

Annual Report  
2018



A Change, for Good.



  
**ARGUS**  
Our Interest is You.

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**We are making a change, for good.**

Change that will make a short-term loss for long-term benefit. Change that supports our strategy of placing Argus on the global stage. Able to provide sustainable, quality solutions for the community and a strong return for partners, for all our futures.

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# Contents

## Performance Measurements

**\$18.6m**

Net Loss

**\$0.5m**

Operating Profit

**\$24.6m**

Combined Fee Income

**(15.8%)**

Return on Average Equity

**90.6%**

Combined Operating Ratio

**\$17.9m**

Operating Cash Flow

**4.5%**

Dividend Yield

**A- (Excellent)**

Financial Strength Rating

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# Welcome

Welcome to Argus.

We support our customers in providing financial security, physical well-being and peace of mind.

We do this through products and services in employee benefits, global property and casualty insurance and wealth management.

We are a business born in Bermuda, but we continue to grow internationally to ensure we are in the strongest position for sustainable value and growth.

## Argus Group

1950

Date of Foundation

234

Number of Employees

87%

Employee Engagement

## Bermuda

#1

Market Leader for  
International Clients

#1

Provider for Employee  
Benefits Solutions

Top 3

Employer in Bermuda

152

Number of Employees

## Gibraltar

#1

Property & Casualty Insurer

40%

Non-life Market Share

22

Number of Employees

## Malta

#2

Insurance Broker

12%

Non-life Market Share

16%

Broker Market Share

60

Number of Employees

## Chairman's Statement



**“I am extremely confident that we have taken the right actions in the short term to ensure sustainable profitability and growth in the long term.”**

We have experienced yet another year of unprecedented change around the globe. President Trump has continued to implement impactful policies ranging from withdrawing from agreements with Paris and Iran to tax reform and proposing protectionist tariffs. Brexit continues to drive confusion and uncertainty, as do the broad range of coalition governments being formed as populations lose their confidence in established government.

In addition to the market uncertainty caused by global change, the low-growth Bermuda economy added to economic pressures. Against this backdrop, we are reporting a \$18.6 million net loss attributable to shareholders. This was caused by losses in healthcare, which is inherently volatile, and actions taken to restructure our balance sheet.

We have decided it is time to sell underperforming assets to better utilise the capital elsewhere. Whilst this has a negative impact in this financial year, I am confident its redeployment will lead to greater growth in the future. In addition, over the last two years we tracked what we believed was a trend of slowing health claims inflation, which we hoped was the beginning of a long-term trend. In response to this and in line with our strategy to 'do the right thing, the right way, for all, always', we decided to maintain healthcare premiums, passing on the benefit to our customers, rather than increase premiums as our competitors did. Regrettably, volatility in the Bermuda healthcare industry continues to be challenging, due to the small Bermuda population and the unusually high instances of severe claims, resulting in significant losses during the fiscal year. As you would expect from our team, they have reacted swiftly and decisively. We are increasing premiums immediately to bring our healthcare business back into profit, while ensuring that our premium increases continue to trend below the rate of medical inflation.

I am extremely confident that we have taken the right actions in the short term to ensure sustainable profitability and growth in the long term.

My confidence in the health of Argus relates directly to my confidence in the Argus Board. Difficult decisions had to be made this year in relation to the future success of the business and the Argus Board has acted decisively, defining a strategy that I believe will give us a strong presence on the global stage and manage risk whilst providing growth and greater return to our shareholders.

The Argus Board continues to go from strength to strength and we remain focused on having the right skills and experience to support the Board strategy. Over the last year we have welcomed three new members, Barbara Merry, Keith Abercromby and Kim Wilkerson, whilst saying our goodbyes and thank you to Wendall Brown and Jamie Jardine, who both retired from the Board this year.

Our confidence in the future means that, despite the losses recorded this year, the Group remains in a healthy Capital Position, and we are pleased to declare a dividend of nine cents per share for shareholders of record as of July 31, 2018, payable on August 15, 2018. This matches the dividend last year and equates to annualised yield of 4.5% based on the current average share price.

I would like to take this opportunity to thank the Argus management team and staff for their hard work under challenging circumstances, my fellow Board members for their professionalism and strategic capability, and, most of all, my sincere appreciation to each Argus shareholder for your continued loyalty, support and confidence.

*Sheila E. Nicoll*  
*Chairman*

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## Our Mission

Our Mission is to give more and more people the freedom to do what matters most to them.

We will accomplish this by providing financial services that predict and protect for the future. Leading the way with innovative forecasting tools to help our stakeholders avoid storms that may threaten their life, health or wealth. Striving to always deliver best-in-class products and processes to protect our stakeholders in those instances when storms are inevitable.

We aim to build strong, long-term, one-on-one relationships with our clients, customers and community, based on loyalty, service and trust. We'll do this through what we believe makes us truly different; our commitment to doing the right thing, for all, always, behaving with honesty, openness and fairness in everything we do.



## “Our Interest is You.”

This reinforces the fact that Argus puts people first. It communicates that we care deeply about our staff, our clients, our shareholders and our community. It affirms that we will always aim to do what is in everyone’s best interests, and not just our own. It is this innate desire to take care of people that makes Argus the unique company that it is.

# The Markets We Serve

We serve a wide variety of needs, helping businesses and individuals predict and protect for the future. Argus is unique in its position as a provider of expertise rather than mere products.



## Keeping You Healthy and Productive

Going beyond traditional healthcare by supporting you through initiatives such as Annual Health Checks, Population Health, Diabetes Management, Thrive. and Case Management.

**\$132m**

Paid in Health Benefits

**\$21m**

Paid for Preventative Programmes

**23%**

Reduction in claims for members in our Case Management Programme



## Keeping Your Business Running

Simple combined commercial policies, which effectively manage the risks in your business with swift and comprehensive claims resolution.

**\$30m**

Commercial Premium

**5,824**

Commercial Clients covered



## Keeping Your Possessions Safe

Expertise and active advice on how to protect your assets. Delivering policies that don't nickel and dime.

**\$10bn**

Property insured

**40,000**

Vehicles covered

We work with our clients to provide solutions for their employees to ensure that they live a healthy, well-protected and productive life, whilst also planning for a financially secure and timely retirement.



#### Providing Peace of Mind Against Liabilities

Total cover for total peace of mind in an ever-changing, increasingly litigious, fast-paced world.

**\$5m**

Typical third party liability limit  
for Bermuda risks

**£2m**

Typical public liability limits  
for Gibraltar risks

**€6m**

Third party bodily injury limit  
for Malta risks



#### Managing and Growing Your Wealth

Global best practice in wealth management tailored to each client's specific needs.

**\$1.2bn**

Assets under discretionary and  
advisory mandates

**1st & 2nd**

Quartile performance by  
Client portfolios



#### Protecting Your Post-Retirement Lifestyle

Taking an holistic approach to post-retirement costs and desired lifestyle goals.

**\$16m**

Paid in Pension benefits

**30%**

Private Pension market share

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## The Territories We Cover

From Bermuda, Argus continues to grow internationally to mitigate risk and provide stability and strength for the future.



1950

Founded

\$157m

Gross Premiums Written and Brokered

Over 99%

Client Retention Rate

### Bermuda

“Here in Bermuda, we are making a change for good, moving towards a more consultative organisation rather than a mere seller of products. This is where we believe we can add significant value to our clients’ organisations.

We have built market-leading expertise over the past 68 years of doing business and we use it to provide insight and innovation to our clients.

This is why we remain market leader for employee benefits, and it’s through the provision of bespoke solutions to international and local businesses that we have built long-term partnerships lasting over 30 years.”

*Alison Hill*



1989

Founded

€20m

Gross Premiums Written  
and Brokered

Over 90%

Client Retention Rate

## Malta

"We are Malta's second largest broker, planning to be Number 1 within 18 months through organic growth and acquisition. We are proud of our Group's presence and commitment to growth in Malta."

We benefit from a strong brand, exceptional talent and long-term relationships. We are known for our ability to manage risk effectively, brokering innovative solutions within a diversified and complex economy."

*Lawrence Pavia*



1973

Founded

£10m

Gross Premiums Written  
and Brokered

Over 90%

Client Retention Rate

## Gibraltar

"As the oldest Insurer in Gibraltar we cultivate close ties with the London insurance market to ensure we adopt a dynamic and progressive approach with our local clients. Our valuable leading-edge insight and innovative solutions have been successfully exported to other Argus territories. With a strong underlying business, we have become well known for developing innovative, client-centric solutions and have experienced growth year-on-year since joining the Argus family in 2004."

2018 sees us working closely with key stakeholders to harness this entrepreneurial spirit and help reinvent a post-Brexit Gibraltar as a gateway to the UK."

*Tyrone Montovio*

# Our Strategy: Addressing Long-Term Trends

Our strategy was developed against the backdrop of six long-term global trends, which will continue to significantly shape the economies and broader landscape in the markets in which we operate.

## 1. Ageing Population

A global trend that has seen life expectancy increase by 5.5 years between 2000 and 2016, the fastest increase since the 1960s. As we age, people are staying in the workforce longer.

## 2. Lifestyle and Diet

There is a global increase in chronic illness, such as diabetes, caused by sedentary lifestyles and modern diets.

## 3. Uncertain Global Economy

With electorates voting out established governments and many economies experiencing unprecedented change, uncertainty grows.

## 4. Digital Revolution

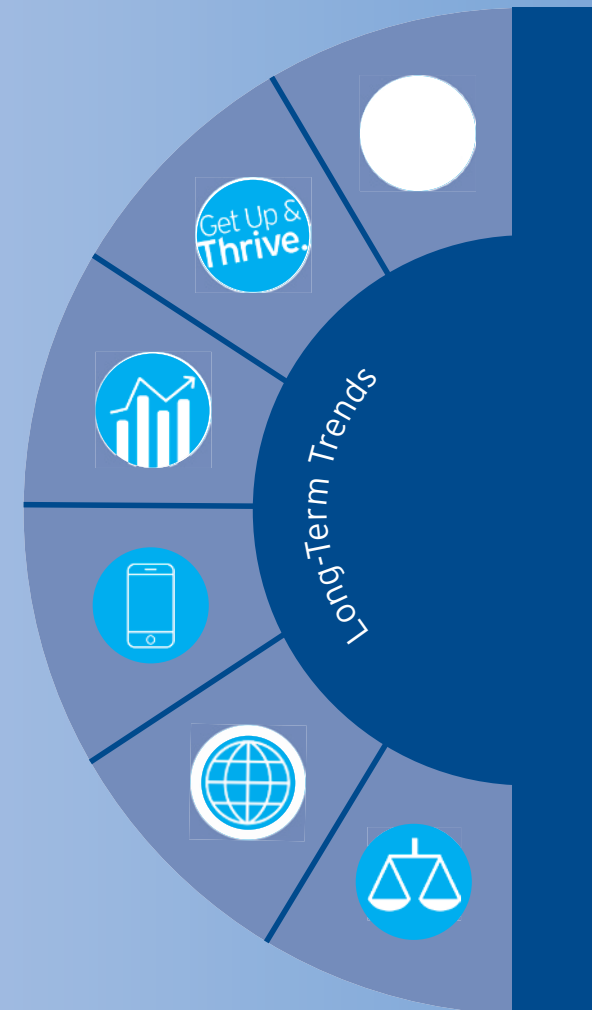
The digital revolution gathers even greater pace, cyber threats grow, and the development of innovations, such as Artificial Intelligence, are having significant impacts on consumer experience.

## 5. Emerging Technology

Emerging technology supports medical research, making diagnoses and cures even more effective, though often at a higher price.

## 6. Increasingly Litigious Society

Society has become ever more concerned with risk and blame, becoming extremely litigious, driving financial risk for businesses and individuals.



Our strategic objectives provide focus for the future and will deliver opportunities that we are uniquely positioned to capture.

### Innovation

Our focus is to deliver exceptional service to our customers, setting Argus apart as a leader in the marketplace. This involves a proactive and agile approach to innovation and decision-making, encouraging different ways of working and getting the right balance between technology and personal contact to improve the experience of our customers, employees, business partners and stakeholders. We keep pace with global best practice to innovate and evolve our products, processes, systems and skills. We are dedicated to promoting collaboration and innovation throughout the Company and with our partners.

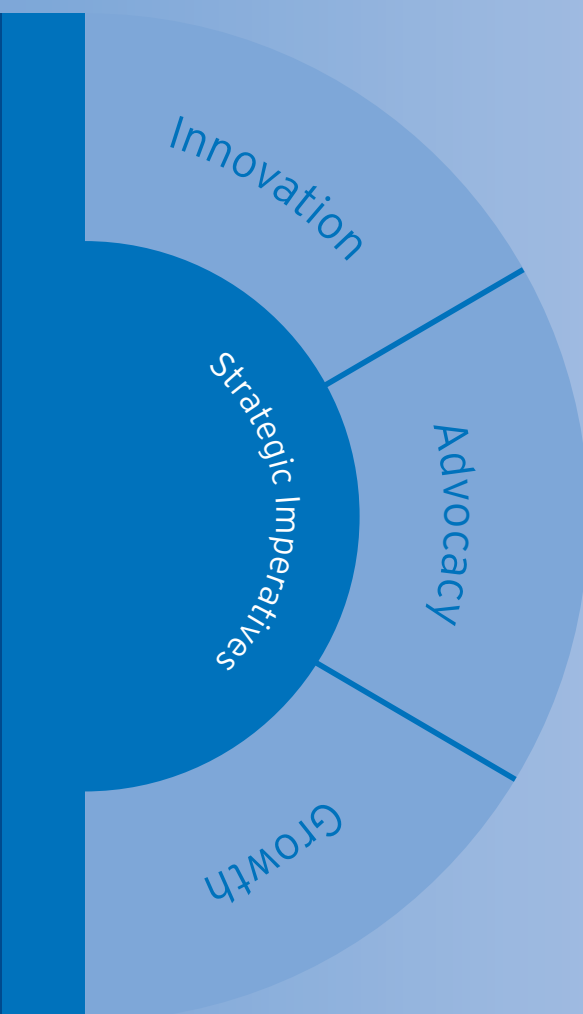
### Advocacy

Our approach to advocacy is to do the right thing on behalf of our customers, our staff and business partners. Our aim is to be the pioneer in effecting change and action to improve the lives of the residents in the communities we serve. We seek to act as an innovative advocate on community well-being and as a thought leader in the legislative reform of Employee Benefit services to the advantage of all stakeholders. Our holistic approach to meeting evolving client needs means that we can advocate on their behalf.

### Growth

Our goal is to deliver long-term sustainable shareholder value in a dynamic and rapidly evolving global marketplace. We will continue to focus on growth opportunities by expanding into related business products and services in relevant markets to enhance our long-term, sustainable profitability. We leverage our extensive experience and knowledge across our team whilst collaborating with best-in-class global partners to remain in line with international best practice and emerging trends.

We are making a change, for good, placing Argus on the global stage, able to provide sustainable, quality care for the community and a strong return for partners, for all our futures.



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## Chief Executive Officer's Strategic Review



**“I am confident that the actions we are taking will lead to long-term sustainable value for all our partners, for all our futures.”**



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## A Change, For Good

My job is to deliver long-term sustainable value to my shareholders, my customers, my staff and community. Under challenging conditions, this can become ever more difficult. It is in this environment that we have embraced a strategy of change, for good. Change that is decisive and modernising, change that requires a short-term loss for long-term benefit, change that places Argus firmly on the global stage. A change for good to provide sustainable, quality care for the community and a strong return for all our partners, for all our futures.

## The Landscape

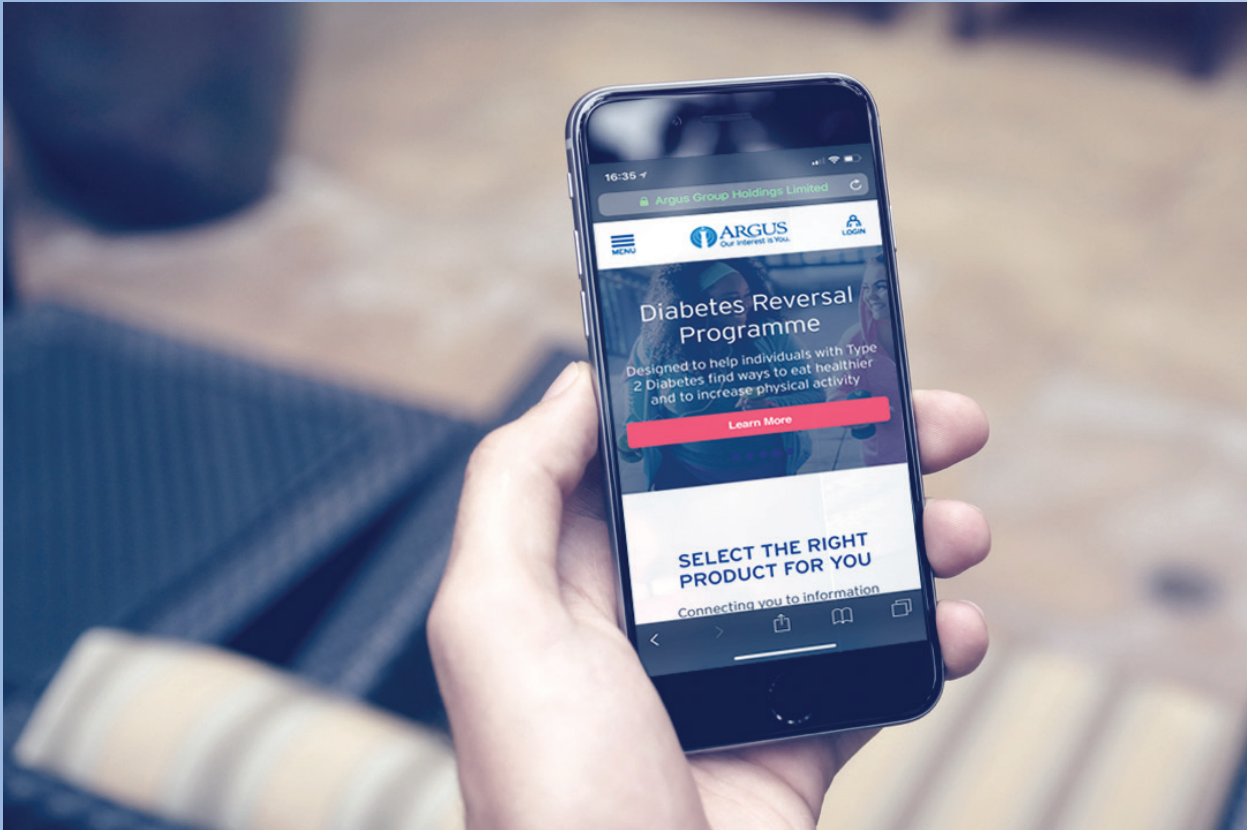
Uncertainty in global geopolitics continues to drive economic challenges around the world. This in turn drives caution from consumers, reduces spending and further exacerbates economic constriction. Demographic changes accentuate the situation further with many populations ageing rapidly, coupled with declining birth rates, placing a drag on economic growth. We also find that, despite health education initiatives in most nations around the world, chronic disease continues to rise, bringing with it a plethora of highly impactful health issues. In all of the territories in which we do business, we find that economic challenges, demographic changes and health issues are having a profound impact.

As was mentioned in our Chairman's letter, "We have decided it is time to position ourselves to sell underperforming assets and to better utilise the capital elsewhere". It is through such decisions that we are able to support and fund the initiatives that deliver change for good.

In healthcare we tracked what we believed was a trend of plateauing claims, maintaining premiums year-on-year only to find that the plateau was an anomaly and health claims continue to rise. Specifically, this year we've seen an unusually high number of difficult pregnancies and premature babies contributing to our high claims. With the benefit of hindsight, we passed on premium savings to our customers too quickly, which has contributed to the loss in our health business this year. However, we have acted decisively and have several initiatives in place to return our health business to profit.

We have found that our decisions in the past to expand our footprint into European territories have helped to offset the challenges impacting our results in Bermuda. With this in mind, we look to a future where we expand that footprint further, becoming ever more global, spreading risk across multiple economies, finding opportunity further afield.

The challenges are multiple, but with our commitment to make change for good, whilst always maintaining our interest is you, we are confident that our strategy will lead to strong future growth and a greater return for our customers and our shareholders.



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## Our Commitments

To deliver change for good:

### Redeploying Bermuda-based Assets

After five years of strong performance, Argus has decided the time is right to position ourselves to sell non-performing Bermuda-based assets to reinvest into more dynamic investments that better suit our values. We will make a short-term loss for much greater long-term benefit.

### Global Expansion

Argus is a global company with assets and partners all over the world. In these times of economic uncertainty, we will continue to invest overseas to enable us to bring profit back to Bermuda, to drive dividends, job creation and economic growth.

### Reducing the Cost of Employee Benefits Administration

As the cost of doing business continues to increase in employee benefits, we have made significant progress in reducing the cost of back-office administration, invested heavily in technology, selected market-leading outsource partners and are streamlining the process of data management.

### Investing in Healthcare Innovation

Our ongoing population health initiatives promote healthy lifestyles and provide access to leading-edge medical treatments including, stem cell treatments and biologics. We are also collaborating with global specialists in diabetes management, population health and holistic healthcare to drive further improvements.

### Increasing Efficiency Through Digitisation

Through the development of a digital portal, customers can now manage their health and pension transactions at any time of the day, better serving our customers and reducing cost.

### Optimising our Management Team

In line with our strategy to provide expertise rather than mere products, we are moving from a product-focused structure to solutions focused, putting our clients at the heart of Argus.

My sincere thanks to my hard-working, dedicated and committed global Argus family for all your contribution this year.

*Alison Hill*  
Chief Executive Officer

# Chief Financial Officer's Report



**"I am encouraged by our operating profit, delivered against a backdrop of challenging market conditions. Our strong capital position, the quality, liquidity and diversification of our assets, and positive five-year operating performance gives us the opportunity to act decisively this year, making a change, for good."**

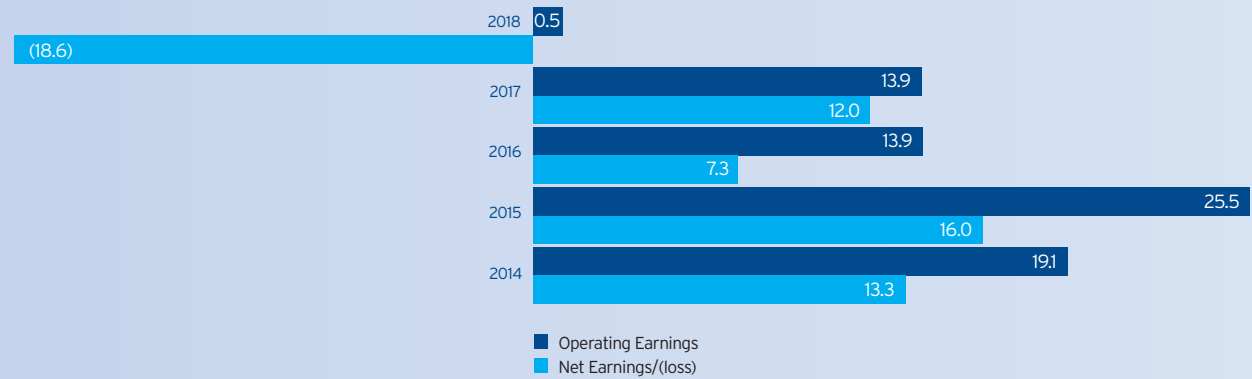
In a world that is changing fast around us we must be confident and decisive. 2018 has been a significant year for the Argus Group. Demographic, regulatory, technological and political changes have put pressure on the financial results of the Argus Group.

Our actions to de-risk the balance sheet have placed us in a strong financial position. The Group's strength has been validated by AM Best who, in December 2017, upgraded our financial strength rating to A- Excellent. The rating upgrade reflected the Group's appropriate enterprise risk management framework, consistent favourable operating performance and the strength of our balance sheet. We have continued our balance sheet optimisation strategy during the year with the sole focus of putting our capital to its best use, while ensuring long-term sustainable value.

In light of these challenges, we are reporting a \$18.6 million net loss attributable to shareholders.

We are pleased that our diligent capital planning means that, despite our reported loss for the current year, the Group remains in a healthy capital position and we are able to sustain our dividend to shareholders at nine cents per share.

Five Year Earnings Performance



## Asset sales and write downs

As we've reported previously, we're proud of the balance sheet restructuring that has been achieved since 2012. Our liabilities are backed by high quality, liquid, well-diversified assets. Again this year, our core investment portfolio has performed well, despite uncertain market conditions. Details on our core investment portfolio and its performance are provided in the investment section of this report.

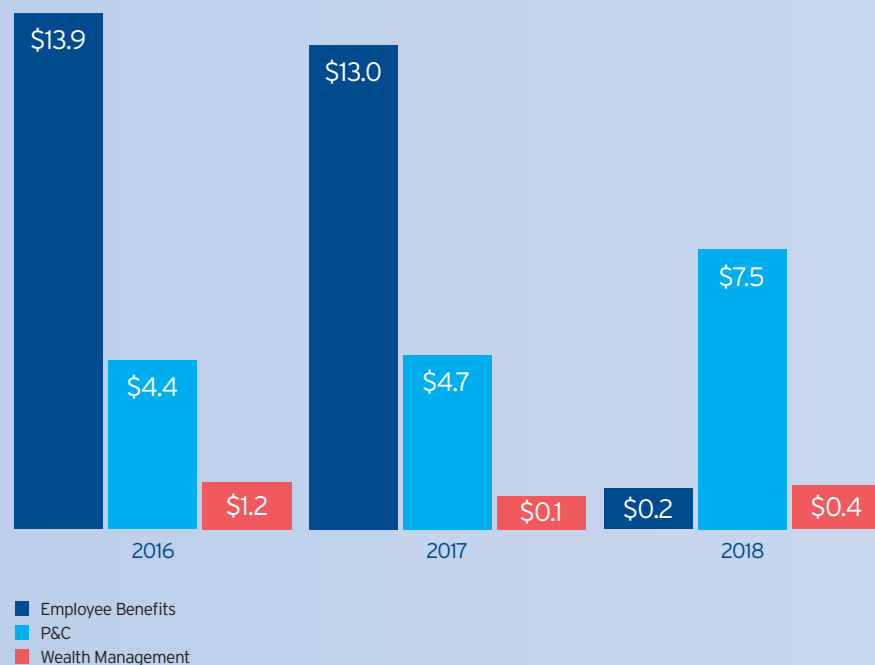


It is well known that within the Group's surplus investments we hold a number of non-core assets that had been accumulated over many years. These assets are generally illiquid, difficult to value, time-consuming to manage and have been a drag on the Group's economic performance. Against this backdrop, this year we committed a decisive course of action to position ourselves to exit these non-core assets and redeploy the proceeds to generate profitable growth and accrete long-term shareholder value. Exiting these assets will free up resources and create additional liquidity that can be used to drive further diversification and growth.

These decisions have not been made lightly, but after an exhaustive process to explore and evaluate the various options it's clear that now is the time to implement our strategy. The impact of the resultant write-downs on our reported results is significant, totalling \$19.5 million, but we're confident that our actions will accrete long-term value to our shareholders. It's short-term loss for long-term benefit: a change, for good.

Subsequent to the year end, we were delighted to sign an agreement to sell our private placement life business. This non-core business segment had been a drag on Group resources for many years, and we look forward to being able to redirect these resources to support profitable growth and diversification. The terms of the deal will mean a gain of up to \$6 million will be reported over the next three years, based on the persistency of the business.

Net Operating Earnings by Division



### Earnings from operations

Argus operates within three core divisions: Global Property & Casualty, Employee Benefits and Wealth Management. The operating results from these three divisions, whilst lower this year, continue to be positive and have been positive over the past five years.

### Employee Benefits: Health

Health insurance is written in Bermuda and has been a profitable, albeit low margin, line of business for several years. Similar to many other developed nations, the cost of healthcare has risen well in excess of the general cost of living. The reasons for this are varied and complex, but include the prevalence of chronic disease, the continued introduction of new and expensive medical procedures, and the easy access to healthcare.

Health insurance is not without risk, and in a business where underwriting margins are tight, large major medical claims can have a big impact on reported profits. Major medical claims generally occur when our members need us most – this past year, for example, we’ve seen an unusually high number of difficult pregnancies and premature babies – and we are steadfast in our commitment to our members to ensure seamless access to the very best available healthcare.

This has played out in our financial results, where claims within our Health business were \$10.4 million greater than in the prior year.

Within this context, at Argus we are highly conscious of the role we

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play in the health system, in ensuring that our members have access to the best available health outcomes, whilst controlling overall costs. As custodians of our members' health dollars, we have, for many years, been a driving force for a myriad of changes that have helped to control health claims without compromising quality of care. We are also conscious that as much as possible of the premium that our members pay should go into the provision of healthcare and not administration or excessive profits. We know that health insurance is a significant cost for our corporate clients and health members, and our philosophy has been to pass on the effects of healthcare inflation only when we're persuaded it's justifiable to do so. In 2015 and 2016 we saw what we hoped to be the start of a plateauing trend in health claims inflation. True to our philosophy, we communicated this to our clients and held annual premium rates well below long-term health cost inflation. In 2017 and into 2018 we've seen health claims inflation revert to be more consistent with the longer-term trends.

Sometimes, doing the right thing can cause short-term loss, but we're confident that the changes that we're making will redress the imbalance and return the business to sustainable profitability.

### **Employee Benefits: Pensions**

Our Pensions business continues to grow our fee-based income, due to the increased assets under management, driven by strong investment returns and new business, particularly in the international business sector.

In 2018, as part of our innovation strategy, we invested heavily in market-leading technology to enhance our digital customer experience for our pension members and corporate clients. And we're pleased that the changes we made to our pension fund offering in 2017 are delivering the returns we expect.

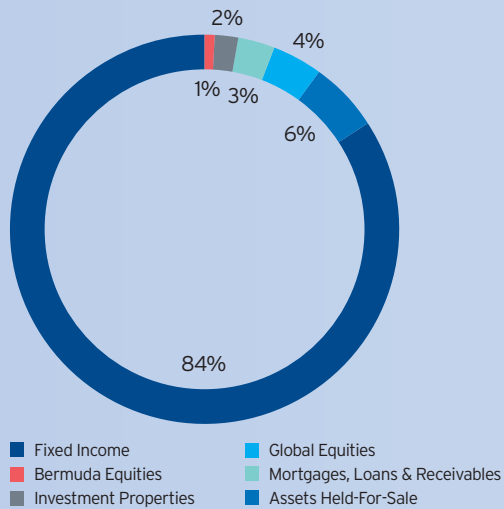
We remain concerned that our members will not be retirement-ready so continue to invest in a wide range of education and engagement initiatives to promote long-term financial well-being.

### **Global Property & Casualty**

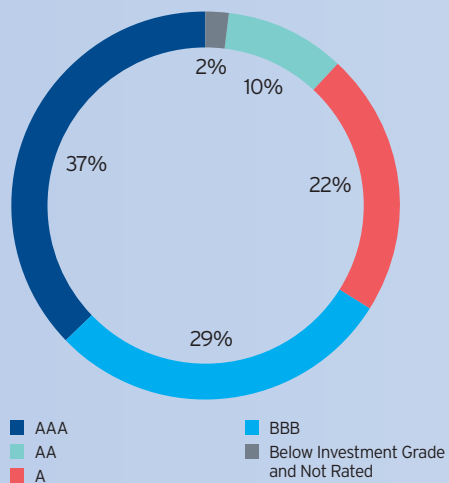
Our Global Property & Casualty businesses have reported an increase in net earnings when compared with the prior year. Our European entities have delivered pleasing growth in premiums and fee income and we remain optimistic about the prospects for significant further growth. Reported claims for the division were higher than the previous year due to a higher than normal occurrence of large motor, marine and liability claims, which were offset by a benign hurricane season in Bermuda.

We view our Global Property & Casualty business as an exciting source of growth and diversification as we are well-positioned to capitalise on the strong macro-economic growth forecast in our European territories.

Investment Assets As At March 31, 2018



Fixed Income Portfolio Ratings 2018



### Wealth Management

During the year our high-net-worth wealth management affiliate, AFL, became a wholly owned subsidiary of the Group and has subsequently been rebranded Argus Wealth Management Limited. The Argus Wealth team focuses on providing an excellent client experience, whilst delivering sound guidance through consultative relationships. We are excited by the opportunities full ownership of this business brings. With \$1.2 billion in assets in discretionary and advisory mandates, very competitive performance and a client retention rate of 99%, this will support growth, diversification and a stable source of fee income for the Group.

### Investment Performance

At the core of the Group’s investment philosophy is our commitment to careful and diligent custodianship of policyholder and shareholder assets. The Group’s investment portfolio is designed to ensure funds are readily available to satisfy our obligation to policyholders and to enhance shareholder value by generating appropriate long-term risk-adjusted yields. We have a clear objective to maximise returns without taking inappropriate levels of risk.

The Group’s portfolio generated positive returns over the fiscal year, despite a number of events that have impacted global investment markets. The U.S. federal reserve raised short-term interest rates three times. And, after a period of tightening credit spreads and rallying global equities, fears of inflation and trade wars caused significant volatility towards the end of our fiscal year.

As can be seen from the charts to the left and consistent with last year, 84% of the Group’s investments are fixed income bonds of which 98% are classified as investment grade.

A new investment class is presented this year, Assets Held-for-Sale. These are non-core assets, which do not align with the Group’s goal of maximising risk-adjusted returns. Consequently, the Group intends to sell these assets over the next 12 months.

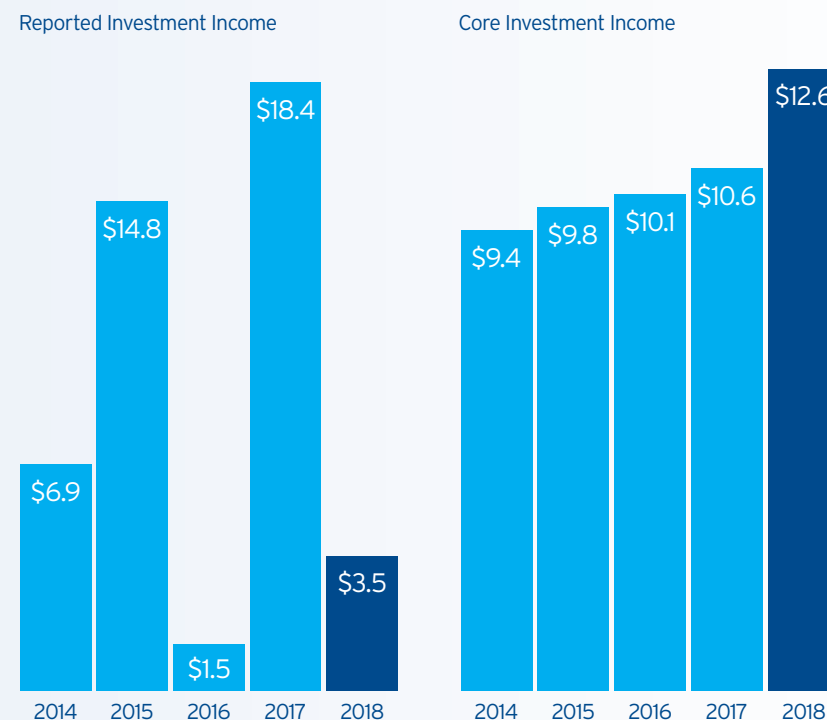


The Group has partnered with best-in-class investment managers who have exceeded their benchmark returns for our major portfolios.

The charts to the right compare reported 2018 investment income of \$3.5 million with core investment income of \$12.6 million. Realised and unrealised gains and losses have created volatility in our reported income over the years. Meanwhile, the core investment income, which excludes the volatility of unrealised and realised movements and one-off impairment charges, shows a much more stable picture over the past five years.

In summary, I am encouraged by our operating profit, delivered against a backdrop of challenging market conditions. Our strong capital position and the quality, liquidity and diversification of our assets has given us the opportunity to act decisively this year, making a change for good. I am confident and optimistic in the future of the Group.

*Peter Dunkerley*  
Chief Financial Officer



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# Our Strategy: Our Action

## INNOVATION

### Biologics & Stem Cell Treatments

We place such value on our Argus family members that we want to support them with leading-edge medical technologies, so we can all do more of what matters most. To this end, we have increased our cover this year to include two key breakthrough treatments: Biologics & Stem Cell Treatments.

These are of particular relevance to the challenges we face globally from chronic disease. The current treatment of these chronic conditions makes up a disproportionate amount of the cost of healthcare in Bermuda, impacting 20% of claimants, but accounting for 80% of plan costs<sup>1</sup>.

By covering Biologics & Stem Cell Treatments we will more effectively treat these conditions. Although in the short term more expensive, the improved long-term outlook and health for patients using these therapies is a key factor in keeping the cost of healthcare down in the face of wider pressures, such as an ageing population.

#### References

1. Express Scripts Canada Prescription Drug Trends Report 2017



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# Our Strategy: Our Action

## ADVOCACY

### Diabetes Reversal Programme

A life-changing opportunity to lower blood glucose levels, reduce the need for medication, and ultimately achieve an overall feeling of well-being.


Delivered by Argus in partnership with diabetes specialist, Dr. David Cavan, Dr. Stanley James of Premier Health & Wellness Center, and the Bermuda Diabetes Association, this 12-month programme is designed to help individuals with Type 2 diabetes find ways to eat more healthily and to increase physical activity. The ultimate objective is to lower blood glucose levels, reduce the need for medication, and ultimately achieve an overall feeling of well-being.

“Through participation in the DIABETES REVERSAL PROGRAMME and making conscious changes to my diet and lifestyle, I not only lost inches off my waistline but I have also now stopped taking diabetes medication completely. It’s so exciting and I have a new lease of life!”

*Pauline Butterfield,  
DIABETES REVERSAL PROGRAMME participant.*

On average, our participants experienced a 12.7 pound weight reduction and a reduction of their HbA1c\* of 0.9%. Research has shown that people with Type 2 diabetes who reduce their HbA1c level by 1% are 16% less likely to suffer heart failure and 43% less likely to suffer amputation or death due to vascular disease.

\*HbA1c (standard for monitoring glycemic control and an indicator for diabetes-related diseases)

A close-up portrait of Michelle Barnett, a woman with curly hair, smiling warmly. The image is overlaid with a blue gradient on the left side.

“...ill health doesn’t need  
to be a way of life.”

*Michelle Barnett*

# Our Strategy: Our Action

## GROWTH

### Malta Case Study

Our Broker business in Malta is a great example of the type of complementary acquisition we actively seek to continue our expansion outside of Bermuda. It proves our expansion strategy for leveraging our global experience, partnering with local market knowledge to deliver successful value driven growth.

With the acquisition of Island Insurance Brokers Limited, Argus successfully partnered with another “best-in-class” business. The Argus Group’s global expertise in human resource management, risk and compliance, and systems analysis and infrastructure has married well with deep and intimate knowledge of the Malta insurance market.

Our Malta business has met and exceeded our pre-acquisition targets and continues to grow ahead of market trend.

But this is just the beginning.

The Maltese economy remains buoyant and is among one of the top performers across the Member States of the European Union. With uncertainty over Brexit continuing, Malta is well placed to capitalise where companies currently operating in the UK and British territories are looking for European destinations for relocation.

Historically, Malta demonstrated a degree of resilience and adaptability during the Global financial crisis. Malta’s current economic momentum is attributable to structural changes, which, besides raising potential output, has quickened the transition to new economic models and activities. The economy is well diversified with growth in financial services, gaming, tourism, aviation servicing and pharmaceuticals and growth in new markets, such as medical, educational tourism and life sciences.

It is the growth in these diverse sectors of the economy that provides strong potential for the insurance market and for Argus as a market leader in insurance broking.

It is in this context that we are seeking further acquisition in Malta to meaningfully expand Argus’s presence, supporting the Group’s diversification strategy and providing increased access to commercial and retail business to support the growing Maltese economy.



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# The Value We Create For Our Stakeholders

At Argus, we carefully manage our relationships with Customers, Shareholders, Employees and Communities. We manage these relationships in accordance with our core values and beliefs and with open and honest dialogue.

## Customers

We strive to make Argus the first choice for solutions and servicing of our customers' business and lifestyle protection needs, giving them the freedom to do what matters most.

### Solutions

We go beyond just offering a series of products, seeking to provide a 'one stop shop' for all customer needs. We actively consult with, and listen to our customers to deliver solutions that meet their current requirements and anticipate their future needs. Our Client Service teams have deep experience and we are proud to be the only Gibraltar Insurer and Malta Broker with Chartered Status.

### Service

We help our clients manage and minimise risk. Where claims arise we don't 'nickel and dime', we aim to fulfil them in a fast, fair and efficient way.

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### The Value We Created in the Past Year

\$10bn Property covered, \$71m Pension Investment return, \$132m Health benefits paid.

---

### The Pledge We Make

You're in good hands.

## Shareholders

We strive to deliver a diversified, dynamic and responsible global business delivering long-term sustainable value for our investors.

### Diversified

We continue to actively seek appropriate and complementary acquisitions to the Argus family. 2018 sees us continue to grow and seek to acquire businesses in Europe.

### Dynamic

We continue to invest for diversity and return.

---

### The Value We Created in the Past Year

\$3.8m Dividend paid, 4.5% Dividend yield.

---

### The Pledge We Make

Share in our journey of growth and expansion.

---

## Our Interest is You

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As we develop strong, long-term relationships with key stakeholder groups, we create sustainable value.

## Employees

We value high employee engagement by providing the opportunity to develop and progress. We encourage our people to grow and innovate within the Argus family.

### Diversity

We are proud to represent the broad range of cultures across the communities we serve. Harnessing the inherent diversity of thoughts, views and experiences across the Group is critical to our business success and fundamental to achieving our mission. We are committed to creating a work environment that enables and encourages employees to positively impact our clients and communities.

### Development

We are committed to the development and engagement of our colleagues and have maintained a focus on talent and succession management.

---

### The Value We Created in the Past Year

Top 3 Employer in Bermuda, 87% Employee engagement, 91% of employees feel that Argus cares about them.

---

### The Pledge We Make

Come and grow with the Argus family.

## Community

We strive to operate as a responsible and sustainable business by making powerful connections with local partners through targeted programmes that promote social and economic development in society and our environment.

### Society

We seek to have a positive impact on the communities in which we operate, going beyond charitable donations by creating and delivering awareness campaigns to encourage health and well-being. We actively promote the behaviours, values and principles that enable us to make the right decisions for all, always. We are committed to creating an environment that encourages employees to make a positive impact within the business, from supporting colleagues and local community to improvement and innovation in the workplace.

### Nurturing

Argus is actively involved in school programmes and is dedicated to supporting young entrepreneurs with mentoring, education and support.

---

### The Value We Created in the Past Year

2018 Best of Bermuda 'Good Corporate Citizen' Award winner, more than 70 charities supported.

---

### The Pledge We Make

A Change, for Good.

## Our Interest is You

# Long-Term Goals: What We Want To Become

## NOW

### Keeping You Healthy and Productive

Going beyond traditional healthcare by supporting you through initiatives such as Annual Health Checks, Population Health, Diabetes Management, Thrive, and Virgin Pulse.

### Keeping Your Business Running

Simple combined commercial policies, which effectively manage the risks in your business with swift and comprehensive claims resolution.

### Keeping Your Assets Safe

Expertise and active advice on how to protect your assets. Delivering policies that don't nickel and dime.

### Providing Peace of Mind Against Liabilities

Total cover for total peace of mind in an ever-changing, increasingly litigious fast-paced world.

### Managing and Protecting Your Wealth

Global best practice in wealth management tailored to each client's specific needs.

### Protecting Your Post-Retirement Lifestyle

Taking an holistic approach to post-retirement costs and desired lifestyle goals.

## STRATEGY

**We are making a change, for good.**

Change that supports our strategy of placing Argus on the global stage, able to provide sustainable, quality solutions for the community and a strong return for all our partners, for all our futures.

## FUTURE

### Keeping You Healthy and Productive

Changing the model from a fee for service to a fee for health outcome.

Changing from traditional pharmaceutical-based care to more progressive and holistic healthcare solutions, to get better health outcomes from the health spend.

### Keeping Your Business Running

Changing our focus to provide risk consultancy across a wide variety of market segments.

Expanding and diversifying our portfolio with market-leading expertise.

### Keeping Your Assets Safe

We want our customers to only pay for what they need by providing increasingly bespoke and flexible solutions through the use of technology and innovation.

### Providing Peace of Mind Against Liabilities

Changing our approach, to ensure we predict to protect against an increasingly litigious environment. Staying ahead of emerging risks from ever-diverse sources, from cryptocurrencies to data theft.

### Managing and Protecting Your Wealth

Expanding our wealth management services to cover a broader range of clientele and investment solutions by investing in technology and partnerships.

### Protecting Your Post-Retirement Lifestyle

We want all our members to have enough money to retire by increasing awareness, engagement and ease of post-retirement planning, utilising technology and cross-product integration.

# Governance and Leadership

## Argus Group Holdings Limited Board

Our directors are dedicated to promoting collaboration and innovation throughout the Company. They are focused on the goal of ensuring exceptional service for our customers and are committed to setting Argus apart as a leader in the industry.

Sheila E. Nicoll, FCI  
 Keith W. Abercromby, FIA  
 Peter R. Burnim, MBA  
 Timothy C. Faries, BA, LLB, LLM  
 Alison S. Hill, FCMA, CGMA  
 Barbara J. Merry  
 Marcia B. Scheiner, MBA  
 Robert D. Steinhoff, FCPA, JP  
 Kim R. Wilkerson, JP, CPCU  
 Paul C. Wollmann, MBA CPCU, AR, ARM

## Argus Group Holdings Limited Officers

Sheila E. Nicoll, FCI (Chairman)  
 Robert D. Steinhoff, FCPA, JP (Deputy Chairman)  
 Alison S. Hill, FCMA, CGMA (Chief Executive Officer)  
 Peter J. Dunkerley, FCPA (Chief Financial Officer)  
 George N. H. Jones, MBA, LLB (Group General Counsel & Company Secretary)

## Board Committees

### Risk

For the purpose of overseeing the Group's risk management, asset liability management, and financial investments.

Sheila E. Nicoll (Chairman)  
 Peter R. Burnim  
 Barbara J. Merry

### Audit

For the purpose of overseeing the accounting and financial reporting processes of the Company and the audit of its financial statements.

Robert D. Steinhoff (Chairman)  
 Keith W. Abercromby  
 Marcia B. Scheiner  
 Paul C. Wollmann

### People, Compensation and Governance

For the purpose of organising and overseeing the process by which individuals are nominated to become members of the Board, overseeing the roles and responsibilities of top executives.

Sheila E. Nicoll (Chairman)  
 Timothy C. Faries  
 Barbara J. Merry  
 Kim R. Wilkerson

## Business Unit Heads

Lauren M. Bell, FLMI, HIA, ACS  
*Executive Vice President – Life & Pensions*  
 Andrew H. Bickham, ACII  
*Executive Vice President – Broking*  
 Cindy F. Campbell, CPA, MBA  
*Executive Vice President – Interim Head of International Life*  
 John Doherty, CPCU, ARM, AR  
*Executive Vice President – Property & Casualty*  
 Michelle A. Jackson, MBA, MSc  
*Executive Vice President – Group Insurance*  
 Tyrone Montovio, ACII  
*Chief Executive – Argus Insurance Company (Europe) Limited*  
 Lawrence Pavia, FCI, ACI Arb, MA  
*Managing Director – Island Insurance Brokers Limited*  
 Joel P. Schaefer, CFA  
*President & Chief Executive Officer – Argus Wealth Management Limited*

## Support Unit Heads

Simon Giffen, CFA, TEP  
*Group Investment Manager*  
 Onesimus Nzabalinda, MBA, MSc, CISA, CFE, CRISC  
*Head of Risk & Compliance*  
 Wanda E. Richardson, MA, SPHR  
*Executive Vice President – Client Solutions, Sales & Marketing*  
 Hannah Ross, FIA  
*Chief Actuary*  
 Nik Smale, BEng  
*Executive Vice President – Innovation & Technology*  
 Sheena M. Smith, CPA  
*Vice President – Financial Reporting*  
 Kellianne M. Smith, BA  
*Head of Global Human Resources & Organisational Development*

## Management Level Committees

### Asset Liability Management Committee

The Committee is appointed by the Board and tasked with the oversight of the management and control of all financial investments and corresponding liabilities, as defined in the Argus Group's Investment Policy.

### Executive Risk Management Committee

The Committee is appointed by the Board and tasked with establishing a sound and effective risk management framework, including developing policies, procedures, and internal controls promoting the identification, evaluation, mitigation, monitoring and reporting of material risks in line with the Insurance Code of Conduct, the Investment Business Act, and any and all other relevant legislation and/or advisories as applicable in each jurisdiction, reviewing on a regular basis the risk management techniques employed in light of changing operational, regulatory, and market developments to ensure continued effectiveness and adoption of international best practice, and assessing and evaluating on a regular basis, the Company's self assessment of compliance with regulatory requirements.

### Operational Risk Management Sub-Committee

The Sub-Committee is appointed by the Executive Risk Management Committee and tasked with reviewing and approving the risk management policies and procedures, and subsequent changes to them, providing a forum to review the various exposures to the business units and the strategies to mitigate material risks, overseeing of the development and implementation of the risk, compliance and internal controls framework for the Group, and reviewing management information systems reports, such as customer complaints, operational risk losses, and "near-miss" incidents.

### Data Privacy & Information Risk Sub-Committee

The Sub-Committee is appointed by the Executive Risk Management Committee and tasked with reviewing the classification and security of the Group's data, complying with data privacy regulations, preparing and monitoring the Group's Data Breach Response Plan, and general security awareness.

### Capital & Regulatory Risk Sub-Committee

The Sub-Committee is appointed by the Executive Risk Management Committee and tasked with reviewing the Group's Medium-Term Capital Plan and ongoing capital requirements, statutory returns and regulatory reporting, and general communication to and from regulators and rating agencies.

### Underwriting & Claims Risk (Property & Casualty) Sub-Committee

The Sub-Committee is appointed by the Executive Risk Management Committee and tasked on behalf of the Group's property and casualty businesses reviewing underwriting/claims policies, procedures and manuals, underwriting authority limits, rate reviews and pricing changes, new product development, business developments or opportunities, claims trends and large loss reporting, reinsurance renewals and changes to reinsurance programmes, and reserving.

### Underwriting & Claims Risk (Employee Benefits) Sub-Committee

The Sub-Committee is appointed by the Executive Risk Management Committee and tasked on behalf of the Group's employee benefits businesses reviewing underwriting/claims policies, procedures and manuals, underwriting authority limits, rate reviews and pricing changes, new product development, business developments or opportunities, claims trends and large loss reporting, reinsurance renewals and changes to reinsurance programmes, and reserving.

## Principal Operating Subsidiaries

### Bermuda

Argus Insurance Company Limited Paul C. Wollmann (Chairman) John Doherty Peter J. Dunkerley Alison S. Hill Marcia B. Scheiner	Argus International Life Bermuda Limited* Marcia B. Scheiner (Chairman) Peter R. Burnim Peter J. Dunkerley Paul C. Wollmann
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Bermuda Life Insurance Company Limited Timothy C. Faries (Chairman) Lauren M. Bell Peter J. Dunkerley Alison S. Hill Michelle A. Jackson Sheila E. Nicoll Kim R. Wilkerson	Argus International Life Insurance Limited* Marcia B. Scheiner (Chairman) Peter R. Burnim Peter J. Dunkerley Alison S. Hill Paul C. Wollmann
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Centurion Insurance Services Limited Alison S. Hill (Chairman) Andrew H. Bickham Peter J. Dunkerley	Bermuda Life Worldwide Limited* Marcia B. Scheiner (Chairman) Peter R. Burnim Peter J. Dunkerley Alison S. Hill Paul C. Wollmann
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*\* sale pending subject to regulatory approval*

Argus Wealth Management Limited  
Robert D. Steinhoff (Chairman)  
Peter R. Burnim  
Peter J. Dunkerley  
Timothy C. Faries

### Gibraltar

Argus Insurance Company  
(Europe) Limited  
Sheila E. Nicoll (Chairman)  
Keith W. Abercromby  
Peter R. Burnim  
Alison S. Hill  
Tyrone Montovio  
Michael Oliver

WestMed Insurance  
Services Limited  
Alison S. Hill (Chairman)  
Tyrone Montovio  
John L. Stagnetto

### Malta

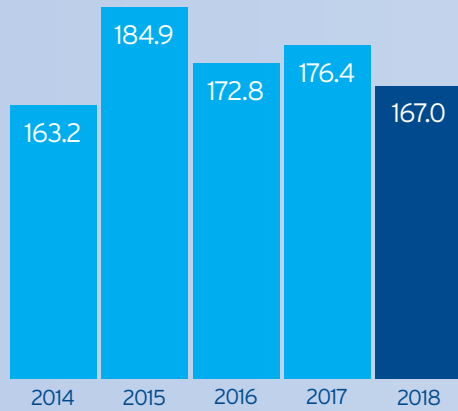
Argus Insurance Agencies Limited  
Charles Farrugia (Chairman)  
Alison S. Hill  
Tyrone Montovio\*\*  
Sheila E. Nicoll

*\*\* subject to regulatory approval*

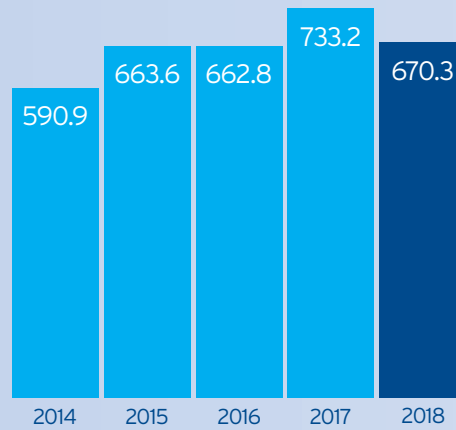
Island Insurance Brokers Limited  
Sheila E. Nicoll (Chairman)  
Dr. Carmel Cascun  
Peter J. Dunkerley  
Alison S. Hill  
Barbara J. Merry  
Lawrence Pavia

# Five-Year Summary

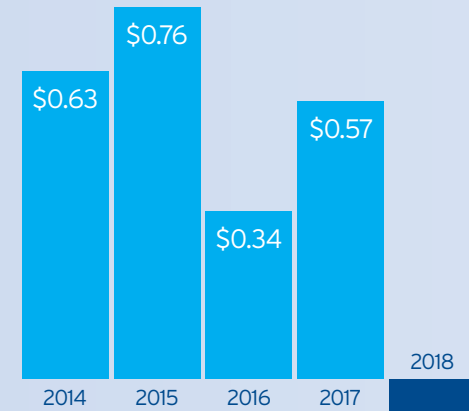
Total Revenue  
\$m



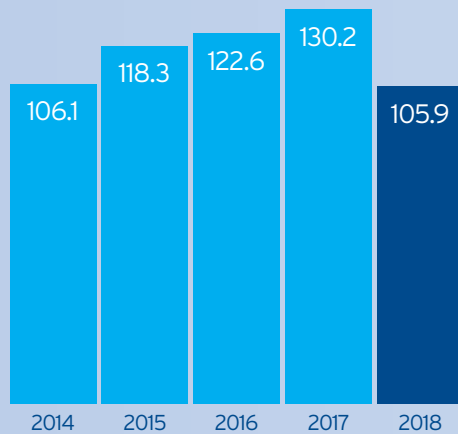
Total General Fund Assets  
\$m



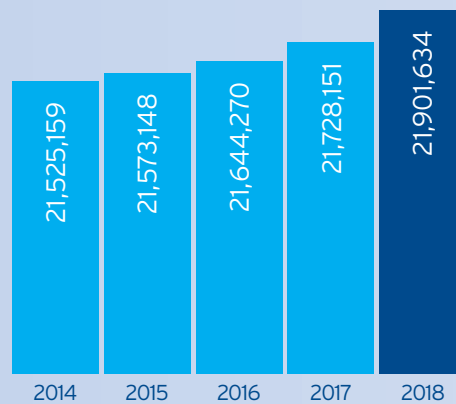
Earnings per Share  
Fully Diluted

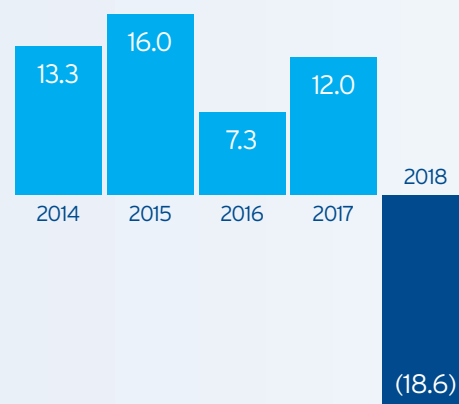
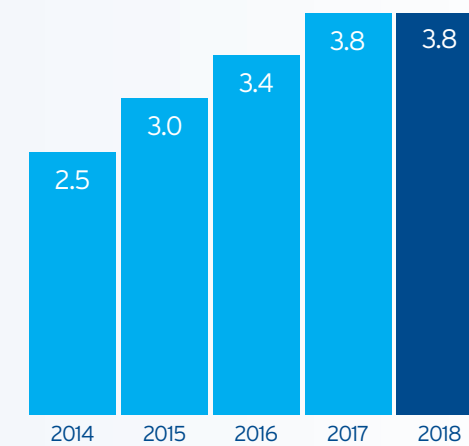


Shareholders' Equity  
\$m

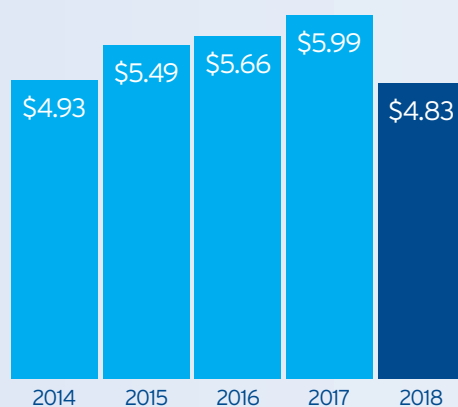


Shares in Issue

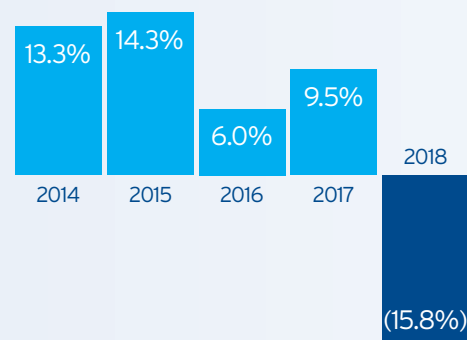


Earnings/(Loss) Attributable  
To Shareholders \$mCash Dividends  
\$m

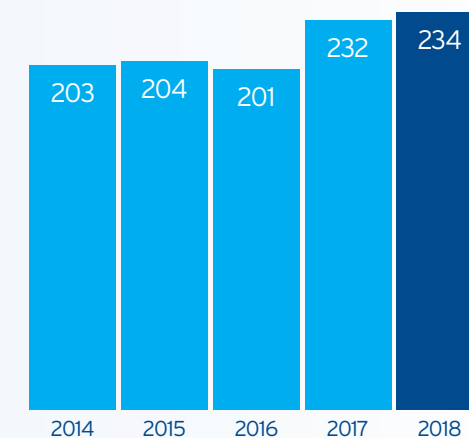
Book Value per Share



Return on Shareholders' Equity



Employees



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# Management's Responsibility for the Financial Statements

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The accompanying consolidated financial statements and other financial information in this Annual Report have been prepared by the Group's management, which is responsible for their integrity, consistency, objectivity and reliability. To fulfil this responsibility, the Group maintains policies, procedures and systems of internal control to ensure that its reporting practices, and accounting and administrative procedures are appropriate, such that relevant and reliable financial information is produced and assets are safeguarded. These controls include the careful selection and training of employees, the establishment of well-defined areas of responsibility and accountability for performance, and the communication of policies and a code of conduct throughout the Group. In addition, the Group maintains an Internal Audit Department that conducts periodic audits of all aspects of the Group's operations. The Internal Audit Department reports directly to the Audit Committee.

These consolidated financial statements have been prepared in conformity with International Financial Reporting Standards and, where appropriate, reflect estimates based on management's judgment. The financial information presented throughout this Annual Report is generally consistent with the information contained in the accompanying consolidated financial statements.

KPMG Audit Limited, the independent chartered professional accountants appointed by the shareholders, have audited the consolidated financial statements set out on pages 38 through 110 in accordance with auditing standards generally accepted in the United States of America to enable them to express to the shareholders their opinion on the consolidated financial statements. Their report is shown opposite.

The consolidated financial statements have been further reviewed and approved by the Board of Directors acting through the Audit Committee, which is comprised of directors who are not officers or employees of the Group. The Audit Committee, which meets with the auditors and management to review the activities of each and reports to the Board of Directors, oversees management's responsibilities for the financial reporting and internal control systems. The auditors have full and direct access to the Audit Committee and meet periodically with the committee, both with and without management present, to discuss their audit and related findings.

These consolidated financial statements were authorised for issue by the Board of Directors on August 1, 2018.



**Alison S. Hill**  
Chief Executive Officer



**Peter J. Dunkerley**  
Chief Financial Officer

August 1, 2018



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# Independent Auditor's Report

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To the Shareholders of Argus Group Holdings Limited and its Subsidiaries

We have audited the accompanying consolidated financial statements of Argus Group Holdings Limited and its subsidiaries, which comprise the consolidated balance sheets as of March 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive operations, changes in equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

## MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITY

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

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

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

## OPINION

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of Argus Group Holdings Limited and its subsidiaries as of March 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

## OTHER MATTER

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The report to the shareholders is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subject to the auditing procedures applied in the audit of consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*KPMG Audit Limited*

Chartered Professional Accountants  
Hamilton, Bermuda

August 1, 2018

# Consolidated Balance Sheets

<i>(In \$ thousands)</i>	Note	MARCH 31 2018	MARCH 31 2017	<i>(In \$ thousands)</i>	Note	MARCH 31 2018	MARCH 31 2017
<b>Assets</b>				<b>Liabilities</b>			
Cash and short-term investments	4	32,285	55,778	Insurance contract liabilities	14	241,290	223,597
Interest and dividends receivable		2,570	2,452	Insurance balances payable	15	18,022	13,706
Assets held-for-sale	3	38,871	-	Payables arising from investment transactions	16	26,900	99,303
Investments	5,6	446,231	521,599	Investment contract liabilities	17	236,849	242,271
Receivable for investments sold		14,832	19,156	Liabilities held-for-sale	3	20,127	-
Insurance balances receivable	7	16,548	14,426	Taxes payable		109	56
Reinsurers' share of:				Accounts payable and accrued liabilities		17,805	19,235
Claims provisions	14	28,477	14,167	Post-employment benefit liabilities	18	3,339	3,414
Unearned premiums	14	9,273	8,871	<b>TOTAL GENERAL FUND LIABILITIES</b>		<b>564,441</b>	<b>601,582</b>
Other assets	8	6,804	7,989	Segregated fund liabilities held-for-sale	3	691,033	-
Deferred policy acquisition costs	9	1,351	964	Segregated fund liabilities from continuing operations	31	919,439	1,505,928
Investment properties	10	11,476	12,225	<b>TOTAL SEGREGATED FUND LIABILITIES</b>		<b>1,610,472</b>	<b>1,505,928</b>
Investment in associates	11	2,766	11,581	<b>TOTAL LIABILITIES</b>		<b>2,174,913</b>	<b>2,107,510</b>
Property and equipment	12	54,833	58,020	<b>Equity</b>			
Intangible assets	13	4,006	5,924	Attributable to shareholders of the Company			
<b>TOTAL GENERAL FUND ASSETS</b>		<b>670,323</b>	<b>733,152</b>	Share capital		16,494	16,944
Segregated fund assets held-for-sale	3	691,033	-	Contributed surplus		52,629	53,183
Segregated fund assets from continuing operations	31	919,439	1,505,928	Retained earnings		41,087	63,688
<b>TOTAL SEGREGATED FUND ASSETS</b>		<b>1,610,472</b>	<b>1,505,928</b>	Accumulated other comprehensive loss	22	(4,337)	(3,589)
<b>TOTAL ASSETS</b>		<b>2,280,795</b>	<b>2,239,080</b>	<b>TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY</b>		<b>105,873</b>	<b>130,226</b>
				Attributable to non-controlling interests		9	1,344
				<b>TOTAL EQUITY</b>		<b>105,882</b>	<b>131,570</b>
				<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,280,795</b>	<b>2,239,080</b>

The accompanying notes form part of these consolidated financial statements.

# Consolidated Statements of Operations

<i>For the years ended March 31 (In \$ thousands)</i>	Note	2018	2017
<b>Revenue</b>			
Gross premiums written		172,836	162,599
Reinsurance ceded		(37,052)	(36,307)
Net premiums written		135,784	126,292
Net change in unearned premiums	14.3	(811)	(22)
Net premiums earned		134,973	126,270
Investment income	5.4	3,544	18,431
Share of (loss)/earnings of associates and impairment	11	(6,940)	212
Commissions, management fees and other	24	35,438	31,510
		167,015	176,423
<b>Expenses</b>			
Policy benefits		15,607	17,672
Claims and adjustment expenses		102,623	102,916
Reinsurance recoveries	25	(8,280)	(18,118)
Gross change in contract liabilities	26	28,784	(5,751)
Change in reinsurers' share of claims provisions	26	(16,123)	9,009
<b>NET BENEFITS AND CLAIMS</b>		<b>122,611</b>	<b>105,728</b>
Commission expenses		4,883	4,745
Operating expenses	27	51,501	49,725
Amortisation, depreciation and impairment	12,13	6,314	4,169
		185,309	164,367
<b>(LOSS)/EARNINGS BEFORE INCOME TAXES</b>		<b>(18,294)</b>	<b>12,056</b>
Income tax expense	30	232	228
<b>NET (LOSS)/EARNINGS FOR THE YEAR</b>		<b>(18,526)</b>	<b>11,828</b>
Attributable to:			
Shareholders of the Company		(18,634)	11,954
Non-controlling interests		108	(126)
		(18,526)	11,828
Earnings per share:	23		
Basic		(0.92)	0.57
Fully diluted		(0.92)	0.57

The accompanying notes form part of these consolidated financial statements.

# Consolidated Statements of Comprehensive Operations

For the years ended March 31 (In \$ thousands)

	Note	2018	2017
<b>Net (Loss)/Earnings for the Year</b>		(18,526)	11,828
<b>OTHER COMPREHENSIVE (LOSS)/EARNINGS</b>			
Items that will not be reclassified to net earnings:			
Post-employment medical benefit obligation remeasurement	18	123	816
Items that are or may subsequently be reclassified to net earnings:			
Change in unrealised (losses)/gains on available-for-sale investments		(2,445)	859
Change in unrealised gains/(losses) on translating financial statements of foreign operations		1,586	(1,327)
Investment in associates	11	(12)	-
<b>OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR</b>		(748)	348
<b>COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR</b>		(19,274)	12,176
<b>OTHER COMPREHENSIVE (LOSS)/INCOME ATTRIBUTABLE TO:</b>			
Shareholders of the Company		(748)	348
Non-controlling interests		-	-
		(748)	348
<b>COMPREHENSIVE (LOSS)/INCOME ATTRIBUTABLE TO:</b>			
Shareholders of the Company		(19,382)	12,302
Non-controlling interests		108	(126)
		(19,274)	12,176

The accompanying notes form part of these consolidated financial statements.

## Consolidated Statements of Changes in Equity

<i>For the years ended March 31 (In \$ thousands except the number of shares)</i>	Note	2018	2017
<b>Share Capital</b>			
Authorised:			
25,000,000 common shares of \$1.00 each (2017 – 25,000,000)		25,000	25,000
Issued and fully paid, beginning of year 21,728,151 shares (2017 – 21,644,270 shares)		21,728	21,644
Add: Shares issued under the dividend reinvestment plan 173,483 shares (2017 – 83,881 shares)		173	84
Deduct: Shares held in Treasury, at cost 917,784 shares (2017 – 715,762 shares)		(5,407)	(4,784)
<b>BALANCE, NET OF SHARES HELD IN TREASURY, END OF YEAR</b>		<b>16,494</b>	<b>16,944</b>
<b>Contributed Surplus</b>			
Balance, beginning of year		53,183	52,891
Stock-based compensation expense		173	178
Treasury shares granted to employees		(169)	(177)
Shares issued under the dividend reinvestment plan	21	501	291
Acquisition of non-controlling interests		(1,059)	-
<b>BALANCE, END OF YEAR</b>		<b>52,629</b>	<b>53,183</b>
<b>Retained Earnings</b>			
Balance, beginning of year		63,688	55,742
Net earnings for the year		(18,634)	11,954
Dividends		(3,787)	(3,800)
Loss on treasury shares granted to employees		(180)	(208)
<b>BALANCE, END OF YEAR</b>		<b>41,087</b>	<b>63,688</b>
<b>Accumulated other Comprehensive Loss</b>			
Balance, beginning of year		(3,589)	(3,937)
Other comprehensive (loss)/income		(748)	348
<b>BALANCE, END OF YEAR</b>	22	<b>(4,337)</b>	<b>(3,589)</b>
<b>TOTAL ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY</b>		<b>105,873</b>	<b>130,226</b>
<b>Attributable to Non-controlling Interests</b>			
Balance, beginning of year		1,344	1,470
Net earnings/(loss) for the year		108	(126)
Distributions to non-controlling interests		(1,443)	-
<b>TOTAL EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS</b>		<b>9</b>	<b>1,344</b>
<b>TOTAL EQUITY</b>		<b>105,882</b>	<b>131,570</b>

The accompanying notes form part of these consolidated financial statements.

# Consolidated Statements of Cash Flows

<i>For the years ended March 31 (In \$ thousands)</i>	MARCH 31 2018	MARCH 31 2017	<i>For the years ended March 31 (In \$ thousands)</i>	MARCH 31 2018	MARCH 31 2017
<b>OPERATING ACTIVITIES</b>			<b>INVESTING ACTIVITIES</b>		
(Loss)/earnings before income taxes	(18,294)	12,056	Purchase of investments	(1,319,214)	(1,186,708)
<b>Adjustments to reconcile net earnings to cash basis</b>			Sale and maturity and payoff of investments	1,293,323	1,203,839
Interest income	(13,085)	(12,619)	Purchase of subsidiary, net of cash acquired	(677)	(2,030)
Dividend income	(1,454)	(929)	Purchase of property and equipment	(2,015)	(2,520)
Investment income related to Deposit administration pension plans	1,776	2,104	<b>CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES</b>	<b>(28,583)</b>	<b>12,581</b>
Net realised and unrealised gains on investments	(1,884)	(7,495)	<b>FINANCING ACTIVITIES</b>		
Amortisation of net premium of bonds	1,339	1,723	Dividends paid to shareholders	(3,244)	(3,528)
Net impairment losses on investments	9,918	1,000	Acquisition of shares held in Treasury	(841)	(1,292)
Share of earnings/(loss) of associates, including impairment	6,940	(212)	Acquisition of non-controlling interests	(2,502)	-
Net realised and unrealised (gains)/losses on investment properties	954	(1,277)	<b>CASH USED IN FINANCING ACTIVITIES</b>	<b>(6,587)</b>	<b>(4,820)</b>
Amortisation, depreciation and impairment	6,314	4,169	<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND SHORT-TERM INVESTMENTS</b>	<b>1,416</b>	<b>(883)</b>
Expense on vesting of stock-based compensation	173	178	<b>NET (DECREASE)/INCREASE IN CASH AND SHORT-TERM INVESTMENTS</b>	<b>(15,973)</b>	<b>21,672</b>
	<b>10,991</b>	<b>(13,358)</b>	<b>CASH AND SHORT-TERM INVESTMENTS, beginning of year</b>	<b>55,778</b>	<b>34,106</b>
<b>Change in operating balances</b>			<b>CASH AND SHORT-TERM INVESTMENTS, end of year</b>	<b>39,805</b>	<b>55,778</b>
Insurance balances receivable	(3,254)	1,149	Cash and short-term investments from continuing operations	32,285	55,778
Reinsurers' share of:			Cash and short-term investments held for sale	7,520	-
Claims provisions	(16,038)	9,197		<b>39,805</b>	<b>55,778</b>
Unearned premiums	(181)	405			
Other assets	1,287	(1,567)			
Deferred policy acquisition costs	(217)	167			
Insurance contract liabilities	30,026	(5,640)			
Insurance balances payable	6,953	(9,533)			
Investment contract liabilities	(5,422)	8,286			
Accounts payable and accrued liabilities	(552)	2,122			
Post employment benefit liability	48	95			
	<b>12,650</b>	<b>4,681</b>			
Interest income received	11,179	10,713			
Dividend income received	1,483	1,092			
Income tax paid	(228)	(390)			
<b>CASH GENERATED FROM OPERATING ACTIVITIES</b>	<b>17,781</b>	<b>14,794</b>			

The accompanying notes form part of these consolidated financial statements.

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# Notes to the Consolidated Financial Statements

March 31, 2018

*(Amounts in tables are expressed in thousands of Bermuda dollars, except for per share amounts and where otherwise stated)*

## 1 Operations

Argus Group Holdings Limited (the Company) was incorporated in Bermuda with limited liability on May 26, 2005, as a holding company and has its registered office at the Argus Building, 14 Wesley Street, Hamilton HM 11, Bermuda. The Company's shares are traded on the Bermuda Stock Exchange. At March 31, 2018, it has 1,394 shareholders; 85.8 percent of whom are Bermudian, holding 89.8 percent of the issued shares.

The Company and its subsidiaries (the Group) operates predominantly in Bermuda, Gibraltar and Malta underwriting life, health, property and casualty insurance. The Group also provides investment, savings and retirement products, and administrative services. Refer to Note 19 for details on the composition of the Group.

## 2 Significant Accounting Policies

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

### 2.1 STATEMENT OF COMPLIANCE

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

### 2.2 BASIS OF PRESENTATION

#### 2.2.1 Basis of measurement

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

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

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

#### 2.2.2 Presentation currency

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

#### 2.2.3 Use of critical estimates, judgments and assumptions

The preparation of the consolidated financial statements requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from those estimates.



Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

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

Note 2.10 – Insurance, Investment and Service Contracts;

Note 10 – Investment Properties; and

Note 11 – Investment in Associates;

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

Note 2.8 – Impairment of assets;

Note 5 and Note 17 – Investments and Investment Contract Liabilities; and

Note 14 – Insurance Contract Liabilities.

## **2.3 BASIS OF CONSOLIDATION**

### **2.3.1 Business combinations**

The Group uses the acquisition method to account for the acquisition of subsidiaries. At the date of acquisition, the Group recognises the identifiable assets acquired and liabilities assumed as part of the overall business combination transaction at their fair value. Recognition of these items is subject to the definitions of assets and liabilities in accordance with the IASB's Framework for the Preparation and Presentation of Financial Statements. The Group may also recognise intangible items not previously recognised by the acquired entity, such as customer lists.

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

#### **Amalgamation transactions**

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

### **2.3.2 Subsidiaries**

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The results and financial position of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

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

### **2.3.3 Non-controlling interests**

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Losses applicable to the non-controlling interest in a subsidiary are allocated to non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

### **2.3.4 Investment in associates**

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

Investment in associates is initially recognised at cost, which includes transaction costs. Thereafter, these investments are measured using the equity method. Under the equity method, the Group records its proportionate share of income and loss from

such investments on the Consolidated Statements of Operations and its proportionate share of Other Comprehensive Income on the Consolidated Statements of Comprehensive Operations. Certain associates have different accounting policies from the Group and, as a result, adjustments have been made to align the associate's accounting policies with the Group.

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

## **2.4 FOREIGN CURRENCY TRANSLATION**

### **2.4.1 Remeasurement of transactions in foreign currencies**

The individual financial statements of the Company and its subsidiaries are prepared in the currency in which they conduct their ordinary course of business, which is referred to as the functional currency. Monetary assets and liabilities denominated in currencies other than the functional currency of the Company or its subsidiaries are remeasured into the functional currency using rates of exchange at the balance sheet date. Income and expenses are translated at average rates of exchange. Foreign exchange gains and losses are reflected in Operating expenses on the Consolidated Statements of Operations.

### **2.4.2 Translation to the presentation currency**

The financial statements of foreign operations are translated from their respective functional currencies to Bermuda dollars, the Group's presentation currency. Assets and liabilities are translated at the rates of exchange at the balance sheet date, and income and expenses are translated using the average rates of exchange. The accumulated gains or losses arising from translation of functional currencies to the presentation currency are included in Other Comprehensive Income on the Consolidated Statements of Comprehensive Operations.

## **2.5 CASH AND SHORT-TERM INVESTMENTS**

Cash and short-term investments include cash balances, cash equivalents, time deposits and other short-term highly liquid financial assets with original maturities of three months or less, and bank overdrafts. Interest on these balances is recorded on the accrual basis and included in Investment income.

Cash include restricted cash being held on behalf of clients in order to comply with regulatory requirements in Malta. These amounts are not available for use in the Group's daily operations.

## **2.6 ASSETS AND LIABILITIES HELD-FOR-SALE**

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

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

See Note 3, Assets and liabilities held-for-sale for a more detailed explanation.

## **2.7 FINANCIAL INSTRUMENTS**

### **2.7.1 Financial assets**

#### **2.7.1(a) Classification and recognition of financial assets**

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

All financial assets are required to be measured at fair value with the exception of loans and receivables, debt securities classified as held-to-maturity, and available-for-sale equity instruments whose fair value cannot be reliably measured. The Group recognises loans and receivables at their date of inception. All other financial assets (includes assets designated at FVTPL) are recognised on

the trade date at which the Group becomes a party to the contractual provisions of the instrument. Balances pending settlement as a result of sales and purchases are reflected on the Consolidated Balance Sheets as Receivable for investments sold and Payable for investment purchased.

**(i) Financial assets at FVTPL**

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

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

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

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

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

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

**(iii) Held-to-maturity financial assets**

Held-to-maturity investments are non-derivative debt securities with fixed or determinable payments and fixed maturities that the Group has the positive intent and ability to hold to maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Amortisation of premiums and accretion of discounts are included in Investment income on the Consolidated Statements of Operations.

Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

**(iv) Loans and receivables**

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest method, less any impairment losses. Amortisation of premiums is included in Investment income on the Consolidated Statements of Operations.

For the purposes of this classification, Loans and receivables are comprised of Mortgages and loans, Interest and dividend receivable and other receivables in Other assets on the Consolidated Balance Sheets.

**2.7.1(b) Derecognition and offsetting**

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire or it transfers the rights to receive the contractual cash flows of the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, which is normally the trade date. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented on the Consolidated Balance Sheets when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

**2.7.2 Financial Liabilities****2.7.2(a) Classification and recognition of financial liabilities**

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

**(i) Financial liabilities at FVTPL**

The Group's financial liabilities at FVTPL relate to deposit accounted annuity policies shown under Investment contract liabilities on the Consolidated Balance Sheets. Contracts recorded at FVTPL are measured at fair value at inception and each subsequent reporting period. Changes in fair value of investment contract liabilities are recorded in Gross change in contract liabilities on the Consolidated Statements of Operations (Note 2.10.2).

**(ii) Other financial liabilities**

All remaining financial liabilities are classified as other financial liabilities, which include Investment contract liabilities related to the deposit administration pension plans and self-funded group health policies (Note 2.10.2), Payables arising from investment transactions and Accounts payable and accrued liabilities. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

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

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

**2.7.2(b) Derecognition**

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

**2.7.3 Derivative financial assets**

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

**2.7.4 Investment income**

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

## 2.8 IMPAIRMENT OF ASSETS

### 2.8.1 Impairment of financial assets

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

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

#### 2.8.1(a) *Held-to-maturity financial assets and Loans and receivables*

The Group considers evidence of impairment for Held-to-maturity investment assets and Loans and receivables at both a specific asset and collective level. All individually significant Held-to-maturity financial assets and Loans and receivables are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Held-to-maturity financial assets and Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together investments with similar risk characteristics.

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

When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed in Investment income on the Consolidated Statements of Operations.

#### 2.8.1(b) *Available-for-sale financial assets*

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

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

When there is objective evidence that an Investment in an associate is impaired, an impairment loss is measured by comparing the recoverable amount of the investment with its carrying value. The recoverable amount is determined in accordance with Note 2.8.2.

An impairment loss is recognised in Share of earnings of associates on the Consolidated Statements of Operations. Reversal of a previously recognised impairment loss is made if there has been a favourable change in the estimates used to determine the recoverable amount.

## 2.8.2 Impairment of non-financial assets

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

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

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

## 2.9 INVESTMENT PROPERTIES

Investment properties are real estate and real estate fractional units primarily held to earn rental income or held for capital appreciation. Rental income from investment properties is recognised on a straight-line basis over the term of the lease. Properties that do not meet these criteria are classified as Property and equipment (Note 2.12). Expenditures related to ongoing maintenance of properties subsequent to acquisition are expensed as incurred. Investment properties are initially recognised at the transaction price including acquisition costs on the Consolidated Balance Sheets. These properties are subsequently measured at fair value with changes in values recorded in Investment income on the Consolidated Statements of Operations.

Fair values are evaluated regularly by an accredited independent valuation specialist to reflect market conditions at the reporting date.

## 2.10 INSURANCE, INVESTMENT AND SERVICE CONTRACTS

### 2.10.1 Insurance contracts

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

#### 2.10.1(a) Premiums and acquisition costs

Premiums written on most life, annuity and health insurance contracts are recognised as revenue when due from the policyholder. For short-term insurance contracts, premiums written are earned on a pro rata basis over the terms of the policies. The reserve for Unearned premiums represents that portion of premiums written that relates to the unexpired terms of the policies and is included in Insurance contract liabilities on the Consolidated Balance Sheets.

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

#### 2.10.1(b) Receivables and payables related to insurance contracts

Receivables and payables related to insurance contracts are recognised when due and measured on initial recognition at the fair value of the consideration receivable or payable. Subsequent to initial recognition, Insurance balances receivable and Insurance

balances payable are measured at amortised cost. The carrying value of Insurance balances receivable is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in Operating expenses on the Consolidated Statements of Operations.

Insurance balances receivable and Insurance balances payable are derecognised when the derecognition criteria for financial assets and financial liabilities, as described in Note 2.7, have been met.

#### **2.10.1(c) Reinsurance**

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

The Group periodically assesses any reinsurance assets for impairment, with any impairment loss recognised in Reinsurance recoveries on the Consolidated Statements of Operations in the period in which any impairment is determined.

#### **2.10.1(d) Insurance contract liabilities**

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

##### **(i) Life and annuity policy reserves**

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

##### **(ii) Provision for unpaid and unreported claims**

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

Provision for unpaid and unreported claims are not discounted.

#### **2.10.2 Investment contracts**

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

Liabilities for investment contracts are measured at FVTPL or amortised cost (Note 2.7.2).

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

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

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

### 2.10.3 Other service contracts

Revenue arising from service contracts entered by insurance intermediaries is recognised in the year in which the risk of the underlying policies commences, to the extent that it is probable that future economic benefits will flow to the Group and these can be measured reliably. When it is probable that the insurance intermediary will be required to render further services during the life of the policy, the commission, or part thereof, is deferred and recognised as revenue over the period during which the policy is in force. The earned commission income is shown in Commissions, management fees and other on the Consolidated Statements of Operations.

### 2.11 SEGREGATED FUNDS

Segregated funds are lines of business in which the Group issues a contract where the benefit amount is directly linked to the reported net asset values of the investments held in the particular segregated fund. Although the underlying assets are registered in the name of the Group and the segregated fund policyholder has no direct access to the specific assets, the contractual arrangements are such that the segregated fund policyholder bears the risks and rewards of the fund's investment performance. The Group derives fee income, which is included within Commissions, management fees and other on the Consolidated Statements of Operations. Deposits to segregated funds are reported as increases in Segregated funds liabilities and are not reported on the Consolidated Statements of Operations.

For certain entities within the International Life Division which are registered segregated accounts companies, a segregated account is linked to each variable universal life insurance policies issued to policyholders who require U.S. compliant private placement life insurance and annuity products (Note 3). Insurance premiums arising from these unit linked type of policies are treated as deposits and are not recorded as revenue on the Consolidated Statements of Comprehensive Operations. Fees charged to policyholders, related to insured risk and associated administrative costs are recorded in Commissions, management fees and other on the Consolidated Statements of Comprehensive Operations. These fees are recognised as revenue each period in accordance with the terms of the contract.

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

### 2.12 PROPERTY AND EQUIPMENT

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

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

Buildings	2.5%
Computer equipment	20% – 33%
Furniture, equipment and leasehold improvements	10% – 20%

The assets' residual values, useful lives and method of depreciation are reviewed regularly, at minimum at the end of each fiscal year, and adjusted if appropriate. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is considered to be impaired and is written down immediately to its recoverable amount. In the event of an improvement in the



estimated recoverable amount, the related impairment may be reversed. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount, and are recognised in Commissions, management fees and other on the Consolidated Statements of Operations.

### **2.13 INTANGIBLE ASSETS**

Intangible assets refer to customer lists which are initially measured at fair value by estimating the net present value of future cash flows from the contracts in force at the date of acquisition. These are amortised on a straight-line basis over their estimated useful lives, which range from 3 to 16 years.

Subsequent expenditures are capitalised only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognised in Operating expenses on the Consolidated Statements of Operations as incurred.

Annually, Management reviews the remaining portion of Intangible assets based upon estimates of future earnings and recognises any permanent impairment in Amortisation, depreciation and impairment on the Consolidated Statements of Operations in the year in which it is identified.

### **2.14 EMPLOYEE BENEFITS**

#### **Post-employment benefits**

The Group operates a post-employment medical benefit plan for the benefit of its employees. The Group accrues the cost of these defined benefits over the periods in which the employees earn the benefits. The post-employment benefit liability is calculated using the projected unit credit actuarial cost method. The present value of the defined benefit liability is determined by discounting the estimate of future cash flows using interest rates of AA-rated corporate bonds that have terms to maturity that approximate the terms of the related post-employment benefit liability.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, are recognised in Other comprehensive income on the Consolidated Statements of Comprehensive Operations. Interest expense and other expenses related to the post-employment medical benefit plan are recognised in Operating expenses on the Consolidated Statements of Operations.

#### **Pensions**

The Group operates a defined contribution plan. On payment of contributions to the plan there is no further legal or constructive obligations to the Group. Contributions are recognised as employee benefits on the Consolidated Statements of Operations under Operating expenses in the period to which they relate.

#### **Stock-based compensation**

The Restricted Stock Plan is accounted for under the fair value method. The fair value of each share granted under the Restricted Stock Plan is based upon the market price at the date of grant. The estimated fair value is recognised as an expense pro rata over the vesting period, adjusted for the impact of any non-market vesting conditions. This is included in the Operating expenses on the Consolidated Statements of Operations and in the Contributed surplus on the Consolidated Statements of Changes in Equity.

At each reporting date, the Group reviews its estimate of the number of shares that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, on the Consolidated Statements of Operations, and a corresponding adjustment is made to Contributed surplus over the remaining vesting period. On exercise, the differences between the expense charged to the Consolidated Statements of Operations and the actual cost to the Group is transferred to Contributed surplus.

### **2.15 TAXATION**

Current and deferred taxes are recognised on the Consolidated Statements of Operations, except when they relate to items recognised in Other comprehensive income, in which case the current and deferred taxes are also recognised in Other comprehensive income.

Current taxes are based on the taxable result for the period. The taxable result for the period differs from the result as reported on the Consolidated Statements of Operations because it excludes items that are non-assessable or disallowed and it further excludes items that are taxable or deductible in other periods. It is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxes are generally recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available, against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be utilised. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Current tax assets and liabilities are offset when the Group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to settle its current tax assets and liabilities on a net basis.

## 2.16 SHARE CAPITAL

### Common shares

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

### Treasury shares

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes direct attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified and presented under Treasury Shares on the Consolidated Statements of Changes in Equity. When Treasury Shares are subsequently sold or reissued, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in Contributed surplus on the Consolidated Statements of Changes in Equity.

## 2.17 LEASES

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

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

For leases where the Group is the lessee, payments are charged to Operating expenses on the Consolidated Statements of Operations on a straight-line basis over the period of the lease.

## 2.18 EARNINGS PER SHARE

Basic earnings per share is presented on the Consolidated Statements of Operations and is calculated by dividing net earnings by the time-weighted average number of shares in issue during the year.

For the purpose of calculating fully diluted earnings per share, the time-weighted average number of shares in issue has been adjusted to reflect the additional shares that would have resulted had all stock options outstanding been exercised and in issue throughout the year. When there is a loss, no potential common shares are included in the computation of fully diluted earnings per share.

## 2.19 SEGMENT REPORTING

The Group is organised into operating segments based on their products and services. These operating segments mainly operate in the financial services industry. The Chief Executive Officer and the Board of Directors review the business and make strategic decisions primarily by operating segments.

The Group's reportable segments are as follows:

- (i) **Employee benefits** – comprised of health insurance, pensions, annuities, local life and long-term disability insurance;
- (ii) **Wealth management** – including investment and asset management, financial planning and private placement life insurance;

- (iii) **Global property and casualty insurance (P&C)** – including fire and windstorm (home and commercial property), all risks, liability, marine, motor coverage and employer's indemnity coverage in Bermuda, Gibraltar and Malta; and
- (iv) **All other** – representing the combined operations of the remaining components of the Group comprising management companies and a holding company.

The Group evaluates performance of operating segments on the basis of profit or loss from operations. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment operating revenue is derived primarily from insurance premium and fees and commission income.

## **2.20 APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS**

### **2.20.1 New and revised standards effective April 1, 2017**

The Group has applied the following new and revised standards issued by the International Accounting Standards Board (IASB) that are mandatorily effective for the accounting period beginning April 1, 2017.

#### **2.20.1(a) Amendments to IAS 7, Statement of Cash Flows**

The adoption of the new and revised standards did not have a material impact on the Group's consolidated financial statements.

In January 2017, the IASB issued Disclosure Initiative (Amendments to IAS 7), which amends IAS 7 *Statement of Cash Flows*. The amendments require entities to provide disclosure that enables users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. These amendments were applied prospectively.

#### **2.20.2(b) Annual Improvements to IFRSs 2014-2016 Cycle**

In December 2016, the IASB issued Annual Improvements to IFRSs 2014-2016 Cycle, which includes a minor amendment to IFRS 12 *Disclosure of Interests in Other Entities*. The amendment provides clarification guidance to the scope of IFRS 12 and was applied retrospectively.

#### **2.20.2(c) Policy fees**

During the year, the Group reclassified cost of insurance charges derived from certain variable universal life insurance contracts from Gross premiums written to Commissions, management fees and other \$2.6 million (2017 – \$2.6 million). The revised presentation of cost of insurance charges under Commissions, management fees and other better reflects the economics of the service component from these type of contracts. Comparative numbers were updated to conform to the presentation adopted for 2018.

## 2.21 FUTURE ACCOUNTING AND REPORTING CHANGES

There are a number of accounting and reporting changes issued under IFRS, including those still under development by the IASB. A summary of the recently issued new accounting standards that will impact the Group in 2019 and beyond is as follows:

TOPIC	EFFECTIVE DATE FOR THE COMPANY	EXPECTED IMPACT
Amendments to IAS 40 <i>Transfers of Investment Property</i>	April 1, 2018	No significant impact
IFRS 15 <i>Revenue from Contracts with Customers</i>	April 1, 2018	No significant impact
IFRS 16 <i>Leases</i>	April 1, 2019	Impact assessment in progress
IFRS 9 <i>Financial Instruments</i>	April 1, 2021*	Impact assessment in progress
Amendments to IFRS 4 <i>Insurance Contracts</i>	April 1, 2018	Impact assessment in progress
IFRS 17 <i>Insurance Contracts</i>	April 1, 2021	Impact assessment in progress
Amendments to IFRS 2 <i>Share-based Payment</i>	April 1, 2018	No significant impact
Annual Improvements to IFRSs 2014-2016 Cycle	April 1, 2018	No significant impact
IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i>	April 1, 2018	No significant impact
IFRIC 23 <i>Uncertainty over Income Tax Treatments</i>	April 1, 2019	No significant impact
Amendments to IAS 28 <i>Investments in Associates and Joint Ventures</i>	April 1, 2019	Impact assessment in progress
Annual Improvements to IFRSs 2015-2017 Cycle	April 1, 2019	Impact assessment in progress
Amendments to IAS 19 <i>Employee Benefits</i>	April 1, 2019	Impact assessment in progress

\* This is effective April 1, 2018 but adoption can be deferred to 2021 if certain conditions are met, see Note 2.21.5.

### 2.21.1 Amendments to IAS 40 *Transfers of Investment property*

In December 2017, the IASB issued *Transfers of Investment Property* (Amendments to IAS 40). The amendments to IAS 40 *Investment Property* clarify that an entity shall transfer property to or from investment property when, and only when, there is evidence of a change in use. Adoption of these amendments is not expected to have a significant impact on the consolidated financial statements.

### 2.21.2 IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 *Revenue from Contracts with Customers* was issued in May 2014 and should be applied retrospectively or on a modified retrospective basis. IFRS 15 clarifies revenue recognition principles, provides a robust framework for recognising revenue and cash flows arising from contracts with customers and enhances qualitative and quantitative disclosure requirements. IFRS 15 does not apply to insurance contracts, financial instruments and lease contracts. Revenues from service contracts and service components of investment contracts, that are reported in Fee income and primarily arise from our asset management and policyholder administration businesses, are within the scope of IFRS 15. IFRS 15 also provides guidance related to the costs to obtain and to fulfill a contract. Adoption of IFRS 15 is not expected to have a significant impact on the consolidated financial statements.

### 2.21.3 IFRS 16 *Leases*

IFRS 16 was issued in January 2016 and will be applied retrospectively or on a modified retrospective basis. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, the customer

(lessee) and the supplier (lessor). The standard brings most leases on-balance sheet for lessees under a single model, eliminating the previous classifications of operating and finance leases. The only exemption to this treatment is for lease contracts with a duration of less than one year. The on-balance sheet treatment will result in the grossing up of the balance sheet due to a right-of-use asset being recognised with an offsetting liability. Lessor accounting under the standard remains largely unchanged with previous classifications of operating and finance leases being maintained. Management is assessing the impact of this standard on the consolidated financial statements.

#### 2.21.4 IFRS 9 *Financial Instruments*

In July 2014, the final version of IFRS 9 was issued, which replaces IAS 39 *Financial Instruments: Recognition and Measurement*, and will be applied retrospectively or on a modified retrospective basis. The project has been divided into three phases: classification and measurement, impairment of financial assets, and hedge accounting. IFRS 9 provides that financial assets are classified and measured on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. IFRS 9 also introduces an impairment model for financial instruments not measured at fair value through profit or loss that requires recognition of expected losses at initial recognition of a financial instrument and the recognition of full lifetime expected losses if certain criteria are met. A new model for hedge accounting aligns hedge accounting with risk management activities. Revisions issued in July 2014 replace the existing incurred loss model used for measuring the allowance for credit losses with an expected loss model. In October 2017, the IASB issued narrow-scope amendments to IFRS 9. The amendments clarify the classification of certain prepayable financial assets and the accounting of financial liabilities following modification. The amendments are effective for annual periods beginning on or after January 1, 2019. However, pursuant to the below-mentioned amendments to IFRS 4, the Group will elect the deferral approach permitted under IFRS 4 to continue to apply IAS 39 until 2021. Management is assessing the impact of these amendments, including the new insurance standard IFRS 17 *Insurance Contracts* outlined below, on the consolidated financial statements.

#### 2.21.5 Amendments to IFRS 4 *Insurance Contracts* IFRS 17 *Insurance Contracts*

Amendments to IFRS 4 *Insurance Contracts* were issued in September 2016, which will be effective for the annual period beginning April 1, 2018. The amendments introduce two optional solutions to address concerns about the differing effective dates of IFRS 9 and the new insurance contracts standard, IFRS 17.

- The overlay approach provides an option for all issuers of insurance contracts to adjust profit or loss for eligible financial assets by removing any additional accounting volatility that may arise from applying IFRS 9 before the new insurance contracts standard.
- The deferral approach provides companies whose activities are predominantly related to insurance an optional temporary exemption from applying IFRS 9 until 2021.

Based on an analysis performed as of March 31, 2017, the Group is eligible to apply the temporary exemption as the predominance ratio reflecting the share of liabilities connected with insurance to total liabilities exceeds 90 percent. For the purpose of calculating the predominance ratio, liabilities connected with insurance include segregated fund liabilities of \$1.5 billion (Note 31). Management is proceeding on the assumption that the Group will apply the temporary exemption from the adoption of IFRS 9 and defer the implementation of IFRS 9 until a later date; however, no later than the period beginning April 1, 2021.

IFRS 17 was issued in May 2017 and provides a comprehensive guidance on accounting for insurance contracts and investment contracts with discretionary participation features. For general insurance contracts, IFRS 17 introduces mandatory discounting of loss reserves expected to be paid in more than one year as well as risk adjustment, for which confidence level equivalent disclosure will be required. Further, IFRS 17 is expected to have a significant impact on accounting for life insurance contracts as well as on the presentation of insurance contract revenue in the consolidated financial statements.

In order to evaluate the effects of adopting IFRS 17 in the consolidated financial statements, a joint IFRS 17 and IFRS 9 Group Implementation Programme (Programme) was set up, sponsored by the Group Chief Financial Officer. A steering committee comprising senior management from Finance, Risk, Operations and Investment Management oversees the work performed by individual work streams, with a technical committee defining Group accounting policies and methodologies to be consistently applied throughout the Group, and a transformation committee taking responsibility for systems implications and data flows. For the upcoming year, the focus of the Programme will be on preliminary impact analysis for significant legal entities as well as documentation of Group accounting policies.

#### 2.21.6 Amendments to IFRS 2 *Share-based Payment*

The amendments clarify how to account for certain types of share-based payment transactions, such as the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments. These amendments are applicable to awards granted after the adoption date and to unvested and vested but unexercised awards outstanding at that date. Adoption of these amendments is not expected to have a significant impact on the consolidated financial statements.

#### 2.21.7 Annual Improvements to IFRSs 2014-2016 Cycle

In December 2016, the IASB issued Annual Improvements to IFRSs 2014-2016 Cycle, which includes minor amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 28 *Investments in Associates and Joint Ventures* that are effective for annual periods beginning on or after January 1, 2018. We do not expect the adoption to have a significant impact on our consolidated financial statements.

#### 2.21.8 IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

In December 2016, the IASB issued IFRIC 22 *Foreign Currency Transactions and Advance Consideration*, which was developed by the IFRS Interpretations Committee. IFRIC 22 clarifies that for purposes of determining the exchange rate in transactions, which include the receipt or payment of advance consideration in a foreign currency, the date of the transaction is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. We do not expect the adoption to have a significant impact on our consolidated financial statements.

#### 2.21.9 IFRIC 23 *Uncertainty over Income Tax Treatments*

In June 2017, the IASB issued IFRIC 23 *Uncertainty over Income Tax Treatments*, which was developed by the IFRS Interpretations Committee. IFRIC 23 clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments, and requires an entity to determine whether tax treatments should be considered collectively or independently. In addition, IFRIC 23 addresses the assumptions an entity should make about the examination of tax treatments by taxation authorities, as well as how an entity should consider changes in facts and circumstances. IFRIC 23 also provides guidance on how to determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, and tax rates, based on whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings.

IFRIC is to be applied retrospectively or on a cumulative retrospective basis. We do not expect the adoption to have a significant impact on our consolidated financial statements.

#### 2.21.10 Amendments to IAS 28 *Investments in Associates and Joint Ventures*

In October 2017, the IASB issued narrow-scope amendments to IAS 28. The amendments clarify that long-term interests in an associate or joint venture to which the equity method is not applied should be accounted for following the requirements of IFRS 9. They are to be applied retrospectively with certain exceptions. As we will not adopt IFRS 9 until 2021, we will be required to apply IAS 39 to the long-term interests in associates or joint ventures covered by these amendments. Management is assessing the impact of this standard on the consolidated financial statements.

#### 2.21.11 Annual Improvements to IFRSs 2015-2017 Cycle

In December 2017, the IASB issued Annual Improvements to IFRSs 2015-2017 Cycle, which include minor amendments to four IFRS standards. Management is assessing the impact of this standard on the consolidated financial statements.

#### 2.21.12 Amendments to IAS 19 *Employee Benefits*

In February 2018, the IASB issued Plan Amendment, Curtailment or Settlement which amends IAS 19 *Employee Benefits*. Under IAS 19, when an amendment, curtailment or settlement of a defined benefit pension plan occurs, the net defined benefit liability or asset is remeasured. The amendments require an entity to use the updated assumptions from this remeasurement to determine current service cost and net interest for reporting periods after the change to the plan. Management is assessing the impact of this standard on the consolidated financial statements.

### 3 Assets and Liabilities Held-For-Sale

In March 2018, Management committed to a plan to sell the International Life Division, including all its assets and liabilities in the General funds and Segregated funds. The sale is expected to be finalised in the next fiscal year (Note 36.2).

Management also committed to a plan for the settlement of an outstanding mortgage loan receivable. The settlement of the outstanding loan is dependent upon the sale of the collateral property, which is expected to be finalised in the next fiscal year.

The following table shows the assets and liabilities held-for-sale that are measured at carrying value.

(in \$000s)	MARCH 31, 2018
Cash and short-term investments	7,520
Insurance balances receivable	2,146
Investments	25,100
Reinsurers' share of:	
Claims provisions	3,151
Unearned Premium	82
Other assets	7
Intangible assets	865
<b>Total General fund assets held-for-sale</b>	<b>38,871</b>
Due from related parties – net <sup>(1)</sup>	4,603
Segregated fund assets	691,033
	<b>734,507</b>
<b>LIABILITIES</b>	
Life and annuity policy reserves	16,170
Insurance balances payable	3,597
Accounts payable and accrued liabilities	360
<b>Total General fund assets held-for-sale</b>	<b>20,127</b>
Segregated fund liabilities held-for-sale	691,033
	<b>711,160</b>

(1) The divestment plan of the International Life Division includes the settlement of the Due from related parties – net prior to the effective date of sale.

The operations and cash flows of the International Life Division were clearly distinguished and reported as part of the Group's Wealth Management operating segment. Whilst separate, it did not represent a major line of business for the Group and was not separately disclosed as discontinued operations.

## 4 Cash and Short-term Investments

AS AT MARCH 31	2018	2017
Cash at bank and in hand	12,953	17,988
Short-term investments	19,332	37,790
	32,285	55,778

Included in Cash at bank and in hand is restricted cash of €2.6 million, or \$3.2 million (2017 – €2.5 million, or \$2.6 million). Certain subsidiaries have arrangements in place on behalf of clients in order to comply with regulatory requirements in Malta.

At March 31, 2018, \$nil (2017 – \$20.3 million) of short-term investments were used as collateral for the Group's reverse sale and repurchase agreements (Note 5.3).

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of Cash at bank and in hand. As of March 31, 2018, the Group's bank overdraft position is \$5.3 million (2017 – \$1.8 million).

## 5 Investments

### 5.1 CARRYING VALUES AND ESTIMATED FAIR VALUES OF INVESTMENTS

	MARCH 31, 2018		MARCH 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Available-for-sale</b>				
Bonds	388,314	388,314	432,183	432,183
Equities	16,077	16,077	22,803	22,803
	404,391	404,391	454,986	454,986
<b>Investments at FVTPL <sup>(1)</sup></b>				
Bonds	19,359	19,359	22,220	22,220
Equities	6,857	6,857	7,930	7,930
	26,216	26,216	30,150	30,150
<b>Held-to-maturity</b>				
Bonds	701	743	625	687
	701	743	625	687
<b>Loans and receivables</b>				
Mortgages and loans	14,272	15,015	35,411	37,155
Policy loans	81	81	81	81
	14,353	15,096	35,492	37,236
<b>Derivatives</b>				
Other <sup>(2)</sup>	455	455	283	283
Foreign currency forward contracts	115	115	63	63
	570	570	346	346
<b>TOTAL INVESTMENTS</b>	<b>446,231</b>	<b>447,016</b>	<b>521,599</b>	<b>523,405</b>

(1) Fair value through profit or loss (FVTPL)

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



During the period, certain fixed income and equity investments classified under the FVTPL (held-for-trading) category were sold due to portfolio reallocations, as the Group seeks to simplify and diversify its investment holdings. All investments purchased during the period were classified under available-for-sale. This is in consideration of the Group's intent to hold the investments for an indefinite period of time and use the investments for tactical asset/liability management purposes which may be sold from time to time to effectively manage interest rate exposure, prepayment risk and liquidity needs.

Included in Bonds are investments of \$152.7 million (March 2017 – \$159.0 million), which are maintained under the Interest Accumulator Account. The account is set up to provide policyholders certain protection from creditors of the Group. These investments are included in the assets supporting the Group's deposit administration pension.

## 5.2 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

AS AT MARCH 31	Note	2018	2017
Derivative assets		570	346
Derivative liabilities	16	(336)	(376)
Collateral <sup>(1)</sup>		680	743

(1) Collateral refers to cash held in favour of third parties.

The net earnings/(losses) arising from the Group's derivative financial instruments recognised as Investment income on the Consolidated Statements of Operations are as follows:

AS AT MARCH 31	2018	2017
Derivative financial instruments		
Foreign currency forward receivable	(300)	(5)
Other derivatives <sup>(1)</sup>	296	448
<b>TOTAL NET (LOSSES)/EARNINGS FROM DERIVATIVE FINANCIAL INSTRUMENTS</b>	<b>(4)</b>	<b>443</b>

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

### 5.2.1 Futures

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

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

Liquidity risk represents the possibility that the Group may not be able to adjust rapidly the size of its forward positions at a reasonable price in times of high volatility and financial stress. Exchange-traded futures are, however, subject to a number of safeguards to ensure that obligations are met, including the use of clearing houses, the posting of margins and the daily settlement of unrealised gains and losses and counterparty credit risk evaluation. Credit, market and liquidity risks and how these risks are mitigated are disclosed in Note 20.3.

At March 31, 2018, the Group has outstanding futures with long positions of \$12.0 million and short positions of \$14.5 million based on notional values (2017 – long positions of \$5.5 million and short positions of \$8.0 million).

#### 5.2.2 Options

The Group's investment guidelines permit the use of exchange-traded options on U.S. treasury futures and Eurodollar futures, which are used to manage exposure to interest rate risk and also to hedge duration. Exchange-traded options are held on a similar basis to futures and are subject to similar safeguards. Options are contractual arrangements that give the purchaser the right, but not the obligation, to either buy or sell an instrument at a specific set price at a predetermined future date. The Group may enter into option contracts that are secured by holdings in the underlying securities or by other means which permit immediate satisfaction of the Group's obligations. At March 31, 2018, the Group has options with long positions of \$nil and short positions of \$nil based on notional values.

#### 5.2.3 Interest Rate Swaps

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

Interest rate swap agreements entail the exchange of commitments to pay or receive interest, such as an exchange of floating rate payments for fixed rate payments, with respect to a notional amount of principal. These agreements involve elements of credit and market risk. Such risks include the possibility that there may not be a liquid market, that the counterparty may default on its obligation to perform or that there may be unfavourable movements in interest rates. Credit risk is mitigated by making collateral calls to mitigate exposure and counterparty credit risk evaluation. Credit, market and liquidity risks and how these risks are mitigated are disclosed in Note 20.3.

At March 31, 2018, the Group has open interest rate swaps with long positions of \$0.7 million and short positions amounted to \$8.6 million based on notional values (2017 – long positions of \$0.8 million and short positions of \$5.3 million).

#### 5.2.4 Credit Default Swaps

Credit default swaps (CDS) are used to manage exposure to the market or certain sectors of the market. A CDS contract provides protection against the decline in the value of the underlying assets as a result of specified credit events, such as default or bankruptcy. CDS requires the purchaser to pay a premium to the seller of the CDS contract in return for payment contingent on the occurrence of a credit event. The protection purchaser has recourse to the protection seller for the difference between the face value of the CDS contract and the fair value of the underlying asset at the time of the settlement. Neither the purchaser nor the seller under the CDS contract has recourse to the entity that issued the reference assets. At March 31, 2018, the Group has open CDS contracts with long positions of \$4.6 million and short positions amounted to \$4.2 million based on notional values (2017 – long positions of \$5.8 million and short positions of \$1.9 million).

#### 5.2.5 Foreign Currency Forward

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

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

The Group had the following open foreign currency forward contracts expressed in originating currency:

AS AT MARCH 31	2018		2017	
	Notional Short	Notional Long	Notional Short	Notional Long
Australian Dollar	883	-	-	-
Euro	5,620	2,810	4,836	2,536
Indian Rupee	-	45,002	-	-
Mexican Peso	-	20,045	-	13,940
Russian Rouble	6,967	46,315	-	-
Sterling	2,010	1,005	1,013	-

At March 31, 2018, the U.S. dollar equivalent and notional value of outstanding foreign currency forward contracts with long positions and short positions amounted to \$6.7 million and \$10.5 million respectively (2017 – \$3.5 million and \$6.4 million).

The Group also held foreign currency forward contracts denominated in African, Asian and South American currencies as of March 31, 2018. The U.S. dollar equivalent of notional value of these outstanding foreign currency forward contracts with long positions and short positions amounted to \$1.5 million and \$1.3 million, respectively (2017 – long positions of \$1.6 million and short positions of \$nil).

### 5.3 REVERSE SALE AND REPURCHASE AGREEMENTS

During the year, the Group entered into reverse sale and repurchase agreements (reverse repos) on investments. The money received from these agreements where the Group is the borrower (i.e. where the Group is under an obligation to take the securities back) is shown on the Consolidated Balance Sheets as a Payable arising from reverse repos in Payables arising from investment transactions (Note 16). The securities delivered to the lender continue to be reported in Investments on the Consolidated Balance Sheets in accordance with their relevant category.

During the year, cash flows arising from these agreements amounted to sales and purchases of \$3.5 billion (2017 – \$297.1 million of sales and \$267.5 million of purchases) which were shown net in the cash flows generated from/(used in) investing activities on the Consolidated Statement of Cash Flows.

As of March 31, 2018, the Group does not hold any outstanding balances arising from reverse repos. The table below shows balances arising from reverse repos and the collateral as of March 31, 2017.

MARCH 31, 2017	Assets	Liabilities	Collateral <sup>(1)</sup>
Payables arising from reverse repos	20,096	(20,096)	20,293

(1) Securities pledged at fair value.

Transactions arising from these agreements are subject to a master netting agreement that creates a contingent right of set-off that does not qualify for offsetting. Therefore, the Group presents Payables arising from reverse repos on a gross basis.

**5.4 INVESTMENT INCOME**

AS AT MARCH 31	2018	2017
<b>Interest income</b>		
Bonds – available-for-sale	11,940	11,241
Bonds – at FVTPL	306	303
Bonds – held-to-maturity	33	106
Mortgages and loans	737	727
Cash and other	69	242
	<b>13,085</b>	<b>12,619</b>
<b>Dividend income</b>		
Equities – available-for-sale	1,155	212
Equities – at FVTPL	299	717
	<b>1,454</b>	<b>929</b>
<b>Net realised and unrealised (losses)/gains on investments</b>		
Bonds – available-for-sale	1,209	365
Bonds – at FVTPL	(392)	268
Bonds – held-to-maturity	-	49
Equities – at FVTPL	308	6,076
Equities – available-for-sale	763	294
Derivative financial instruments	(4)	443
Investment properties	(954)	1,277
	<b>930</b>	<b>8,772</b>
<b>Other</b>		
Amortisation of premium on bonds	(1,339)	(1,723)
Rental income and other	1,108	938
Impairment charges		
Mortgages and loans <sup>(1)</sup>	(9,918)	(1,000)
	<b>(10,149)</b>	<b>(1,785)</b>
<b>INVESTMENT INCOME BEFORE DEDUCTIONS</b>	<b>5,320</b>	<b>20,535</b>
<b>Deductions</b>		
Investment income relating to Deposit administration pension plans	(1,776)	(2,104)
<b>INVESTMENT INCOME</b>	<b>3,544</b>	<b>18,431</b>

(1) During the year, the Group recorded an impairment on certain non-residential mortgages, classified under Assets-held-for-sale (Note 3.) The impairment recognised is the difference between the carrying value and the recoverable value which is determined based on market value of the underlying collateral property subsequent to market value of the underlying collateral property.

**5.5 INVESTMENT CLASSIFICATION**

Effective April 1, 2016, the Group redesignated certain fixed-income investments with a carrying value and fair value of \$318.6 million from the held-for-trading to the available-for-sale category. The valuation of these investments is based on Level 2 and 3 inputs in the fair value hierarchy, as defined in Note 6.

To the extent possible, Management intends to hold the investments for an indefinite period of time, taking into consideration the use of the assets for tactical asset/liability management. These investments are not held for the purpose of being sold or repur-

chased in the near term, with the intention of profiting from short-term price changes. Management believes that the users of the financial statements will be better served by redesignating these investments to available-for-sale.

Management redesignated these investments to the available-for-sale category as allowed by IAS 39 *Financial Instruments*. The investments were redesignated at their fair values as of April 1, 2016 and the effect of the change was applied prospectively in these financial statements from the date of redesignation.

The carrying value of the redesignated investments as of March 31, 2018 is \$110.4 million (2017 – \$204.2 million).

The table below sets out the amounts recognised as Investment income on the Consolidated Statements of Operations and Other comprehensive income in respect of investments redesignated out of the held-for-trading category.

AS AT MARCH 31	Consolidation Statements of Operations	2018 Other Comprehensive Income	Consolidation Statements of Operations	2017 Other Comprehensive Income
Investment Income	5,039	-	7,930	-
Net unrealised gains on investments	-	(1,082)	-	845
	5,039	(1,082)	7,930	845

If the investments had not been redesignated, net unrealised losses of \$1.1 million (2017 – net unrealised gains of \$0.8 million) would have been recognised in Investment income on the Consolidated Statements of Operations.

The effective interest rates on trading investments redesignated as available-for-sale investments at April 1, 2016 and still held at the reporting date ranged from 4.4 percent to 6.6 percent (2017 – 3.2 percent to 5.0 percent), with expected recoverable cash flows of \$155.3 million (2017 – \$260.4 million).

## 6 Fair Value Measurement

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

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

The Group determines the estimated fair value of each individual security utilising the highest level inputs available. Prices for the majority of the Group's investment portfolio are provided by a third-party investment accounting firm whose pricing processes and the controls thereon are subject to an annual audit on both the operation and the effectiveness of those controls. The audit reports are available to clients of the firm and the report is reviewed annually by Management. In accordance with their pricing policy, various recognised reputable pricing sources are used, including broker-dealers and pricing vendors. The pricing sources use bid prices where available, otherwise indicative prices are quoted based on observable market-trade data. The prices provided are compared to the investment managers' pricing. The Group has not made any adjustments to any pricing provided by independent pricing services or its third-party investment managers for either year ending March 31, 2018 and 2017.

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

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

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

Other similarly quoted instruments or market transactions may be used.

Other similarly quoted instruments or market transactions may be used.

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

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

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

Investment in Bond and Equity funds are valued using published net assets value provided by third parties, such as investments managers and administrators. The Group can redeem a portion of these investments on a regular basis and is not subject to lock-up provision. Accordingly these assets are classified under Level 2.

Included within Bonds "Other" and Equities, is investment in Argus Investment Strategies Fund Ltd., totalling \$nil (2017 – \$1 million). For reporting purposes, these investments were categorised as bonds and equities based on the underlying securities held. Net asset valuations for all the funds – along with client redemptions – were performed on a weekly basis. If the redemption request is greater than 10 percent of the fund's net asset value, the amount of the redemption was adjusted at the fund manager's discretion. These investments were classified as Level 2.

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

Fair value of the Investment contract liabilities (Deposit accounted annuity policies) is determined by using valuation techniques, such as discounted cash flow methods. A variety of factors are considered in the valuation techniques, including yield curve, credit spread and default assumptions, which have market observable inputs. Accordingly, Investment contract liabilities are classified under Level 2.

The carrying values of certain short-term assets and liabilities approximate fair value and are categorised as Level 2.

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

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

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

### 6.1 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

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

MARCH 31, 2018	Level 1	Level 2	Level 3	Total Fair Value
Cash and short-term investments	32,285	-	-	32,285
Interest and dividends receivable	-	2,570	-	2,570
Available-for-sale investments				
Bonds				
U.S. government	75,952	-	-	75,952
U.S. corporates	-	178,075	-	178,075
Municipal, other government and agency	-	23,928	-	23,928
Foreign corporates	-	7,855	-	7,855
Mortgage/asset-backed securities	-	70,736	-	70,736
Other <sup>(1)</sup>	-	31,768	-	31,768
<b>Total Available-for-sale bonds</b>	<b>75,952</b>	<b>312,362</b>	<b>-</b>	<b>388,314</b>
Equities				
Global listed equities	1,127	-	-	1,127
Investment in equity funds	-	12,773	-	12,773
Private equity funds and unquoted equities	-	-	2,177	2,177
<b>Total Available-for-sale equities</b>	<b>1,127</b>	<b>12,773</b>	<b>2,177</b>	<b>16,077</b>
<b>TOTAL AVAILABLE-FOR-SALE INVESTMENTS</b>	<b>77,079</b>	<b>325,135</b>	<b>2,177</b>	<b>404,391</b>
Investments at FVTPL				
Bonds				
U.S. government	19,359	-	-	19,359
Other <sup>(1)</sup>	-	-	-	-
<b>Total Bonds at FVTPL</b>	<b>19,359</b>	<b>-</b>	<b>-</b>	<b>19,359</b>
Equities				
Bermuda listed equities	2,500	-	1,795	4,295
Global listed equities	2,411	-	-	2,411
Private equity funds and unquoted equities	-	-	151	151
<b>Total Equities at FVTPL</b>	<b>4,911</b>	<b>-</b>	<b>1,946</b>	<b>6,857</b>
<b>TOTAL INVESTMENTS AT FVTPL</b>	<b>24,270</b>	<b>-</b>	<b>1,946</b>	<b>26,216</b>
Derivatives	-	570	-	570
Receivable for investments sold	-	14,832	-	14,832
Other financial assets under Other assets	-	3,056	-	3,056
Investment properties	-	11,476	-	11,476
<b>TOTAL ASSETS AT FAIR VALUE</b>	<b>133,634</b>	<b>357,639</b>	<b>4,123</b>	<b>495,396</b>

(1) Investment in bond funds.

MARCH 31, 2018	Level 1	Level 2	Level 3	Total Fair Value
<b>LIABILITIES</b>				
Investment contract liabilities	-	2,516	-	2,516
Payables arising from investment transactions	-	26,900	-	26,900
Accounts payable and accrued liabilities	-	17,805	-	17,805
<b>TOTAL LIABILITIES AT FAIR VALUE</b>	-	47,221	-	47,221
<b>SEGREGATED FUNDS</b>	<b>33,108</b>	<b>1,476,006</b>	<b>101,358</b>	<b>1,610,472</b>

Segregated funds include certain segregated funds held-for-sale, which were classified as: Level 1 – \$31.5 million, Level 2 – \$558.1 million and Level 3 – \$101.4 million.

MARCH 31, 2017	Level 1	Level 2	Level 3	Total Fair Value
Cash and short-term investments	55,778	-	-	55,778
Interest and dividends receivable	-	2,452	-	2,452
Available-for-sale investments				
Bonds				
U.S. government	79,721	11,627	-	91,348
U.S. corporates	-	146,680	-	146,680
Municipal, other government and agency	-	48,485	-	48,485
Foreign corporates	-	52,676	-	52,676
Mortgage/asset-backed securities	-	52,621	3,199	55,820
Other <sup>(1)</sup>	-	37,174	-	37,174
<b>Total Available-for-sale bonds</b>	<b>79,721</b>	<b>349,263</b>	<b>3,199</b>	<b>432,183</b>
Equities				
Global listed equities	696	-	-	696
Investment in equity funds	-	19,817	-	19,817
Private equity funds and unquoted equities	-	-	2,290	2,290
<b>Total Available-for-sale equities</b>	<b>696</b>	<b>19,817</b>	<b>2,290</b>	<b>22,803</b>
<b>TOTAL AVAILABLE-FOR-SALE INVESTMENTS</b>	<b>80,417</b>	<b>369,080</b>	<b>5,489</b>	<b>454,986</b>
Investments at FVTPL				
Bonds				
U.S. government	18,099	-	-	18,099
Other <sup>(1)</sup>	-	4,121	-	4,121
<b>Total Bonds at FVTPL</b>	<b>18,099</b>	<b>4,121</b>	<b>-</b>	<b>22,220</b>
Equities				
Bermuda listed equities	3,746	-	-	3,746
Global listed equities	4,033	-	-	4,033
Private equity funds and unquoted equities	-	-	151	151
<b>Total Equities at FVTPL</b>	<b>7,779</b>	<b>-</b>	<b>151</b>	<b>7,930</b>
<b>TOTAL INVESTMENTS AT FVTPL</b>	<b>25,878</b>	<b>4,121</b>	<b>151</b>	<b>30,150</b>



MARCH 31, 2017	Level 1	Level 2	Level 3	Total Fair Value
Derivatives	-	346	-	346
Receivable for investments sold	-	19,156	-	19,156
Other financial assets under Other assets	-	4,976	-	4,976
Investment properties	-	12,225	-	12,225
<b>TOTAL ASSETS AT FAIR VALUE</b>	<b>162,073</b>	<b>412,356</b>	<b>5,640</b>	<b>580,069</b>
<b>LIABILITIES</b>				
Investment contract liabilities	-	2,384	-	2,384
Payables arising from investment transactions	-	99,303	-	99,303
Accounts payable and accrued liabilities	-	19,235	-	19,235
<b>TOTAL LIABILITIES AT FAIR VALUE</b>	<b>-</b>	<b>120,922</b>	<b>-</b>	<b>120,922</b>
<b>SEGREGATED FUNDS</b>	<b>33,585</b>	<b>1,428,214</b>	<b>44,129</b>	<b>1,505,928</b>

(1) Investment in bond funds.

The following table provides a roll forward for the General fund assets measured at fair value for which significant unobservable inputs (Level 3) are used in the fair value measurement.

MARCH 31, 2018	At FVTPL Bonds	At FVTPL Equities	Available- for-sale Bonds	Available- for-sale Equities	Total
Balance, beginning of year	-	151	3,199	2,290	5,640
Included in Investment income	-	-	-	10	10
Included in Other comprehensive income	-	-	6	39	45
Transfer from Investment in associates to Level 3 investments (Note 11.1)	-	1,795	-	-	1,795
Re-designation of investments	-	-	(1,667)	-	(1,667)
Sales/Write Off	-	-	(1,538)	(162)	(1,700)
	-	1,946	-	2,177	4,123
<b>MARCH 31, 2017</b>					
	At FVTPL Bonds	At FVTPL Equities	Available- for-sale Bonds	Available- for-sale Equities	Total
Balance, beginning of year	1,551	284	-	2,383	4,218
Included in Investment income	-	-	-	(3)	(3)
Included in Other comprehensive income	-	-	-	(79)	(79)
Purchases	-	-	2,444	38	2,482
Transfer to Level 2	-	-	(650)	-	(650)
Re-designation of investments	(1,551)	-	1,551	-	-
Sales/Write Off	-	(133)	(146)	(49)	(328)
	-	151	3,199	2,290	5,640

The rollforward of Segregated funds measured at fair value using Level 3 inputs were included in Note 31 and does not impact the Group's Consolidated Statements of Comprehensive Operations and Cash Flows. During the year, there were no transfers made between the levels within the fair value hierarchy for Segregated funds (2017 – \$nil).

## 6.2 ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE

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

MARCH 31, 2018	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value
<b>ASSETS</b>					
Held-to-maturity bonds <sup>(1)</sup>	-	743	-	743	701
Mortgages and loans <sup>(2)</sup>	-	15,015	-	15,015	14,272
Policy loans	-	81	-	81	81
<b>TOTAL ASSETS DISCLOSED AT FAIR VALUE</b>	-	<b>15,839</b>	-	<b>15,839</b>	<b>15,054</b>
<b>LIABILITIES</b>					
Investment Contract liabilities <sup>(3)</sup>	-	224,559	-	224,559	234,333
<b>TOTAL LIABILITIES DISCLOSED AT FAIR VALUE</b>	-	<b>224,559</b>	-	<b>224,559</b>	<b>234,333</b>
<b>MARCH 31, 2017</b>					
	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value
<b>ASSETS</b>					
Held-to-maturity bonds <sup>(1)</sup>	-	687	-	687	625
Mortgages and loans <sup>(2)</sup>	-	37,155	-	37,155	35,411
Policy loans	-	81	-	81	81
<b>TOTAL ASSETS DISCLOSED AT FAIR VALUE</b>	-	<b>37,923</b>	-	<b>37,923</b>	<b>36,117</b>
<b>LIABILITIES</b>					
Investment contract liabilities <sup>(3)</sup>	-	233,223	-	233,223	239,887
<b>TOTAL LIABILITIES DISCLOSED AT FAIR VALUE</b>	-	<b>233,223</b>	-	<b>233,223</b>	<b>239,887</b>

(1) Fair value of bonds – refer to Note 6 for valuation techniques used to measure fair value.

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

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

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

## 6.3 TRANSFERS OF ASSETS AND LIABILITIES WITHIN THE FAIR VALUE HIERARCHY

The Group's policy is to record transfers of assets and liabilities between levels at their fair values as at the end of each reporting period, consistent with the date of determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. There were no transfers between Levels 1 and 2 during the year ended March 31, 2018 and 2017.

Transfers out of Level 3 of \$1.7 million (2017 – \$0.7 million), during the year ended March 31, 2018 as shown in Note 6.1., relate to certain investments, which were transferred to Level 2 as observable inputs became available. A transfer from Level 2 to Level 3 would occur primarily due to decreased observability of inputs in the valuation methodology. There were no such transfers made during the year (2017 – \$nil).

During the year, the Group reclassified a Bermuda listed equity from Investment in associates to Investments at FVTPL category and was included in the Level 3 investments as at March 31, 2018 (Note 11.1).

## 7 Insurance Balances Receivable

Insurance balances receivable is comprised of:

MARCH 31, 2018				
	Employee Benefits	Wealth Management	Global Property and Casualty	Total
Due from policyholders, agents and brokers	1,976	48	12,136	14,160
Due from reinsurers	2,388	-	-	2,388
<b>TOTAL INSURANCE BALANCES RECEIVABLE</b>	<b>4,364</b>	<b>48</b>	<b>12,136</b>	<b>16,548</b>
MARCH 31, 2017				
	Employee Benefits	Wealth Management	Global Property and Casualty	Total
Due from policyholders, agents and brokers	1,972	373	8,836	11,181
Due from reinsurers	3,007	-	238	3,245
<b>TOTAL INSURANCE BALANCES RECEIVABLE</b>	<b>4,979</b>	<b>373</b>	<b>9,074</b>	<b>14,426</b>

## 8 Other Assets

AS AT MARCH 31		2018	2017
<b>Other financial assets</b>			
Fees receivable		680	596
Receivable from self-funded group health policies		906	2,711
Notes and other receivables		1,470	1,669
<b>TOTAL OTHER FINANCIAL ASSETS</b>		<b>3,056</b>	<b>4,976</b>
Income taxes receivable		226	196
Prepaid expenses		3,522	2,817
<b>TOTAL OTHER ASSETS</b>		<b>6,804</b>	<b>7,989</b>

## 9 Deferred Policy Acquisition Costs

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

AS AT MARCH 31		2018	2017
Balance, beginning of year		964	1,098
Deferral during the year		3,912	3,165
Expense for the year		(3,695)	(3,333)
Foreign exchange rate movements		170	34
<b>BALANCE, END OF YEAR</b>		<b>1,351</b>	<b>964</b>

## 10 Investment Properties

	Fair Value
Balance, April 1, 2016	10,448
Additions	500
Unrealised gains from change in fair value	1,277
Balance, March 31, 2017	12,225
Additions	501
Disposals	(400)
Losses from change in fair value	(850)
<b>BALANCE, MARCH 31, 2018</b>	<b>11,476</b>

Investment properties are held primarily for resale and for rental income under operating lease agreements. All other investment properties are stated at fair value. Included in the Group's investment properties are condominium units, fractional apartment units and a residential property. During the year, the Group acquired the ownership rights to a residential property used as collateral for a mortgage loan. The residential property was recorded at discounted carrying value, which is considered to be fair value, at the acquisition date. The Group also sold a residential property at net proceeds of \$0.3 million and \$0.1 million was recorded as loss on disposition.

During the year, the fair value of the condominium units declined by \$0.9 million based on the appraisal performed by the valuation specialist as at March 31, 2018.

The Group has entered into operating leases for certain investment properties. The rental income arising during the year amounted to \$0.6 million (2017 – \$0.7 million), which is included in Investment income on the Consolidated Statements of Operations. Direct operating expenses included within Investment income arising in respect of such properties during the year were \$0.8 million (2017 – \$0.7 million).

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

## 11 Investment in Associates

The Group holds equity interests in a number of individually immaterial associates. The following table analyses, in aggregate, the carrying amount and share of earnings and other comprehensive income of these associates:

AS AT MARCH 31	2018	2017
Investment in a Bermuda listed company	-	7,551
Investment in Bermuda private companies	2,766	4,030
<b>TOTAL INVESTMENT IN ASSOCIATES</b>	<b>2,766</b>	<b>11,581</b>
Share of (loss)/earnings of associates	(1,151)	212
Impairment loss	(5,789)	-
Total share of (loss)/earnings of associates and impairment	(6,940)	212
Share of Other comprehensive income of associates	(12)	-
<b>TOTAL SHARE OF COMPREHENSIVE OPERATIONS OF ASSOCIATES AND IMPAIRMENT</b>	<b>(6,952)</b>	<b>212</b>

### 11.1 IMPAIRMENT AND LOSS OF SIGNIFICANT INFLUENCE

One of the Group's associates is a diversified public company engaged in various activities including distribution of automotive parts and provision of automotive services; provision of facilities management services; and the provision of cabling, networking and telephony installation and maintenance services. As a result of the continued decline in the associate's published fair value and the suspension of dividends in December 2017, the Group recognised an impairment of \$5.8 million on the Consolidated Statement of Operations. The impairment represents the amount to write down the equity of this investment in associate to the published fair value.

Subsequently, the Group reclassified this investment from Investment in associates to an equity investment at FVTPL (Note 5). This change was a result of loss of significant influence over the operational and financial policies of this company. Whilst the Group holds 28 percent interest, it does not hold a seat on the company's board of directors and has restricted access to timely financial and technical information. Furthermore, Management assessed that this investment is no longer aligned with the Group's investment and capital strategy and will be looking into formalising a divestment plan within the next year.

### 11.2 CONTINGENCIES AND RESTRICTIONS

Included in Investment in associates is a 35.5 percent interest (2017 – 35.5 percent) in a private company domiciled in Bermuda. The carrying value of this investment as at March 31, 2018 is \$2.6 million (2017 – \$3.9 million). The Group has issued a guarantee in respect of its proportionate share of a term bank loan facility totalling \$5.4 million (2017 – \$6.1 million).

The associate also secured a letter of credit in order to finance the purchase of another property. Under the terms of the letter of credit, an amount of \$nil million (2017 – \$0.2 million), which is equivalent to one annual installment payment, is required to be held in escrow until the final payment has been made. The final payment was made on January 31, 2018.

### 11.3 OTHER

Whilst the Group has 40 percent ownership of a private reinsurance company domiciled in Bermuda, it has no significant influence over the company's operational and financial policies due to restrictive voting rights. This investment is included in Note 5 under Available-for-sale equities and is recorded at cost of \$1.2 million (2017 – \$1.2 million).

## 12 Property and Equipment

	Note	Land and buildings	Computer equipment	Furniture and other equipment	Total
<b>Gross carrying amount</b>					
Balance, March 31, 2016		78,025	32,366	7,009	117,400
Additions		399	2,103	18	2,520
Acquisition of subsidiary	34	-	-	195	195
Retirements <sup>(1)</sup>		-	(308)	(377)	(685)
Foreign exchange rate movements		(87)	(22)	(56)	(165)
Balance, March 31, 2017		78,337	34,139	6,789	119,265
Additions		14	1,856	145	2,015
Retirements <sup>(1)</sup>		-	(61)	(14)	(75)
Foreign exchange rate movements		71	13	48	132
<b>BALANCE, MARCH 31, 2018</b>		<b>78,422</b>	<b>35,947</b>	<b>6,968</b>	<b>121,337</b>
<b>Accumulated depreciation</b>					
Balance, March 31, 2016		26,073	26,569	6,227	58,869
Depreciation charge for the year		2,270	609	124	3,003
Acquisition of subsidiary	34	-	-	165	165
Retirements <sup>(1)</sup>		-	(308)	(377)	(685)
Foreign exchange rate movements		(42)	(19)	(46)	(107)
Balance, March 31, 2017		28,301	26,851	6,093	61,245
Depreciation charge for the year		2,541	951	206	3,698
Retirements <sup>(1)</sup>		-	(61)	(14)	(75)
Impairments		1,550	-	-	1,550
Foreign exchange rate movements		43	9	34	86
<b>BALANCE, MARCH 31, 2018</b>		<b>32,435</b>	<b>27,750</b>	<b>6,319</b>	<b>66,504</b>
Net carrying amount:					
As at March 31, 2017		50,036	7,288	696	58,020
<b>AS AT MARCH 31, 2018</b>		<b>45,987</b>	<b>8,197</b>	<b>649</b>	<b>54,833</b>

(1) Certain computer, furniture and other equipment under the Global Property and Casualty operating segment were retired. These assets were fully depreciated and were no longer used by the Group.

As a result of the continued decline in the appraised value, the Group wrote down the carrying value of a property from \$3.8 million to the appraised value of \$2.2 million as of March 31, 2018. This property is held under the All other operating segment.

The appraised value represents the fair value of the property being impaired and is determined by external property valuers. Fair value is based on market data from recent comparable transactions and falls under Level 2 in the fair value hierarchy.

## 13 Intangible Assets

	Note	Total
<b>Gross carrying amount</b>		
Balance, March 31, 2016		24,075
Additions	34	4,671
Foreign exchange adjustments		(40)
Balance, March 31, 2017		28,706
Reclassification to Assets held-for-sale	3	(13,194)
Foreign exchange adjustments		93
<b>BALANCE, MARCH 31, 2018</b>		<b>15,605</b>
<b>Accumulated amortisation and impairment losses</b>		
Balance, March 31, 2016		21,640
Amortisation charge for the year		1,011
Impairment loss		155
Foreign exchange adjustments		(24)
Balance, March 31, 2017		22,782
Amortisation charge for the year		1,066
Reclassification to Assets held-for-sale	3	(12,329)
Foreign exchange adjustments		80
<b>BALANCE, MARCH 31, 2018</b>		<b>11,599</b>
Net carrying amount:		
As at March 31, 2017		5,924
<b>AS AT MARCH 31, 2018</b>		<b>4,006</b>

The Group recorded an impairment charge in the amount of \$nil (2017 – \$0.2 million), which in the prior year represents a full write down of the carrying value of a customer list in the Wealth Management operating segment. The impairment was a result of the reassessment of the customer list's inherent value in the prior year.

The remaining useful lives of the customer list range from one to six years.

## 14 Insurance Contract Liabilities

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

MARCH 31, 2018	Note	Gross	Ceded	Net
Life and annuity policy reserves	14.1	172,680	5,057	167,623
Provision for unpaid and unreported claims	14.2	49,838	23,420	26,418
		222,518	28,477	194,041
Unearned premiums	14.3	18,772	9,273	9,499
<b>TOTAL INSURANCE CONTRACT LIABILITIES</b>		<b>241,290</b>	<b>37,750</b>	<b>203,540</b>
MARCH 31, 2017	Note	Gross	Ceded	Net
Life and annuity policy reserves	14.1	178,362	6,882	171,480
Provision for unpaid and unreported claims	14.2	28,960	7,285	21,675
		207,322	14,167	193,155
Unearned premiums	14.3	16,275	8,871	7,404
<b>TOTAL INSURANCE CONTRACT LIABILITIES</b>		<b>223,597</b>	<b>23,038</b>	<b>200,559</b>

### 14.1 LIFE AND ANNUITY POLICY RESERVES

The table below sets out the Group's Life and annuity policy reserves shown by type of product within the Employee Benefits operating segment:

MARCH 31, 2018	Group Insurance	Life and Pensions	Total
Annuities	-	163,753	163,753
Long-term disability	6,629	-	6,629
Life	-	2,298	2,298
Life and annuity policy reserves	6,629	166,051	172,680
Reinsurers' share of claims provisions	(5,228)	171	(5,057)
<b>LIFE AND ANNUITY POLICY RESERVES, NET OF REINSURANCE</b>	<b>1,401</b>	<b>166,222</b>	<b>167,623</b>
MARCH 31, 2017	Group Insurance	Life and pensions	Total
Annuities	-	155,086	155,086
Long-term disability	6,130	-	6,130
Life	-	17,146	17,146
Life and annuity policy reserves	6,130	172,232	178,362
Reinsurers' share of claims provisions	(4,812)	(2,070)	(6,882)
<b>LIFE AND ANNUITY POLICY RESERVES, NET OF REINSURANCE</b>	<b>1,318</b>	<b>170,162</b>	<b>171,480</b>

The majority of the Life and annuity policy reserves relate to policies issued to individuals domiciled in Bermuda.

The Reinsurer's share of claims provisions are not considered impaired as at year end.



The composition of the assets supporting the net liabilities is as follows:

MARCH 31, 2018	Cash	Bonds	Mortgage and loans	Equities	Land and buildings	Total
Annuities	7,532	128,114	9,559	3,120	15,428	163,753
Long-term disability	-	1,034	-	367	-	1,401
Life	122	1,900	-	447	-	2,469
<b>LIFE AND ANNUITY POLICY RESERVES, NET OF REINSURANCE</b>	<b>7,654</b>	<b>131,048</b>	<b>9,559</b>	<b>3,934</b>	<b>15,428</b>	<b>167,623</b>
MARCH 31, 2017	Cash <sup>(1)</sup>	Bonds	Mortgage and loans	Equities	Land and buildings	Total
Annuities	6,603	116,110	9,059	7,315	16,000	155,087
Long-term disability	100	946	-	274	-	1,320
Life	754	9,959	1,885	2,475	-	15,073
<b>LIFE AND ANNUITY POLICY RESERVES, NET OF REINSURANCE</b>	<b>7,457</b>	<b>127,015</b>	<b>10,944</b>	<b>10,064</b>	<b>16,000</b>	<b>171,480</b>

(1) A large cash premium was received for an annuity transaction that took place at fiscal year end. The premium was invested in line with the Group's investment policy.

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

The net impact of changes in actuarial methods and assumptions was a decrease in reserves backing policyholder liabilities of \$0.8 million (2017 – decrease of \$2.4 million). These amounts are net of the impact of the reinsurance assets on policyholder liabilities of \$5.1 million (2017 – \$6.9 million).

The changes in the net Life and annuity policy reserves for the year are as follows:

AS AT MARCH 31	2018	2017
Balance, beginning of year	171,480	167,465
Changes due to:		
Reclassification to Assets and liabilities held-for-sale	(13,019)	-
Issuance of new policies	15,545	9,085
Normal in-force movement	(7,232)	(7,449)
Mortality/morbidity assumptions	657	1,961
Interest rate assumptions	576	2,205
Expense assumptions	(171)	(1,787)
Other	(213)	-
<b>BALANCE, END OF YEAR</b>	<b>167,623</b>	<b>171,480</b>

## 14.1.1 Key Assumptions – Life and annuity policy reserves

ASSUMPTION, METHODOLOGY AND SENSITIVITIES	RISK MANAGEMENT
<p>The risks associated with insurance contracts and in particular with life and annuity insurance contracts are complex and subject to a number of variables that complicate quantitative sensitivity analysis.</p> <p>To recognise the uncertainty involved in determining the best estimate assumptions, a Provision for Adverse Deviation (PfAD) is established. The PfAD is determined by including a margin for conservatism for each key assumption to allow for possible deterioration in experience and to help ensure the policy reserves will be adequate to pay for future benefits. The PfAD assumptions tend to be at the conservative end of the ranges suggested by the CIA.</p>	<p>In conjunction with prudent business practices to manage both business and investment risks, the selection and monitoring of appropriate assumptions are designed to minimise the Group's exposure to measurement uncertainty.</p>
<p><b>(a) Mortality and morbidity risk</b></p> <p>Mortality refers to the likelihood of death. The mortality assumption is based on industry standard life insurance and standard annuity past and emerging experience. The volume of the Group's life insurance and annuity business is not sufficient to use company specific mortality tables.</p> <p>A five percentage basis decrease in the best estimate assumption for annuitant mortality is estimated to increase the policy reserves by \$3.8 million, 2.3 percent (2017 – \$3.6 million, 2.2 percent).</p> <p>Morbidity refers to the incidence of accident and sickness as well as the recovery from the incidence. The morbidity assumptions are based on the industry standard morbidity tables for the long-term disability business. The frequency of claims is low and the risk is substantially reinsured.</p>	<p>The Group maintains underwriting standards to determine the insurability of applicants. Claim trends are monitored on an ongoing basis. To offset some of the mortality risk, the Group cedes a proportion of the risk to reinsurers.</p> <p>Mortality and morbidity are monitored regularly.</p>
<p><b>(b) Investment returns and interest rate risk</b></p> <p>Assets are allocated to the different operating segments. For each significant operating segment, CALM is used to project the cash flows from the supporting assets and the cash flows from the liabilities. The projected asset cash flows are combined with the projected cash flows from future asset sales and purchases to determine the expected investment returns for all future years.</p> <p>The CIA prescribes several representative reinvestment scenarios for use in CALM to determine the sensitivity of the Group's business to possible reinvestment risk. These represent a wide variety of interest rate scenarios. To provide a representative example, a 100 basis points increase in the best estimate investment return assumption decreases the total Life and annuity policy reserves by \$13.3 million (2017 – \$13.8 million). A 100 basis points decrease in the best estimate assumption increases the total Life and annuity policy reserves by \$15.7 million (2017 – \$16.2 million).</p>	<p>The Group's policy of closely matching the cash flows of assets with those of the corresponding liabilities is designed to mitigate the Group's exposure to future changes in interest rates. The interest rate risk positions in business segments are monitored on an ongoing basis. Under CALM, the re-investment rate is developed using interest rate scenario testing and reflects the interest rate risk positions.</p> <p>Bonds, equities, real estate and other non-fixed income assets are used to support long-dated obligations in the Group's annuity and pensions businesses, and for long-dated insurance obligations on contracts where the investment return risk is borne by the Group.</p>

ASSUMPTION, METHODOLOGY AND SENSITIVITIES	RISK MANAGEMENT
<p><b>(c) Credit risk</b></p> <p>Credit risk is provided for by reducing investment yields assumed in the calculation of the policy reserves. Past Group and industry experience over the long term, in addition to ongoing reviews of the current portfolio, are used to project credit losses. In addition to the allowances for losses on invested assets due to interest rate risk, the policy reserves include a provision of \$1.1 million (2017 – \$1.1 million) to provide for future asset defaults and loss of asset value on current assets and future purchases.</p>	<p>For certain policies, the premiums and benefits reflect the Group's assumed level of future credit losses at contract inception or most recent contract adjustment date. The Group holds explicit provisions in actuarial liabilities for credit risk including PfAD.</p>
<p><b>(d) Expenses</b></p> <p>Operating expense assumptions reflect the projected costs of servicing and maintaining the in-force policies. The assumptions are derived from internal reviews of operating costs and include an allowance for inflation.</p> <p>A ten percent increase in the best estimate assumption for unit expenses is estimated to increase the policy reserves by approximately \$0.6 million (2017 – \$0.7 million).</p>	<p>The Group prices its products to cover the expected costs of servicing and maintaining them. In addition, the Group monitors expenses quarterly, including comparisons of actual expenses to expense allowances used in pricing and valuation.</p>

**14.2 PROVISION FOR UNPAID AND UNREPORTED CLAIMS**

The table below sets out the Provision for unpaid and unreported claims shown by type of product and by reportable segment. The majority of these insurance contracts are of a short-term nature.

<b>MARCH 31, 2018</b>			
	<b>Employee Benefits</b>	<b>Global Property &amp; Casualty</b>	<b>Total</b>
Healthcare	11,888	1,550	13,438
Property	-	2,251	2,251
Motor	-	29,777	29,777
Accident and liability	-	3,828	3,828
Marine	-	544	544
Provision for unpaid and unreported claims, gross	11,888	37,950	49,838
Reinsurers' share of claims provisions	(344)	(23,076)	(23,420)
<b>PROVISION FOR UNPAID AND UNREPORTED CLAIMS, NET OF REINSURANCE</b>	<b>11,544</b>	<b>14,874</b>	<b>26,418</b>
<b>MARCH 31, 2017</b>			
	<b>Employee Benefits</b>	<b>Global Property &amp; Casualty</b>	<b>Total</b>
Healthcare	9,882	2,045	11,927
Property	-	2,257	2,257
Motor	-	9,680	9,680
Accident and liability	-	4,808	4,808
Marine	-	288	288
Provision for unpaid and unreported claims, gross	9,882	19,078	28,960
Reinsurers' share of claims provisions	(20)	(7,265)	(7,285)
<b>PROVISION FOR UNPAID AND UNREPORTED CLAIMS, NET OF REINSURANCE</b>	<b>9,862</b>	<b>11,813</b>	<b>21,675</b>

The reconciliation of the Provision for unpaid and unreported claims is as follows:

AS AT MARCH 31	Provisions for unpaid and unreported claims	2018 Reinsurers' share of claims provisions	Net	Provisions for unpaid and unreported claims	2017 Reinsurers' share of claims provisions	Net
Balance, beginning of year	28,960	7,285	21,675	39,344	16,606	22,738
Claims and adjustment expenses incurred						
Current year	98,212	7,095	91,117	91,104	8,518	82,586
Prior years	26,391	18,017	8,374	4,524	(483)	5,007
Foreign exchange adjustments	2,685	1,423	1,262	(1,687)	(671)	(1,016)
Total Claims and adjustment expenses incurred	127,288	26,535	100,753	93,941	7,364	86,577
Claims and adjustment expenses paid						
Current year	(76,752)	(4,352)	(72,400)	(74,205)	(6,241)	(67,964)
Prior years	(29,658)	(6,048)	(23,610)	(30,120)	(10,444)	(19,676)
Total Claims and adjustment expenses paid	(106,410)	(10,400)	(96,010)	(104,325)	(16,685)	(87,640)
<b>BALANCE, END OF YEAR</b>	<b>49,838</b>	<b>23,420</b>	<b>26,418</b>	<b>28,960</b>	<b>7,285</b>	<b>21,675</b>

## 14.2.1 Key Assumptions – Provision for unpaid and unreported claims

ASSUMPTION, METHODOLOGY AND SENSITIVITIES	RISK MANAGEMENT
<p>The risks associated with insurance contracts are complex and subject to a number of variables that complicate quantitative sensitivity analysis. Uncertainty over the timing and amount of future claim payments necessitate the holding of significant reserves for liabilities that may only emerge a number of accounting periods later.</p> <p>The key assumptions underlying the application of the actuarial methods and the estimate of unpaid claim liabilities are the expected development of paid and reported losses and the derivation of initial expected losses. Paid and reported loss development patterns are based on the Group's historical claims experience. These patterns are updated as of each annual valuation to incorporate and reflect the most recent claims experience. The estimate of initial expected losses is most significant for immature policy periods, where it is given the greatest weight in determining unpaid claim liabilities. Initial expected losses are derived based on the Group's historical experience adjusted for the impact of inflationary trends on claims costs. As the experience in each policy year matures, the weight assigned to the initial expected losses decreases with greater weight assigned to actual loss experience.</p> <p>The actuarial analysis performed by the Group's actuaries employs commonly used actuarial techniques for estimating the Group's Provision for unpaid and unreported claims. These include the Paid and Reported Loss Development Methods, the Bornhuetter-Ferguson Method (applied to both paid and reported losses), and the Estimated Loss Ratio Method. The particular methods employed in the analysis of each reserve segment are judgmentally selected based on the applicability of each method and the availability of data to use each particular method.</p> <p>The Group's consulting actuary changed during the year, and the methodologies have not materially changed. Assumptions were updated accordingly for the year under review.</p>	<p>The Group has policies and procedures in place to reduce the risk exposure, which includes strict claims review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims. Further, the Group enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business.</p> <p>The Group has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events (e.g., hurricanes, earthquakes, flood damage and pandemics). The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the Group's risk appetite as determined by Management.</p> <p>Estimates of losses are continually reviewed and modified to reflect current conditions. Although Management believes, based on the recommendations of the Group's actuaries, that the Provision for unpaid and unreported claims will be adequate to cover the ultimate cost of losses to the balance sheet date, the provision is necessarily an estimate and claims may ultimately be settled for greater or lesser amounts. It is reasonably possible that Management will revise this estimate significantly in the near term. Any subsequent differences are recorded in the Gross change in contract liabilities on the Consolidated Statements of Operations in the period in which they are determined.</p>

### 14.2.2 Claims Development Table

The following tables show the estimates of cumulative incurred claims, including both claims notified and incurred but not reported (IBNR) reserves for each successive accident year at each reporting date, together with cumulative payments to date.

#### Gross claims:

Accident year	2009 & Prior	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Estimate of ultimate liability <sup>(1)</sup>											
as at end of accident year	219,022	82,218	88,980	89,517	92,703	94,491	124,637	89,079	92,046	98,689	-
one year later	219,209	79,344	85,422	84,953	82,634	88,448	120,927	94,079	99,350	-	-
two years later	221,214	78,570	84,295	83,375	81,864	88,140	118,642	91,452	-	-	-
three years later	221,210	78,577	84,192	83,310	81,972	87,292	137,860	-	-	-	-
four years later	221,474	78,778	84,193	83,541	81,997	87,116	-	-	-	-	-
five years later	222,143	79,362	84,028	83,448	82,061	-	-	-	-	-	-
six years later	226,131	79,425	84,087	83,237	-	-	-	-	-	-	-
seven years later	225,474	79,489	84,391	-	-	-	-	-	-	-	-
eight years later	227,145	79,506	-	-	-	-	-	-	-	-	-
nine years later	226,636	-	-	-	-	-	-	-	-	-	-
Current estimate of cumulative liability	226,636	79,506	84,391	83,237	82,061	87,116	137,860	91,452	99,350	98,689	1,070,298
Cumulative payments to date	(226,119)	(79,306)	(84,190)	(82,597)	(80,605)	(86,356)	(118,919)	(89,397)	(96,113)	(76,858)	(1,020,460)
Total gross liability	517	200	201	640	1,456	760	18,941	2,055	3,237	21,831	49,838

#### Net claims:

Accident year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Estimate of net ultimate liability <sup>(1)</sup>											
as at end of accident year	180,816	77,603	83,173	84,330	86,768	86,179	83,956	83,427	83,319	91,559	-
one year later	181,201	74,658	79,726	79,604	76,927	79,718	81,154	86,640	91,036	-	-
two years later	181,037	73,544	78,698	77,986	75,949	79,767	81,036	86,644	-	-	-
three years later	181,031	73,543	78,569	77,941	76,086	79,602	81,264	-	-	-	-
four years later	181,440	73,741	78,271	77,745	76,089	79,536	-	-	-	-	-
five years later	181,488	73,731	78,610	77,698	76,094	-	-	-	-	-	-
six years later	181,762	73,630	78,565	77,688	-	-	-	-	-	-	-
seven years later	182,031	73,631	78,566	-	-	-	-	-	-	-	-
eight years later	183,405	73,607	-	-	-	-	-	-	-	-	-
nine years later	183,654	-	-	-	-	-	-	-	-	-	-
Current estimate of net cumulative liability	183,654	73,607	78,566	77,688	76,094	79,536	81,264	86,644	91,036	91,559	919,648
Cumulative payments to date	(183,265)	(73,537)	(78,458)	(77,180)	(75,327)	(79,014)	(79,807)	(85,133)	(88,984)	(72,525)	(893,230)
Total gross liability	389	70	108	508	767	522	1,457	1,511	2,052	19,034	26,418

(1) Adjusted for revaluation of foreign currencies at the exchange rate as at year end.

### 14.3 UNEARNED PREMIUMS

AS AT MARCH 31	Unearned premiums	2018 Reinsurer's share of Unearned premiums	Net	Unearned premiums	2017 Reinsurer's share of Unearned premiums	Net
Balance, beginning of year	16,275	8,871	7,404	17,598	9,572	8,026
Premiums written during the year	172,836	37,052	135,784	165,149	36,307	128,842
Net premiums earned	(170,339)	(36,568)	(133,771)	(166,472)	(37,008)	(129,464)
Reclassification to Assets held-for-sale	-	(82)	82	-	-	-
Net movement during the year <sup>(1)</sup>	2,497	402	2,095	(1,323)	(701)	(622)
<b>BALANCE, END OF YEAR</b>	<b>18,772</b>	<b>9,273</b>	<b>9,499</b>	<b>16,275</b>	<b>8,871</b>	<b>7,404</b>
(1) Net movement during the year is comprised of:						
Change in unearned premiums	1,310	499	811	(171)	(194)	23
Foreign exchange movement	1,187	(15)	1,202	(1,152)	(507)	(645)
Reclassification to Assets held-for-sale	-	(82)	82	-	-	-
	2,497	402	2,095	(1,323)	(701)	(622)

Movement in the unearned premiums include foreign exchange movement arising from the translation of Sterling and Euro denominated balances to Bermuda dollars.

The Group is exposed to a pricing risk to the extent that unearned premiums are insufficient to meet the related future policy cost. Evaluations are performed regularly to estimate future claim costs, related expenses, and expected profit in relation to unearned premiums. There was no premium deficiency at March 31, 2018 or 2017.

## 15 Insurance Balances Payable

Insurance balances payable is comprised of:

MARCH 31, 2018	Employee Benefits	Wealth Management	Property and Casualty	Total
Due to policyholders, agents and brokers	4,076	-	7,433	11,509
Due to reinsurers	1,079	-	1,827	2,906
Deferred commission income	-	-	3,607	3,607
<b>TOTAL INSURANCE BALANCES PAYABLE</b>	<b>5,155</b>	<b>-</b>	<b>12,867</b>	<b>18,022</b>
MARCH 31, 2017	Employee Benefits	Wealth Management	Property and casualty	Total
Due to policyholders, agents and brokers	1,620	261	5,867	7,748
Due to reinsurers	121	1,232	1,216	2,569
Deferred commission income	-	-	3,389	3,389
<b>TOTAL INSURANCE BALANCES PAYABLE</b>	<b>1,741</b>	<b>1,493</b>	<b>10,472</b>	<b>13,706</b>



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

AS AT MARCH 31	2018	2017
Balance, beginning of year	3,389	3,273
Deferral during the year	12,023	11,471
Income for the year	(11,720)	(11,274)
Foreign exchange rate movements	(85)	(81)
<b>BALANCE, END OF YEAR</b>	<b>3,607</b>	<b>3,389</b>

## 16 Payables Arising from Investment Transactions

AS AT MARCH 31	Note	2018	2017
Payable arising from reverse repos	5.3	-	20,096
Derivatives	5.2	336	376
Investment trades awaiting settlement		26,564	78,831
		<b>26,900</b>	<b>99,303</b>

## 17 Investment Contract Liabilities

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

AS AT MARCH 31	2018		2017	
	Carrying value	Fair value	Carrying value	Fair value
At amortised cost:				
Deposit administration pension plans	224,456	214,710	231,223	224,559
Self-funded group health policies	9,877	9,877	8,664	8,664
	<b>234,333</b>	<b>224,587</b>	<b>239,887</b>	<b>233,223</b>
At FVTPL:				
Deposit accounted annuity policies	2,516	2,516	2,384	2,384
<b>TOTAL INVESTMENT CONTRACT LIABILITIES</b>	<b>236,849</b>	<b>227,103</b>	<b>242,271</b>	<b>235,607</b>

**17.1 INVESTMENT CONTRACT LIABILITIES AT AMORTISED COST**

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

AS AT MARCH 31	2018	2017
Balance, beginning of year	239,887	231,266
Deposits	87,303	101,562
Withdrawals	(90,618)	(91,707)
Transfers to Segregated funds	(588)	-
Fees deducted	(3,860)	(3,992)
Interest	1,640	1,898
Other	569	860
<b>BALANCE, END OF YEAR</b>	<b>234,333</b>	<b>239,887</b>

For the year ended March 31, 2018, the net gain relating to investment contracts measured at amortised cost is \$3.3 million (2017 – net gain of \$2.6 million).

**17.2 INVESTMENT CONTRACT LIABILITIES AT FVTPL**

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

AS AT MARCH 31	2018	2017
Balance, beginning of year	2,384	2,719
Included in net earnings <sup>(1)</sup>	(189)	(245)
Deposits	3,472	2,769
Withdrawals	(3,151)	(2,859)
<b>BALANCE, END OF YEAR</b>	<b>2,516</b>	<b>2,384</b>

(1) Amount is recorded under Change in contract liabilities on the Consolidated Statements of Operations.

**18 Post-Employment Benefit Liability**

The Group operates a post-employment medical benefit plan in Bermuda, which provides medical benefits to eligible retired employees and their spouses. The amount of benefits provided depends on future cost escalation and the Company meets the benefit payment obligation as it falls due. Actuarial valuation to determine the defined benefit obligation is performed quarterly.

The plan exposes the Group to risks, such as longevity risk, interest rate risk and healthcare cost inflation risks. Responsibility for governance of the plan lies with the Company. Risks are managed through plan design and eligibility changes, which limit the size and growth of the defined benefit obligation.

The movement in the defined benefit liability is as follows:

AS AT MARCH 31	2018	2017
Balance, beginning of year	3,414	4,135
Movements during the year recognised in Operating expense:		
Current service cost	54	67
Interest cost on benefit liability	126	141
	180	208
Remeasurement during the year included in Other comprehensive income:		
Actuarial gain arising from experience adjustment	(123)	(816)
Benefit payments	(132)	(113)
<b>BALANCE, END OF YEAR</b>	<b>3,339</b>	<b>3,414</b>

As at March 31, 2018, the present value of the defined benefit obligation was comprised of \$1.2 million (2017 – \$1.4 million) relating to active employees and \$2.1 million (2017 – \$2.0 million) relating to members in retirement.

Components of the change in benefit liabilities year-on-year and other employee future benefit expense are as follows:

- (i) Current service cost represents benefits earned in the current year. These are determined with reference to the current work-force eligible for benefits and the amount of benefits to which they will be entitled upon retirement, based on the provisions of the Group's benefit plan.
- (ii) Interest cost on benefit liability represents the increase in the liability that results from the passage of time.
- (iii) Each quarter the actuaries recalculate the benefit liability and compare it to that estimated as at the prior period end. Any differences resulting from changes in assumptions, or from plan experience being different from expectations of Management at the previous year end, are considered actuarial gains or losses.

The significant actuarial assumptions in measuring the Group's accrued benefit liability are estimated as follows:

AS AT MARCH 31	2018	2017
Discount rate	3.8%	3.5%
Healthcare cost trend rate	5.5%	5.5%

The discount rate assumption has a significant impact on the value of the obligation. A one percent increase in this rate would reduce the present value of the defined benefit obligation by \$0.4 million (2017 – \$0.4 million).

Healthcare cost calculations are based on trend rate assumptions which may differ from actual results. Changes in trend rate assumptions by one percent in either direction will change the healthcare cost as follows:

AS AT MARCH 31	2018		2017	
	Increase	Decrease	Increase	Decrease
Aggregate of current service cost and interest cost	11	(8)	11	(9)
Accrued benefit liability	460	(381)	450	(379)

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous year.

## 19 Group Composition

### 19.1 LIST OF SIGNIFICANT SUBSIDIARIES

The table below provides details of the major operating subsidiaries which are directly and indirectly held by the Company:

Name	Country of incorporation and place of business	Nature of business	% of ownership interest held (1)	% of ownership interest held by non-controlling interests (1)
Argus Wealth Management Limited (formerly AFL Investments Limited)	Bermuda	Investment management services	100%	-
Argus Insurance Agencies Limited	Malta	Insurance agency	100%	-
Argus Insurance Company Limited	Bermuda	Property and casualty insurance: Home and commercial property, contractors' all risks, liability, marine, motor and employer's indemnity	100%	-
Argus Insurance Company (Europe) Limited	Gibraltar	Property and casualty insurance: Home and commercial property, contractors' all risks, liability, marine and motor	100%	-
Argus International Life Bermuda Limited <sup>(2)</sup>	Bermuda	Individual life and annuities	100%	-
Argus International Life Insurance Limited <sup>(2)</sup>	Bermuda	Individual life and annuities	74%	26%
Argus Investment Nominees Limited	Bermuda	Nominee company	100%	-
Argus Management Services Limited	Bermuda	Financial and general management services	100%	-
Bermuda Life Insurance Company Limited	Bermuda	Pensions, group life and long-term disability insurance, individual life and annuities, group and individual health insurance	100%	-
Bermuda Life Worldwide Limited	Bermuda	Individual life and annuities	100%	-
Centurion Insurance Services Limited	Bermuda	Insurance agent and licensed broker	100%	-
NBHH (Keepsake) Limited	Bermuda	Property holding company	100%	-
Island Insurance Brokers Limited	Malta	Insurance broker	100%	-
Trott Property Limited	Bermuda	Property holding company	100%	-
Westmed Insurance Services Limited	Gibraltar	Insurance agent and licensed broker	100%	-

(1) Percentage held by shareholders and non-controlling interests are consistent with prior year, with the exception of Argus Wealth Management Limited. Effective December 1, 2017, Argus Wealth Management Limited became a wholly-owned subsidiary of the Company, following the acquisition of the 40 percent interest previously held by non-controlling interests. The consideration paid for the acquisition of the non-controlling interests was \$2.5 million. Effective March 26, 2018, AFL Investments Limited changed its legal name to Argus Wealth Management Limited.

(2) Argus International Life Bermuda Limited also owns 100 percent of Argus International Life Insurance Limited's preference shares.

All subsidiaries are included in the Group consolidated financial statements. The Group's voting rights percentages are the same as the ownership percentages.

### 19.2 SIGNIFICANT RESTRICTIONS

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the regulatory requirements within the jurisdiction in which they operate. See Note 4 and Note 20.

The carrying amounts of the insurance subsidiaries' General Fund Assets and General Fund Liabilities are as follows:

AS AT MARCH 31	2018	2017
General fund assets	645,620	710,209
General fund liabilities	550,964	589,482

### 19.3 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

A subsidiary of the Company acts as investment manager to Argus Investment Strategic Fund Ltd. (AISFL), an investment fund which is a structured entity not consolidated by the Group. A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements.

In its capacity as investment manager to AISFL, the Group earned \$nil of investment management fees income during the year (2017 – \$nil). AISFL and the Group also share common directors and officers. Although the Group has power to govern AISFL's financial and operating policies by virtue of the investment management contract, it does not have significant variable returns from AISFL. Accordingly, AISFL was not consolidated as part of the Group.

The table below presents summary financial information of AISFL and the Group's investment and maximum exposure to loss related to AISFL.

MARCH 31, 2018	Assets	Liabilities	Equity	Argus investments (1) & (3)	Maximum exposure to loss (2)
Investment fund	706,460	246	706,214	-	-
MARCH 31, 2017	Assets	Liabilities	Equity	Argus investments (1) & (3)	Maximum exposure to loss (2)
Investment fund	619,345	892	618,453	1,045	1,045

(1) These investments are classified under Level 2 in the fair value hierarchy as disclosed in Note 6.1.

(2) The Group's maximum exposure to loss is limited to amounts invested in AISFL. The maximum loss is expected to occur only upon bankruptcy of AISFL.

(3) The following amounts are excluded from the above table as the Group does not bear the risks and rewards from these funds:

- Segregated Funds – \$689.5 million (2017 – \$601.7 million)

The contractual arrangements under Segregated Funds are such that the Segregated Fund policyholder bears the risk and rewards of the Fund's investment performance. Refer to Note 31 for Segregated Funds disclosures.

- Funds held by third parties – \$14.0 million (2017 – \$15.7 million)

## 20 Risk Management

### 20.1 GOVERNANCE FRAMEWORK

The primary objective of the Group's risk and financial management framework is to protect the Group's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities if those opportunities fall within the Group's risk appetite. Management recognises the critical importance of having efficient and effective risk management systems in place.

The Group has an established risk management function with clear terms of reference from the Board of Directors, its committees and the associated executive management committees. This is supplemented by a clear organisational structure with documented delegated authorities and responsibilities from the Board of Directors to executive management committees and vice presidents. In addition, a Group policy framework that sets out the risk profiles for the Group, risk management, control and business conduct standards for the Group's operations is in place. Each policy has a member of senior management charged with overseeing compliance with the policy throughout the Group.

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

### 20.2 OPERATIONAL RISK AND CAPITAL MANAGEMENT

#### 20.2.1 Operational Risk

Operational risk is the risk of direct or indirect loss, reputational and/or brand damage arising from inadequate or failed processes or systems, people or external events, including changes in the regulatory environment. Sub-categories of operational risk include:

- **People:** Human errors, internal or external fraud, breaches of employment law, unauthorised activity, loss or lack of key personnel, inadequate training, inadequate supervision;
- **Process:** Lack of internal control procedures, project management failures, ineffective change management, payment or settlement failures, inadequate process documentation, errors in valuation and/or pricing models, accounting errors, internal or external reporting and distribution channels;
- **Systems:** Failure of systems or application software that supports daily execution of business units, lack of systems development and implementation documentation, systems security breaches, integrity of data, unavailability of systems due to computer hacking, virus attacks or denial of services; and
- **External events:** Inadequate third-party/vendor management, undocumented outsourcing process, non-compliance with regulatory requirements, natural and other disasters, political risks.

This definition excludes strategic risk, financial risk and legal/litigation risk.

The Group developed an operational risk management system to capture, analyse and report on causes of control breakdowns and operational risk events, including customer complaints. Details and resolution of these events are reported to the Risk Management Committee monthly and highlights of the events are reported to the Risk Committee on a quarterly basis.

#### 20.2.2 Capital Management

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

The Bermuda Monetary Authority (BMA) is the regulator of the Group. The laws and regulations of Bermuda require that the Group maintain a minimum amount of statutory capital and surplus based on the enhanced capital requirement. As of March 31, 2018 and 2017, the amount of group statutory capital and surplus exceeds this regulatory requirement.

The operations of the Group are also subject to regulatory requirements within the jurisdictions in which they operate. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimise the risk of default and insolvency on the part of the regulated entities and to meet unforeseen liabilities as these arise.

Management monitors the adequacy of the insurance subsidiaries' capital from the perspective of Bermuda, Gibraltar and Malta statutory requirements. The Bermuda Insurance Act 1978 and Related Regulations, the Gibraltar Insurance Companies Act 1987 and the Malta Insurance Intermediaries Act 2006 (the Acts) require the Group's insurance subsidiaries to file an audited annual statutory financial return and meet minimum solvency margins and minimum liquidity ratios.

The statutory capital and surplus and minimum solvency margin of the Group's insurance subsidiaries are shown below:

MARCH 31, 2018	Bermuda	Europe	Total
Statutory capital and surplus	79,947	11,397	91,344
Minimum solvency margin	26,135	4,556	30,691
MARCH 31, 2017	Bermuda	Europe	Total
Statutory capital and surplus	111,177	8,196	119,373
Minimum solvency margin	26,631	3,958	30,589

The Bermuda Solvency Capital Requirement (BSCR) is the prescribed form of capital and solvency return in Bermuda, which was revised under new legislation enacted in 2008. The BSCR includes a standardised model used to measure the risk associated with an insurance subsidiary's assets, liabilities and premiums, and a formula to take account of catastrophe risk exposure. The BMA requires all insurers to maintain their statutory capital and surplus at a target level which is 120 percent of the amount calculated in accordance with the BSCR. As of March 31, 2018 and 2017, the statutory capital and surplus of the insurance subsidiaries exceeded this regulatory requirement.

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

Argus Insurance Company (Europe) Limited (AICEL) is regulated by the Financial Services Commission (FSC) in Gibraltar. As at March 31, 2016, AICEL was still required to report its capital adequacy margin levels under the Solvency I directive, which requires the companies to maintain the Required Minimum Margin (RMM) of solvency. The RMM, which takes into account the premiums written and outstanding reserves on a class of business basis, seeks to ensure that the companies have at least the minimum amount and type of capital to meet future expected claim obligations. On January 1, 2016, the Solvency II capital requirements came into force. The Solvency Capital Requirement (SCR) is the amount of funds that insurance and reinsurance undertakings are required to hold in the European Union. The SCR should reflect a level of eligible own funds that enables insurance undertakings to absorb significant losses and that gives reasonable assurance to policyholders and beneficiaries that payments will be made as they fall due. AICEL is in compliance with the Solvency I and Solvency II requirements and exceeds the RMM and SCR. The Solvency II return and SCR were not audited.

The BMA has been declared by the European Commission to be fully equivalent to Solvency II. Consequently, Bermuda shall be considered by all European Member States as applying an equivalent statutory insurance regime in accordance with the require-

ments of Solvency II. The FSC in Gibraltar has confirmed that it recognises the BMA as the Group's Supervisor and the FSC will focus its supervision on AICEL as a solo entity.

Each one of the Group's insurance subsidiaries meets all requirements of the Acts and there are no additional restrictions on the distribution of retained earnings.

### **20.3 FINANCIAL INSTRUMENT RISK MANAGEMENT**

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

#### **20.3.1 Investment Risk**

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

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

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

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

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

##### **20.3.1(a) Credit Risk**

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

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

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



**20.3.1(b) Maximum Exposure to Credit Risk**

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

AS AT MARCH 31	Note	2018	2017
Cash and short-term investment		32,285	55,778
Interest and dividends receivable		2,570	2,452
Bonds – at Available-for-sale, FVTPL and Held-to-maturity	5.1	408,374	455,028
Mortgages and loans	5.1	14,272	35,411
Policy loans	5.1	81	81
Derivative financial instruments	5.1	570	346
Receivable for investments sold		14,832	19,156
Insurance balances receivable	7	16,548	14,426
Other financial assets included in Other assets	8	3,056	4,976
Reinsurers' share of claims provisions	14	28,477	14,167
<b>TOTAL CONSOLIDATED BALANCE SHEET MAXIMUM CREDIT EXPOSURE</b>		<b>521,065</b>	<b>601,821</b>

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

**20.3.1(c) Concentration of Credit Risk**

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

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

AS AT MARCH 31	2018	2017
Bonds issued or guaranteed by:		
Government and Agency	115,329	138,823
Banking and Finance	88,447	88,892
Asset-backed Securities	69,034	76,651
Communications and Technology	24,100	25,508
Oil and Gas	18,108	20,191
Utilities and Energy	9,184	10,013
Pharmaceutical	8,924	9,325
Manufacturing	8,701	11,828
Transportation	7,749	9,472
Real estate investment trust	7,464	4,666
Insurance	5,951	6,342
Mining	3,510	3,271
SupraNational	2,913	2,070
Retail	2,017	1,131
Other <sup>(1)</sup>	36,943	46,845
<b>TOTAL BONDS</b>	<b>408,374</b>	<b>455,028</b>
Derivative financial instruments issued or guaranteed by:		
Other	570	346
<b>TOTAL DERIVATIVE FINANCIAL INSTRUMENTS</b>	<b>570</b>	<b>346</b>

(1) Includes Investment with less than \$2 million of concentration of credit risk by industry sector and investment in bond funds of \$31.7 million as disclosed in Note 6.1 (2017 - \$41.3 million).

AS AT MARCH 31	2018	2017
Geographical distribution of bonds is as follows:		
United States of America	306,680	338,805
United Kingdom	12,820	10,696
Cayman Islands	6,799	4,735
France	6,188	5,484
Japan	4,213	4,265
Netherlands	4,048	10,539
Ireland	3,956	4,067
Switzerland	3,926	4,200
Mexico	3,741	3,646
Canada	3,634	4,066
SupraNational	2,913	2,071
India	2,649	-
Australia	2,616	2,231
Germany	1,466	2,631
Other <sup>(1)</sup>	42,725	57,592
<b>TOTAL BONDS</b>	<b>408,374</b>	<b>455,028</b>
Geographical distribution of derivative financial instruments is as follows:		
United States of America	570	346
<b>TOTAL DERIVATIVE FINANCIAL INSTRUMENTS</b>	<b>570</b>	<b>346</b>

(1) Includes Investment with less than \$2million of concentration of credit risk by geographical distribution and bond funds of \$31.7 million as disclosed in Note 6.1 (2017 - \$41.3 million)

Mortgages comprise first mortgages on real property situated in Bermuda, which include certain mortgages classified under Assets held-for-sale. The following table provides details of the carrying value split into residential and non-residential. Residential mortgages include mortgages for both single and multiple family dwellings.

AS AT MARCH 31	2018	2017
Residential	14,272	14,151
Non-residential	11,556	21,260
<b>TOTAL MORTGAGES AND LOANS</b>	<b>25,828</b>	<b>35,411</b>

### 20.3.1(d) Asset Quality

#### 20.3.1(d)(i) Bonds and derivative financial instruments by credit rating

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

AS AT MARCH 31	2018	2017
Bond portfolio quality:		
AAA	148,769	158,551
AA	42,520	66,835
A	90,269	97,477
BBB	119,774	119,459
BB or lower	6,181	12,047
Not rated	861	659
<b>TOTAL BONDS</b>	<b>408,374</b>	<b>455,028</b>
Derivative financial instruments quality:		
Not rated	570	346
<b>TOTAL DERIVATIVE FINANCIAL INSTRUMENTS</b>	<b>570</b>	<b>346</b>

#### 20.3.1(d)(ii) Allowance for credit losses on impaired investments

##### Mortgage and loans

Changes in the allowance for credit losses in the Group's Mortgages and loans, including assets classified as held-for-sale, are as follows:

AS AT MARCH 31	2018	2017
Balance, beginning of year	2,511	1,624
Net provision made in year – Mortgage and loans	9,918	1,000
Provision written off during the year	(807)	(113)
<b>BALANCE, END OF YEAR</b>	<b>11,622</b>	<b>2,511</b>

**20.3.1(d)(iii) Age analysis of financial assets past due**

MARCH 31, 2018	Past due but not impaired			Total	Total impaired during the year
	Less than 90 days	90 to 179 days	180 days or more		
Mortgage and loans and certain mortgages and loan included in Assets held-for-sale	-	-	13,020	13,020	9,918
Other receivables included in Other assets	190	75	109	374	-
<b>BALANCE, END OF YEAR</b>	<b>190</b>	<b>75</b>	<b>13,129</b>	<b>13,394</b>	<b>9,918</b>

MARCH 31, 2017	Past due but not impaired			Total	Total impaired during the year
	Less than 90 days	90 to 179 days	180 days or more		
Mortgage and loans	-	-	21,650	21,650	1,000
Other receivables included in Other assets	369	173	402	944	-
<b>BALANCE, END OF YEAR</b>	<b>369</b>	<b>173</b>	<b>22,052</b>	<b>22,594</b>	<b>1,000</b>

Past due financial assets do not have an allowance for losses because, at a minimum, either the fair value of the collateral or the present value of expected future cash flows exceed the carrying value of these financial assets.

**20.3.2 Liquidity risk**

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

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

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

**Liability maturity profile:**

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

MARCH 31, 2018	Within 1 year	2-5 years	6-10 years	Over 10 years	Total
Life and annuity policy reserves					
– net of reinsurance	14,747	54,706	58,156	128,125	255,734 <sup>(1)</sup>
Provision for unpaid and unreported claims					
– net of reinsurance	15,521	5,329	742	83	21,675
Insurance balances payable	18,022	-	-	-	18,022
Payables arising from investment transactions	26,900	-	-	-	26,900
Investment contract liabilities	43,663	34,352	37,450	111,819	227,284 <sup>(1)</sup>
Tax payable	109	-	-	-	109
Accounts payable and accrued liabilities	17,808	-	-	-	17,808
Post-employment benefit liability	147	649	828	2,142	3,766 <sup>(1)</sup>
<b>TOTAL FROM GENERAL FUND LIABILITIES</b>	<b>136,917</b>	<b>95,036</b>	<b>97,176</b>	<b>242,169</b>	<b>571,298</b>

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

MARCH 31, 2017	Within 1 year	2-5 years	6-10 years	Over 10 years	Total
Life and annuity policy reserves					
– net of reinsurance	14,817	54,853	58,702	132,627	260,999 <sup>(1)</sup>
Provision for unpaid and unreported claims					
– net of reinsurance	15,521	5,329	742	83	21,675
Insurance balances payable	13,706	-	-	-	13,706
Payables arising from investment transactions	99,303	-	-	-	99,303
Investment contract liabilities	43,572	34,479	40,371	115,333	233,755 <sup>(1)</sup>
Tax payable	56	-	-	-	56
Accounts payable and accrued liabilities	19,235	-	-	-	19,235
Post-employment benefit liability	141	630	845	2,088	3,704 <sup>(1)</sup>
<b>TOTAL FROM GENERAL FUND LIABILITIES</b>	<b>206,351</b>	<b>95,291</b>	<b>100,660</b>	<b>250,131</b>	<b>652,433</b>

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

### 20.3.3 Market Risk

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

#### 20.3.3(a) Currency Risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The following policies and procedures are in place to mitigate the Group's exposure to currency risk:

- The Group regularly monitors the effect of currency translation fluctuations;
- Investments are normally made in the same currency as the liabilities supported by those investments;
- The majority of the Group's assets, liabilities and earnings are denominated in Bermuda or U.S. dollars; and
- The assets and liabilities of the foreign operations are held in their appropriate functional currency. The net currency exposure arising from the net equity within these operations amounts to £10.1 million and €3.8 million (2017 – £8.9 million and €2.9 million).

The analysis that follows, showing the impact on equity due to changes in the fair value of currency sensitive monetary assets and liabilities, including insurance contract liabilities, is performed for reasonably possible movements in foreign exchange rates with all other variables held constant. The correlation of other variables will have a significant effect in determining the ultimate impact on market risk.

AS AT MARCH 31	Change in variables	2018 Impact on equity	2017 Impact on equity
Currency:			
Sterling	+/- 10%	+/- 1008	+/- 886
Euro	+/- 10%	+/- 375	+/- 288

### 20.3.3(b) Interest Rate Risk

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

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

The impact of interest rate risk for the Group's actuarial liabilities and the assets supporting those liabilities is included in Note 14.

The Group issues unit-linked investment policies in a number of its operations. The policyholder bears the investment risk on the assets held in the unit-linked fund. The value of the policy benefits is directly linked to the value of the assets in the fund. The Group's exposure to market risk on this business is limited to the extent that income arising from asset management charges is based on the value of assets in the fund.

The Group issues deposit administration pension plans with a short-term guaranteed rate of return. To the extent that the actual rate of return on the underlying funds differs from the guaranteed rate, the risk and rewards are borne by the Group. At March 31, 2018, the sensitivity of Other comprehensive income to a 100 basis point parallel increase in interest rates would have been a \$5.8 million decrease (2017: \$6.3 million decrease). For a 100 basis point parallel decline in interest rates the sensitivity to net income would have been a \$5.8 million increase (2017: \$6.4 million increase). For this plan type, the Group ensures (i) the liability and asset cash flows are closely matched, and (ii) the valuation of the liability and asset are monitored regularly.

### 20.3.3(c) Equity Risk

Equity investments are held in accordance with the Group's investment policy as part of the well-diversified asset portfolio that are appropriate for the operating segment. Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. If actual returns are lower than the expected returns, the Group's Life and annuity policy reserves will increase and will reduce the Group's net earnings. Overall, it is expected that the impact of an immediate ten percent increase in value across all equity markets would be an increase in Net Earnings and Other comprehensive income of \$2.7 million (2017 – \$3.1 million); conversely the impact of a ten percent decrease would have an equal but opposite effect. The direct exposure to equity markets generally falls within the risk-taking philosophy of the Group's Investment Policy and is regularly monitored by Management.

### 20.3.4 Limitations of sensitivity analysis

The sensitivity information given in Note 20.3 and in Note 14 demonstrates the estimated impact of a change in a major input assumption while other assumptions remain unchanged. In reality, there are normally significant levels of correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear and larger or smaller impacts should not be interpolated or extrapolated from these results. Furthermore, estimates of sensitivity may become less reliable in unusual market conditions, such as instances when risk-free interest rates fall towards zero.

## 20.4 INSURANCE RISK MANAGEMENT

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

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

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

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

For details on insurance risk management policies of the Group's insurance operating segments, see Note 14.

## 21 Dividends

AS AT MARCH 31	2018			
	Per share amount	Amount of dividends	Record date	Payment date
Interim dividend	0.09	1,956	July 25, 2017	August 23, 2017
Final dividend	0.09	1,963	December 27, 2017	January 12, 2018
	0.18	3,919		

AS AT MARCH 31	2017			
	Per share amount	Amount of dividends	Record date	Payment date
Interim dividend	0.09	1,948	July 11, 2016	August 4, 2016
Final dividend	0.09	1,952	January 10, 2017	January 24, 2017
	0.18	3,900		

As a result of the Dividend Reinvestment Plan, the Company issued 173,483 (2017 – 83,881) shares during the year.

## 22 Components of Accumulated Other Comprehensive Loss

AS AT MARCH 31	2018	2017
Remeasurement of post-employment medical benefit obligation	(623)	(745)
Available-for-sale investments <sup>(1)</sup>	(1,386)	1,059
Investment in associates	-	12
Translation of financial statements of foreign operations	(2,328)	(3,915)
<b>NET ACCUMULATED OTHER COMPREHENSIVE LOSS</b>	<b>(4,337)</b>	<b>(3,589)</b>

(1) As at March 31, 2018, \$0.6 million of the accumulated other comprehensive income arose from the International Life Division's available-for-sale investments (Note 3).

## 23 Earnings Per Share

The following table reflects the net earnings and share data used in the basic and diluted earnings per share computations:

AS AT MARCH 31	2018	2017
Net earnings for the year (in \$000's)	(18,634)	11,954
Weighted average outstanding common shares	20,162,889	20,964,125
Common shares and common share equivalents	20,268,088	21,012,389

## 24 Commissions, Management Fees and Other

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

AS AT MARCH 31	2018	2017
Policyholder administration	22,025	19,663
Investment management services	2,575	2,067
Reinsurance commission income	10,812	9,740
Other income	26	40
<b>TOTAL COMMISSIONS, MANAGEMENT FEES AND OTHER</b>	<b>35,438</b>	<b>31,510</b>

## 25 Reinsurance Recoveries

AS AT MARCH 31	2018	2017
Claims and adjustment expenses recovered from reinsurers	(6,888)	(15,824)
Policy benefits recovered from reinsurers	(1,392)	(2,294)
<b>TOTAL REINSURANCE RECOVERIES</b>	<b>(8,280)</b>	<b>(18,118)</b>



## 26 Net Change in Contract Liabilities

AS AT MARCH 31	2018	2017
Gross change in contract liabilities:		
Insurance contracts	28,973	(5,507)
Investment contracts	(189)	(244)
	28,784	(5,751)
Change in reinsurers' share of claims provisions:		
Insurance contract liabilities	(16,123)	9,009
<b>NET CHANGE IN CONTRACT LIABILITIES</b>	<b>12,661</b>	<b>3,258</b>

## 27 Operating Expenses

Operating expenses incurred during the year are as follows:

AS AT MARCH 31	2018	2017
Employee benefits expense (see table below)	30,338	29,429
Professional fees	5,588	6,585
IT-related expense	3,687	3,035
General and corporate expenses	3,032	3,035
Building-related expenses	3,567	2,787
Marketing expenses	2,166	1,639
Other expenses	3,123	3,215
<b>TOTAL OPERATING EXPENSES</b>	<b>51,501</b>	<b>49,725</b>

Employee benefits expense during the year is comprised of:

AS AT MARCH 31	Note	2018	2017
Salaries and other short-term benefits		29,079	27,964
Pension costs <sup>(1)</sup>		1,038	1,192
Post-employment medical benefits	18	48	95
Stock-based compensation	28	173	178
<b>TOTAL EMPLOYEE BENEFITS EXPENSE</b>		<b>30,338</b>	<b>29,429</b>

(1) Pension costs arise from the Group's defined contribution pension plan covering all full-time employees in Bermuda, Gibraltar and Malta.

## 28 Stock-based Compensation

The 2012 Restricted Stock Plan expired in 2017, and was replaced at the Annual General Meeting of shareholders held on September 2017, with the 2017 Restricted Stock Plan.

The purpose of the Restricted Stock Plans is to enhance the Group's ability to attract and retain the services of certain key employees and to incentivise such persons to devote their utmost effort and skill to the growth of the Group by providing them with an interest in its long-term growth and stability. Under each of the Restricted Stock Plans, the maximum number of shares that may be granted is 250,000 over the five-year life of each plan.

Shares are granted unvested and vest at the rate of 33.3 percent at the end of each year for three years after the date of grant. The fair value of each share granted is based upon the market price at the date of grant.

The details on shares granted and forfeited during the year are as follows:

AS AT MARCH 31	2018	2017
Number of shares granted	43,940	48,120
Fair value per share	\$4.00	\$4.00
Number of shares forfeited	300	4,820

The following table summarises information about the outstanding stock grants:

RESTRICTED SHARES VESTING	Number of shares
July 2018	58,187
August 2018	34,887
July 2019	58,187
August 2019	15,980
August 2020	58,187
<b>TOTAL</b>	<b>225,428</b>

## 29 Related Party Transactions

All related party transactions were conducted in the normal course of business.

### 29.1 TRANSACTIONS WITH SIGNIFICANTLY INFLUENCED INVESTEEES

29.1.1 The Group provided insurance-related products and services to various significantly influenced investees. The premiums and fees received from these transactions totalled \$0.2 million in the year and are shown as Gross premium written and Commission, management fees and other on the Consolidated Statements of Operations (2017 – \$0.6 million).

Receivables and payables arising from insurance contracts and service contracts with the significantly influenced investees are as follows:

AS AT MARCH 31	2018	2017
Payable to self-funded group health policies <sup>(1)</sup>	-	461

(1) Included in Investment contract liabilities

**29.1.2** The Group rented office premises from a significantly influenced investee paying a total of \$0.3 million in rent and service charges in the year, which are shown in Operating expenses in the Consolidated Statements of Operations (2017 – \$0.3 million).

**29.1.3** The Group received facilities management services from a significantly influenced investee for the consideration amount of \$nil million, which is shown net of Investment income on the Consolidated Statements of Operations (2017 – \$1.3 million).

## **29.2 COMPENSATION OF KEY MANAGEMENT PERSONNEL**

Key management personnel have been identified as the Board of Directors and Officers of the Company. These individuals have the authority and responsibility for planning, directing and controlling the activities of the Group. The summary of compensation of key management personnel for the year is as follows:

AS AT MARCH 31	2018	2017
Salaries and other short-term benefits	2,426	2,346
Post-employment benefits <sup>(1)</sup>	98	101
Stock-based compensation	34	28
<b>TOTAL KEY MANAGEMENT PERSONNEL COMPENSATION</b>	<b>2,558</b>	<b>2,475</b>

(1) Includes pension costs and post-employment medical benefits

## **29.3 DIRECTORS' AND OFFICERS' SHARE INTERESTS AND SERVICE CONTRACTS**

The total interest of all Directors and Officers of the Company in the shares of the Company at March 31, 2018, was 68,503 (2017 – 292,532) shares.

With the exception of the employment contract with the Chief Executive Officer, Ms. A. S. Hill, and a consultancy agreement with a non-executive director, there were no other service contracts with the Directors during the year.

## **30 Income Tax Expense**

### **Bermuda**

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

### **Europe**

Subsidiaries domiciled in Gibraltar are subject to normal Gibraltar corporation tax at a rate of 10 percent on all taxable profits. The subsidiary domiciled in Malta is subject to normal Malta corporation tax at a rate of 35 percent on all taxable profits.

### **U.S.**

Argus International Life Insurance Limited (AILIL), a Bermuda domiciled subsidiary, has elected under section 953(d) of the U.S. Internal Revenue Code (IRC) to be taxed as a U.S. domestic corporation. AILIL is subject to a U.S. blended corporate income tax rate of 31.5 percent for the fiscal year ended March 31, 2018, due to U.S. tax reform (2017 – 34.0 percent).

On December 22, 2017, the Tax Cuts Act was signed into law by the President of the U.S. which significantly changes the U.S. tax law in many ways including a further reduction of the U.S. federal income tax rate to 21 percent effective January 1, 2018. As a result of the Tax Cuts Act, AILIL remeasured its unrecognised deferred tax asset assets as disclosed in Note 30.3.

**30.1 INCOME TAXES FOR THE YEAR**

AS AT MARCH 31	2018	2017
Income taxes for the year	244	228
Deferred taxes	(12)	-
<b>TOTAL INCOME TAX EXPENSE</b>	<b>232</b>	<b>228</b>

**30.2 CURRENT INCOME TAXES RECONCILIATION**

Tax applying the statutory domestic income tax rate and the tax charge for the year are reconciled as follows:

AS AT MARCH 31	2018	2017
(Loss)/earnings before income taxes	(18,294)	12,056
Less: (Loss)/earnings not subject to taxes	(18,817)	10,170
<b>EARNINGS SUBJECT TO TAXES</b>	<b>523</b>	<b>1,886</b>
Income taxes at the application rate	180	329
Tax effect of:		
Income attributable to overseas branch	40	(67)
Expenses not deductible for tax purposes	4	2
Difference between depreciation and capital allowances	10	5
Effect of tax losses brought forward	(2)	20
Unrecognised temporary difference	-	(61)
<b>TOTAL CURRENT INCOME TAXES</b>	<b>232</b>	<b>228</b>

**30.3 UNRECOGNISED DEFERRED TAX ASSETS**

Deferred tax assets have not been recognised in respect of the following items, because it is not probable that future taxable profit will be available against which the Group can use the benefits therefrom.

AS AT MARCH 31	2018	2017
Tax losses carried forward	471	632
Capital allowances carried forward	93	391
Deductible temporary differences	133	99
<b>NET UNRECOGNISED DEFERRED TAX ASSETS</b>	<b>697</b>	<b>1,122</b>

As of March 31, 2018, the Group has net operating loss carryforwards of \$2.3 million (2017 – \$1.9 million). Of the total net operating loss carryforwards of the Group, \$0.1 million (2017 – \$0.1 million) is subject to limitations under IRC section 382. The Group's net operating loss carryforwards will expire in 2022 through 2032 under the current U.S. tax legislation.

## 31 Segregated Funds

The assets for contracts held under the Segregated Funds are allocated to Separate Accounts as authorised by the Bermuda Life Insurance Company Limited (Separate Accounts) Consolidation and Amendment Act 1998 and the Argus International Life Insurance Limited Consolidation and Amendment Act 2008.

Changes to Segregated Funds and a summary of the investments held therein are as follows:

AS AT MARCH 31	Note	2018	2017
<b>Additions to Segregated Funds</b>			
Premiums, contributions and transfers		136,298	185,773
Return on investments		145,777	110,807
Segregated funds acquired		406	-
		<b>282,481</b>	<b>296,580</b>
<b>Deductions from Segregated Funds</b>			
Withdrawals, benefit payments and transfers to the General Fund		114,118	172,258
Operating expenses		63,819	17,327
		<b>177,937</b>	<b>189,585</b>
Net additions to Segregated Funds for the year		104,544	106,995
Segregated Funds, beginning of year		1,505,928	1,398,933
<b>SEGREGATED FUNDS, END OF YEAR</b>		<b>1,610,472</b>	<b>1,505,928</b>
<b>SEGREGATED FUNDS CLASSIFIED UNDER HELD-FOR-SALE, END OF YEAR</b>	3	<b>(691,033)</b>	-
<b>SEGREGATED FUNDS FROM CONTINUING OPERATIONS, END OF YEAR</b>		<b>919,439</b>	<b>1,505,928</b>

## 32 Operating Segments

Transactions between segments are executed and priced on an arm's-length basis in a manner similar to transactions with third parties. These transactions consist primarily of rental and internal financing agreements and insurance contracts. Inter-segment income has been omitted in the following table as immaterial.

### 32.1 RESULTS BY SEGMENT

AS AT MARCH 31		Employee Benefits	Global Wealth Management	Property and Casualty	All Other	Disposal Groups <sup>(1)</sup>	Elimination	Total
Segment revenues	<b>2018</b>	<b>130,284</b>	<b>3,817</b>	<b>36,553</b>	<b>25</b>	<b>2,535</b>	<b>(2,803)</b>	<b>170,411</b>
	2017	122,925	5,723	32,371	39	-	(3,278)	157,780
Investment income	<b>2018</b>	<b>14,883</b>	<b>104</b>	<b>1,196</b>	<b>(969)</b>	<b>(10,748)</b>	<b>(922)</b>	<b>3,544</b>
	2017	16,664	1,196	1,345	1,357	-	(2,131)	18,431
Share of earnings of associates	<b>2018</b>	<b>(5,687)</b>	<b>-</b>	<b>(1,300)</b>	<b>47</b>	<b>-</b>	<b>-</b>	<b>(6,940)</b>
	2017	754	-	(560)	18	-	-	212
<b>TOTAL SEGMENT REVENUES</b>	<b>2018</b>	<b>139,480</b>	<b>3,921</b>	<b>36,449</b>	<b>(897)</b>	<b>(8,213)</b>	<b>(3,725)</b>	<b>167,015</b>
	2017	140,343	6,919	33,156	1,414	-	(5,409)	176,423
Amortisation, depreciation and impairment	<b>2018</b>	<b>2,463</b>	<b>11</b>	<b>1,161</b>	<b>1,961</b>	<b>251</b>	<b>467</b>	<b>6,314</b>
	2017	1,530	411	1,327	551	-	350	4,169
Income tax expense	<b>2018</b>	<b>-</b>	<b>-</b>	<b>232</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>232</b>
	2017	-	-	228	-	-	-	228
Segment earnings/(loss) attributable to shareholders	<b>2018</b>	<b>(2,786)</b>	<b>417</b>	<b>5,338</b>	<b>(8,900)</b>	<b>(11,832)</b>	<b>(871)</b>	<b>(18,634)</b>
	2017	11,890	(2,001)	4,169	(1,691)	-	(413)	11,954

(1) Disposal groups refer to certain group of assets and liabilities, which are held-for-sale (Note 3).

#### GEOGRAPHIC INFORMATION ON SEGMENT REVENUES:

AS AT MARCH 31		Bermuda	Europe	Total
Segment revenues	<b>2018</b>	<b>148,719</b>	<b>18,296</b>	<b>167,015</b>
	2017	159,559	16,864	176,423

Management considers its external customers to be the individual policyholders, and as such, the Group is not reliant on any individual customer.

**32.2 ASSETS AND LIABILITIES BY SEGMENT:**

	Employee Benefits	Wealth Management	Property and Casualty	All other	Disposal Groups	Elimination	Total
<b>MARCH 31, 2018:</b>							
Total General Fund Assets	488,343	7,162	115,604	167,378	38,871	(147,035)	670,323
Segregated Fund Assets	919,439	-	-	-	691,033	-	1,610,472
Total General Fund Liabilities	458,192	335	72,645	14,735	20,127	(1,593)	564,441
Segregated Fund Liabilities	919,439	-	-	-	691,033	-	1,610,472
<b>MARCH 31, 2017:</b>							
Total General Fund Assets	596,032	31,140	86,973	170,821	-	(151,814)	733,152
Segregated Fund Assets	819,192	686,736	-	-	-	-	1,505,928
Total General Fund Liabilities	524,131	18,184	47,496	19,547	-	(7,776)	601,582
Segregated Fund Liabilities	819,192	686,736	-	-	-	-	1,505,928

**33 Commitments and Contingencies****33.1 OPERATING LEASES****33.1.1 Group as a lessor**

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

Future annual minimum lease rentals receivable under non-cancellable operating leases as at March 31, 2018, are as follows:

AS AT MARCH 31	2018	2017
Within one year	1,415	1,563
After one year but not more than five years	-	1,419

**33.1.2 Group as a lessee**

The Group has entered into commercial leases on office spaces. These leases have remaining terms of between one and seven years. Certain leases have a renewal option included in the contracts. There are no restrictions placed upon the Group by entering into the leases.

During the years ended March 31, 2018 and 2017, an amount of \$1.2 million and \$1.1 million respectively, was recognised in Operating expenses on the Consolidated Statements of Operations for operating leases.

Future annual minimum rentals payable under non-cancellable operating leases as at March 31, 2018, are as follows:

AS AT MARCH 31	2018	2017
Within one year	794	741
After one year but not more than five years	1,206	1,289
More than five years	363	323

**33.2 CONTINGENCIES**

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

## 34 Acquisition

Effective July 1, 2016, the Group acquired Island Insurance Brokers Limited (IIBL), which became a wholly owned subsidiary of Argus Group Holdings Limited. IIBL is an insurance brokerage company based in Malta. The acquisition is in line with the Group's growth strategy on geographical diversification outside of Bermuda.

The purchase consideration is subject to certain adjustments dependent on the persistency of the book of business over two years. As at March 31, 2018, the total purchase consideration of €4.5 million was settled.

The fair value of assets acquired and liabilities assumed were as follows:

JULY 1, 2016 (DATE OF ACQUISITION)	In €000's	In \$000's
<b>ASSETS</b>		
Cash and cash equivalents <sup>(1)</sup>	2,060	2,322
Insurance balances receivable	2,873	3,239
Property and equipment	27	30
Customer's list	4,144	4,671
Other assets	13	14
<b>TOTAL ASSETS</b>	<b>9,117</b>	<b>10,276</b>
<b>LIABILITIES</b>		
Insurance balances payable	4,523	5,099
Accounts payable and accrued liabilities	254	286
<b>TOTAL LIABILITIES</b>	<b>4,777</b>	<b>5,385</b>
<b>NET ASSETS ACQUIRED</b>	<b>4,340</b>	<b>4,891</b>

(1) Included in cash and cash equivalents is restricted cash of €2.0 million (\$2.2million). IIBL has arrangements in place in favour of clients in order to comply with certain regulatory requirements in Malta.

In the prior year, the Group incurred acquisition-related costs of \$0.1 million on legal fees and due diligence costs, which are shown in Operating expenses on the Consolidated Statements of Operations.

## 35 Comparative Figures

Certain of the 2017 comparative figures have been reclassified to conform to the presentation adopted for 2018.

## 36 Subsequent Events

### 36.1 DIVIDENDS

Based upon the audited financial results of the Group for the year ended March 31, 2018, the Directors have declared an interim dividend of nine cents per share (2017 – nine cents per share) payable on August 15, 2018 for shareholders of record on July 31, 2018.

### 36.2 DIVESTMENT

On June 25, 2018, the Group entered into an agreement to divest the International Life Division (Note 3), which includes Argus International Life Bermuda Limited and its subsidiaries, Argus International Life Insurance Limited and Bermuda Life Worldwide Limited, to Advantage Insurance Inc., a specialty private placement life insurance company. The sale consideration is based on the tangible book value of the business and is subject to certain adjustments dependent on the persistency of the book of business. The transaction is subject to receipt of all required regulatory approvals and expected to be completed prior to September 30, 2018.





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