 – \$283) and is included with the capital assets and the lease liability \$204 (2020 – \$334) is included with accounts payable and accrued liabilities on the balance sheet.

(l) Income taxes

The provision for income taxes is calculated based on income tax laws and income tax rates substantively enacted as at the date of Statement of Financial Position.

Current income taxes are amounts expected to be payable or recoverable for the current year and any adjustments to taxes payable in respect of previous years.

Deferred income taxes are provided for using the liability method and result from temporary differences between the carrying values of assets and liabilities and their respective tax bases. Deferred income taxes are measured at the substantively enacted tax rates that are expected to be applied to temporary differences when they reverse.

A deferred tax asset is recognized to the extent that future realization of the tax benefit is probable. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the tax benefit will be realized. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities and they relate to income taxes levied by the same tax authority.

Deferred tax liabilities are recognized for all taxable temporary differences.

The Company records liabilities for uncertain tax positions if it is probable that the Company will make a payment on tax positions due to examinations by tax authorities. These provisions are measured at the Company's best estimate of the amount expected to be paid. Provisions are reversed to income in the period in which management assesses they are no longer required or determined by statute.

The Company is subject to income tax laws in Barbados. Tax laws are complex and potentially subject to different interpretations by

the taxpayer and the relevant tax authority. The provision for current income taxes and deferred income taxes represents management's interpretation of the relevant tax laws and its estimate of current and future income tax implications of the transactions and events during the year.

The Company may be required to change its provision for income taxes or deferred income tax balances when the ultimate deductibility of certain items is successfully challenged by taxing authorities, or if estimates used in determining the amount of deferred tax balances to recognize change significantly, or when receipt of new information indicates the need for adjustment in the amount of deferred income taxes to be recognized. Additionally, future events, such as changes in tax laws, tax regulations, or interpretations of such laws or regulations, could have an impact on the provision for income taxes, deferred tax balances and the effective tax rate. Any such changes could materially affect the amounts reported in the Financial Statements in the period these changes occur.

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 2021 and those that will become effective subsequently, are presented below:

(a) Changes in accounting policies

(i) Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 were issued in August 2020, are related to interest rate benchmark reform and are effective retrospectively for annual periods beginning January 1, 2021. The amendments provide relief from modifications of financial assets and liabilities, and discontinuation of hedge relationships, when changing risk free interest rate benchmarks due to interest rate benchmark reform. 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. The Company's exposure to these changes through invested assets is not significant and has not resulted in significant changes to the Company's risk management strategies.

(b) Future accounting and reporting changes

(i) Amendments to IAS 1 "Presentation of Financial Statements"

Amendments to IAS 1 "Presentation of Financial Statements" and IFRS Practice Statement 2 "Making Materiality Judgements" were issued in February 2021 and are effective prospectively on or after January 1, 2023 with earlier application permitted. The amendments address the process of selecting accounting policy disclosures, which will be based on assessments of the materiality of the accounting policies to the entity's financial statements. Adoption of these amendments is not expected to have a significant impact on the Company's Financial Statements.

(ii) IFRS 9 "Financial Instruments"

IFRS 9 "Financial Instruments" was issued in November 2009 and amended in October 2010, November 2013, and July 2014, and is effective for years beginning on or after January 1, 2018, to be applied retrospectively, or on a modified retrospective basis. Additionally, the IASB issued amendments in October 2017 that are effective for annual periods beginning on or after January 1, 2019. In conjunction with the amendments to IFRS 17 "Insurance Contracts" issued in June 2020,

the IASB amended IFRS 4 "Insurance Contracts" to permit eligible insurers to apply IFRS 9 effective January 1, 2023, alongside IFRS 17. The standard is intended to replace IAS 39 "Financial Instruments: Recognition and Measurement".

The project has been divided into three phases: classification and measurement, impairment of financial assets, and hedge accounting. IFRS 9's current classification and measurement methodology provides that financial assets are measured at either amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement for financial liabilities remains generally unchanged; however, for a financial liability designated as at fair value through profit or loss, revisions have been made in the accounting for changes in fair value attributable to changes in the credit risk of that liability. Gains or losses caused by changes in an entity's own credit risk on such liabilities are no longer recognized in profit or loss but instead are reflected in OCI.

Revisions issued in July 2014 replace the existing incurred loss model used for measuring the allowance for credit losses with an expected loss model. Changes were also made to the existing classification and measurement model designed primarily to address specific application issues raised by early adopters of the standard. They also address the income statement accounting mismatches and short-term volatility issues which have been identified as a result of the insurance contracts project.

The Company elected to defer IFRS 9 until January 1, 2023 as permitted under the June 2020 amendments to IFRS 4 "Insurance Contracts". The Company is assessing the impact of this standard on the Company's Financial Statements.

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

IFRS 17 "Insurance Contracts" was issued in May 2017 to be effective for years beginning on January 1, 2021. Amendments to IFRS 17 "Insurance Contracts" were issued in June 2020 and include a two-year deferral of the effective date. 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. The standard will replace IFRS 4 "Insurance Contracts" and will materially change the recognition and measurement of insurance contracts and the corresponding presentation and disclosures in the Company's Financial Statements.

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 January 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 amendments do not permit application of IFRS 9 hedge accounting principles to the comparative period. The Company is considering the effect of these amendments on its IFRS 9 transition disclosures.

Under IFRS 17 the Company will apply the premium allocation approach ("PAA") as a contract coverage period is less than or equal to one year. A discount rate will not be used as an assessment performed indicates that it will not materially impact the financial statements.

The principles underlying IFRS 17 differ from insurance reserving as permitted by IFRS 4. The key difference is the change in the timing of recognition of earnings. The Company continues its assessment of the implications of this standard and expects that it will not have a significant impact on the Company's Financial Statements. Evaluation of the potential impacts of all other changes including available

accounting policy choices under IFRS 17 on the measurement of its insurance contract liabilities is ongoing.

(iv) Annual Improvements 2018–2021 Cycle

Annual Improvements 2018–2021 Cycle was issued in May 2021 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.

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

Amendments to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” were issued in May 2021, 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 related 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.

(vi) Amendments to IAS 8 “Accounting Policies, Changes to Accounting Estimates and Errors”

Amendments to IAS 8 “Accounting Policies, Changes to Accounting Estimates and Errors” were issued in February 2021, and are effective prospectively on or after January 1, 2023, with earlier application permitted. The amendments include new definitions of estimate and change in accounting estimate, intended to help clarify the distinction amount changes in accounting estimates, changes in accounting policies, and corrections of errors. 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	2021		2020	
	Term to maturity	Fair Value	Fair Value	Fair Value
Government bonds	<1 year	\$ -	\$	14,128
	1–5 years	11,484		1,340
	>5 years	146,607		126,740
		158,091		142,208
Corporate bonds	<1 year	3,043		2,005
	1–5 years	30,371		21,123
	>5 years	33,496		19,457
		66,910		42,585
Total		\$ 225,001	\$	184,793

Since all invested assets are classified as available-for-sale, investments are carried at their fair values as at December 31, 2021.

(b) Investment income

Investment income is comprised as follows:

For the year ended December 31	2021		2020	
Interest Income	\$	4,349	\$	4,618
Net amortization of discount on bonds		79		144
Net amortization of discount on short-term money markets		-		507
Net gain on sale of investments		363		1,157
	\$	4,791	\$	6,426

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 in 2020, under which MFAL borrowed \$50,000. The loan interest was at a rate of Libor plus 0.50%, payable monthly, and was repayable at the earlier of (i) demand, or (ii) the option of MFAL, or (iii) maturity date of March 23, 2021.

The interest earned was \$85 (2020 – \$555). The loan was repaid on maturity.

(a) Balances due from related companies

For the year ended December 31	2021	2020
Manulife Financial Asia Limited	\$ -	\$ 50,001
Manufacturers Life Reinsurance Limited	19	26
Manulife Data Services Inc.	10	4
Manulife Investment Management International Holdings Limited	-	3
Manufacturers Life Insurance Company (Barbados Branch)	2	1
	\$ 31	\$ 50,035

(b) Balances due to related companies

For the year ended December 31	2021	2020
John Hancock Life Insurance Company (U.S.A.)	\$ 69	\$ 180
Manufacturers Life Insurance Company	67	51
Manufacturers Life Reinsurance Limited	3	3
	\$ 139	\$ 234

(c) Liquidity pool

The Company participates in a liquidity pool of Manulife Management Services Ltd. ("MMSL") 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. Participation in the liquidity pool is evidenced by demand promissory notes issued by MMSL bearing interest at rates based on the one-month U.S. Treasury Bill rate minus 7 basis points, resetting daily. The balance held in the liquidity pool was \$180,440 (2020 – \$190,826) and is included in cash and cash equivalents of \$181,636 (2020 – \$192,159). The interest earned was \$2 (2020 – \$120).

(d) General and administrative expenses

Included in general and administrative expenses is an amount of \$456 (2020 – \$615), which represents amounts charged under agreements whereby certain administrative services are provided by related 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	2021	2020
Short-term employee benefits	\$ 2,125	\$ 2,427
Pension contribution	73	72
	\$ 2,198	\$ 2,499

6. Loss reserves and reinsurance premiums written

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

For the year ended December 31	2021	2020
Balance, beginning of the year	\$ 79,714	\$ 151,700
Foreign exchange on opening balance	(44)	18
Losses incurred (recovered) relating to contracts written in:		
Current year	145,398	2,499
Prior year	5,260	(7,289)
Total losses incurred (recovered)	150,658	(4,790)
Losses paid relating to contracts written in:		
Current year	-	(582)
Prior year	(10,499)	(66,632)
Total losses paid	(10,499)	(67,214)
Balance, end of the year	\$ 219,829	\$ 79,714

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 outstanding loss reserve (“OSLR”), for the catastrophes likely to impact its portfolio for the 2021 calendar year.

In addition, the Company continues to receive assessments of the reserve portfolio for contracts written in prior years, in conjunction with client advice and industry development analysis a reserve adjustment of \$5,260 was established.

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:

For the year ended December 31	2021	2020
Gross premiums	\$ 98,252	\$ 104,757
Reinstatement premiums for contracts written in: ⁽¹⁾		
Current year	17,874	812
Prior Year	2,650	2,033
Reinsurance premiums written	\$ 118,776	\$ 107,602

⁽¹⁾ The 2021 amount consist of reinstatement premiums established for 2021 loss reserves and adjustments for prior years. The 2020 amount represents reinstatement premiums related to 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 and interest rate, credit, foreign currency, underwriting, and operational and liquidity risks.

(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 percent in interest rates:

As at December 31, 2021	1% change in interest rates	
	+100bps	-100bps
Invested assets	\$ (27,818)	\$ 34,286

As at December 31, 2020		
Invested assets	\$ (25,603)	\$ 30,752

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 1.1 to 3.3 percent (2020 – 1.1 percent to 4.5 percent) and on the Government bonds from 1.0 percent to 2.4 percent (2020 – 2.3 percent to 2.9 percent).

(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, 2021, investment grade 'A' and higher bonds comprise 94 percent (2020 – 91 percent) of the portfolio. Government bonds represented 75 percent (2020 – 85 percent) of the bond portfolio graded 'A' and above. U.S. Treasury Bonds comprise 100 percent (2020 – 100 percent) 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, 2021, the Company's fixed income invested assets include bonds, which have cashflows that qualify as Solely Payment of Principal and Interest ("SPPI") and were investment grade-rated with ratings ranging between A 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 (2020 – 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 2021 and 2020, 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:

	2021		2020	
	Number of Common Shares	Amount	Number of Common Shares	Amount
Balance, beginning and end of year	390,000	\$ 215,000	390,000	\$ 215,000

9. Taxation

Effective 1 July 2021, the Company transitioned to a Class 2 Insurance Company under the *Amended Insurance Act* and is subject to tax at a rate of two per cent of taxable net income. However, the Barbados tax authority has confirmed tax will be calculated with an effective date of 1 January 2021. The Barbados *Income Tax Act* states that 100% of net losses can be carried forward for seven years but assessable income can only be reduced by 50% by utilizing the losses brought forward.

The deferred tax credit for the year is \$661.

Under the provisions of the *Exempt Insurance Act*, CAP. 308A, sec 29(2) the Company was liable to tax in 2020 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 net income in excess of BBD \$250 (U.S. dollars equivalent \$125) resulting in a tax expense of \$20 being recorded in general expenses of the statement of income.

10. Net Change in Non-Cash Assets and Liabilities

For the year ended December 31	2021	2020
Net change in non-cash assets and liabilities consists of:		
(Increase) decrease in premiums receivable	\$ (17,922)	\$ 10,770
(Increase) decrease in accrued investment income	(211)	50
Decrease (increase) in balance due from related companies	50,004	(49,984)
Increase in other assets	(111)	(38)
Increase (decrease) in loss reserves	140,115	(71,986)
Increase in unearned premium reserve	387	3,652
(Decrease) increase in accounts payable and accrued liabilities	(2,706)	710
(Decrease) increase in balance due to related companies	(95)	93
	\$ 169,461	\$ (106,733)

11. Contingencies

Pursuant to the terms of certain reinsurance contracts, the third-party relationship banks have issued irrevocable letters of credit in the amount of \$2,200 (2020 – \$2,200) 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. In order to improve capital management at MLI, MFC replaced the MLI Capital Maintenance Agreement with MFC guarantees to the bank. Prior to December 2021, the letters of credit were backed by Capital Maintenance Agreements provided to the Company by MLI. On February 10, 2022, the Company terminated the Capital Maintenance Agreement with The Manufacturers Life Insurance Company.

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:

As at December 31, 2021	Total Fair Value		Level 1		Level 2		Level 3	
Assets:								
Bonds								
AFS	\$	225,001	\$	-	\$	225,001	\$	-
Total assets carried at fair value	\$	225,001	\$	-	\$	225,001	\$	-

As at December 31, 2020								
Assets:								
Bonds								
AFS	\$	184,793	\$	-	\$	184,793	\$	-
Total assets carried at fair value	\$	184,793	\$	-	\$	184,793	\$	-

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 2021 (2020 – 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 \$6 (2020 – \$7).

In addition to the GSOP, under MFC's Restricted Share Units ("RSUs"), 1,758 (2020 – 1,909) of RSUs were granted to certain employees of the Company. The fair value of the RSUs granted during the year was \$19.02 per unit, as at December 31, 2021 (2020 – \$17.79 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 2021 will vest after 36 months from their grant date and the related compensation expense is recognized over these periods, unless the employee is eligible to retire at the time of grant or will be eligible to retire during the vesting period, in which case the cost is recognized at the grant date or over the period between the grant date and the date on which the employee is eligible to retire, respectively. Compensation expense related to RSUs was \$31 for the year ended December 31, 2021 (2020 – \$31).

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 solvency 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 Asia, Canada, 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 2021, we had more than 38,000 employees, over 119,000 agents, and thousands of distribution partners, serving over 33 million customers. At the end of 2021, we had \$1.4 trillion (US\$1.1 trillion) in assets under management and administration, including total invested assets of \$0.4 trillion (US \$0.3 trillion), and segregated funds net assets of \$0.4 trillion (US\$0.3 trillion), and during 2021, we made \$31.8 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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