BERMUDA LIFE INSURANCE COMPANY LIMITED

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

March 31, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Board of Directors of
Bermuda Life Insurance Company Limited

We have audited the accompanying consolidated financial statements of Bermuda Life Insurance Company and its subsidiaries, which comprise the consolidated balance sheets as of March 31, 2019 and 2018 and the related consolidated statements of comprehensive income/(loss), 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 (IFRS); 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 Bermuda Life Insurance Company Limited and its subsidiaries as of March 31, 2019 and 2018 and the results of their operations and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
July 30, 2019

BERMUDA LIFE INSURANCE COMPANY LIMITED

Consolidated Balance Sheets

March 31, 2019 and 2018
(Expressed in thousands of Bermuda Dollars)

	Note	2019	2018
Assets			
Cash and short-term investments	3	$ 18,043	$ 9,606
Interest and dividends receivable		2,870	2,538
Investments	5, 6	425,457	407,171
Receivable for investments sold		29,078	14,275
Insurance balances receivable	8	5,257	4,411
Reinsurers' share of:			
Claims provisions	11	5,433	5,076
Unearned premiums	11	200	352
Assets held-for-sale	4	11,556	15,831
Other assets	9	4,009	4,692
Due from parent	21	5,276	-
Investment property	7	575	501
Property and equipment	10	40,140	41,719
Total general fund assets		547,894	506,172
Segregated fund assets held-for-sale	4	-	143,630
Segregated fund assets from continuing operations	25	936,444	919,438
Total segregated fund assets		936,444	1,063,068
Total assets		**$ 1,484,338**	**$ 1,569,240**
Liabilities			
Insurance contract liabilities	11	$ 187,159	$ 184,571
Investment contract liabilities	12	242,222	237,316
Insurance balances payable	14	2,614	1,818
Payables arising from investment transactions	15	56,545	26,671
Due to parent	21	-	3,800
Accounts payable and accrued liabilities		7,357	7,814
Liabilities held-for-sale	4	-	3,206
Total general fund liabilities		495,897	465,196
Segregated fund liabilities held-for-sale	4	-	143,630
Segregated fund liabilities from continuing operations	25	936,444	919,438
Total segregated fund liabilities		936,444	1,063,068
Total liabilities		**$ 1,432,341**	**$ 1,528,264**
Equity			
Share capital		$ 252	$ 252
Contributed surplus	22	28,977	30,377
Retained earnings		21,168	12,776
Accumulated other comprehensive income/(loss)	24	1,600	(2,429)
Total equity attributable to the shareholder of the Group		$ 51,997	$ 40,976
Total equity and liabilities		**$ 1,484,338**	**$ 1,569,240**

The accompanying notes form part of these consolidated financial statements.

Signed on behalf of the Board

Director

Director

BERMUDA LIFE INSURANCE COMPANY LIMITED

Consolidated Statements of Comprehensive Income/(Loss)

Years ended March 31, 2019 and 2018
(Expressed in thousands of Bermuda Dollars)

	Note	2019	2018
Revenue			
Gross premiums written		$ 127,232	$ 124,374
Reinsurance ceded		(7,504)	(7,873)
Net premiums written		119,728	116,501
Net change in unearned premiums	16	(152)	8
Net premiums earned		119,576	116,509
Investment income	5, 7	15,152	3,054
Share of earnings from associate		-	(5,688)
Commissions, management fees and other	17	14,874	14,172
Total revenue		149,602	128,047
Expenses			
Policy benefits		15,378	15,607
Claims and adjustment expenses		86,447	88,260
Reinsurance recoveries	18	(3,672)	(3,751)
Gross change in contract liabilities	19	2,851	10,843
Change in reinsurers' share of claims provisions	19	(390)	(260)
Net benefits and claims		100,614	110,699
Commission expenses		514	605
Operating expenses	20	31,503	30,025
Depreciation of property and equipment	10	1,579	1,766
		134,210	143,095
Net earnings/(loss) for the year		15,392	(15,048)
Items that will not be reclassified to net earnings:			
Re-measurement of post-employment medical benefit obligation		193	(37)
Items that are or may subsequently be reclassified to net earnings:			
Change in unrealised gains and losses on available-for-sale investments		3,836	(2,527)
Other comprehensive income/(loss) for the year		4,029	(2,564)
Total comprehensive income/(loss) for the year		**$ 19,421**	**$ (17,612)**

The accompanying notes form part of these consolidated financial statements.

BERMUDA LIFE INSURANCE COMPANY LIMITED

Consolidated Statements of Changes in Equity

Years ended March 31, 2019 and 2018
(Expressed in thousands of Bermuda dollars, except the number of shares)

	Note	2019	2018
Share capital			
Authorised, issued and fully paid:			
105,000 common shares of $2.40 each (2018 - 105,000)		$ 252	$ 252
Contributed surplus			
Balance, beginning of year		30,377	30,377
Return of capital to Parent	22	(1,400)	-
Balance, end of the year		28,977	30,377
Retained earnings			
Balance, beginning of year		12,776	40,824
Dividends paid to Parent	22	(7,000)	(13,000)
Net earnings/(loss) for the year		15,392	(15,048)
Balance, end of year		21,168	12,776
Accumulated other comprehensive income/(loss)			
Balance, beginning of year		(2,429)	135
Other comprehensive income/(loss) for the year		4,029	(2,564)
Balance, end of year		1,600	(2,429)
Total equity		**$ 51,997**	**$ 40,976**

See accompanying notes to the consolidated financial statements.

BERMUDA LIFE INSURANCE COMPANY LIMITED

Consolidated Statements of Cash Flows

Years ended March 31, 2019 and 2018
(Expressed in thousands of Bermuda Dollars)

		2019		2018
Operating activities				
Net earnings/(loss) for the year	$	15,392	$	(15,048)
Adjustments to reconcile net earnings/(loss) to cash basis (Footnote (i) below)		(10,628)		6,600
Change in operating balances (Footnote (ii) below)		(2,542)		8,335
Dividend income received		187		521
Interest income received		10,915		10,356
Cash generated from operating activities		13,324		10,764
Investing activities				
Purchase of investments		(1,636,198)		(1,301,051)
Sale of investments		1,638,366		1,278,258
Cash generated from/(used in) investing activities		2,168		(22,793)
Financing activities				
Dividends paid to parent		(7,000)		(13,000)
Return of capital to parent		(1,400)		-
Cash used in financing activities		(8,400)		(13,000)
Net increase/(decrease) in cash and short-term investments		7,092		(25,029)
Cash and short-term investments, beginning of year		10,951		35,980
Cash and short-term investments, end of year	**$**	**18,043**	**$**	**10,951**
Cash and short-term investments from continuing operations	$	18,043	$	9,606
Cash and short-term investments held-for-sale (Note 4)		-		1,345
Cash and short-term investments, end of year	**$**	**18,043**	**$**	**10,951**

Footnotes

(i) Bad debt expense	$	856		144
Dividend income		(187)	$	(521)
Interest income		(12,960)		(12,186)
Investment income related to Deposit administration pension plan		1,713		1,776
Net realised and unrealised (gains)/loss on investments		(2,606)		(1,176)
Amortisation of premiums on bonds		1,125		1,191
Depreciation of property and equipment		1,579		1,766
Reversal of impairment losses on mortgages and loans		(148)		-
Net impairment losses		-		9,918
Share of earnings of associate		-		5,688
	$	(10,628)	$	6,600
(ii) Insurance balances receivable	$	446	$	(1,674)
Reinsurers' share of:				
Claims provision		420		839
Unearned premiums		151		(12)
Other assets		690		1,139
Due to/ from parent		(9,076)		1,708
Insurance contract liabilities		1,761		9,824
Insurance balances payable		(1,582)		1,516
Investment contract liabilities		4,906		(5,612)
Accounts payable and accrued liabilities		(258)		607
	$	(2,542)	$	8,335

See accompanying notes to the consolidated financial statements

1. OPERATIONS

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

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

The consolidated financial statements as at and for the year ended March 31, 2019 were authorized for issue by the Board of Directors on July 30, 2019.

2. SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Statement of compliance

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

2.2 Basis of presentation

2.2.1 Basis of measurement

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

- Financial assets at fair value through profit or loss ("FVTPL") are measured at fair value;
- Available-for-sale financial assets are measured at fair value;
- Derivative financial instruments are measured at fair value;
- Investment properties are measured at fair value; and
- Segregated fund assets and liabilities are measured at fair value based on net assets values of the investment funds as reported by third parties, such as fund managers or independent advisors.

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

2.2.2 Presentation currency

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

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

2.2 **Basis of presentation** (continued)

2.2.3 Use of estimates and judgments

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

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

Note 2.8 – Insurance, investment and service contracts;
Notes 2.14 and 26 – Leases and operating leases; and
Note 4 – Assets and liabilities held-for-sale

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

Note 2.7 – Impairment of assets;
Note 6 – Fair value measurement;
Note 11 – Insurance contract liabilities; and
Notes 5 and 12 – Investments and Investment contract liabilities.

2.3 **Basis of consolidation**

2.3.1 Business combinations

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

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

Amalgamation transactions

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

2.3.2 Subsidiaries

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

2.4 Cash and short-term investments

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

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

2.5 Assets and Liabilities Held-for-Sale

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

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

2.6 Financial instruments

2.6.1 Financial assets

2.6.1(a) Classification and recognition of financial assets

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

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

(i) Financial assets at FVTPL

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

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

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

2.6 **Financial instruments** (continued)

2.6.1 Financial assets (continued)

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

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

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

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

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

(iii) Loans and receivables

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

2.6.1(b) Derecognition and offsetting

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

2.6 Financial instruments (continued)

2.6.2 Financial liabilities

2.6.2(a) Classification and recognition of financial liabilities

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

(i) Financial liabilities at FVTPL

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

(ii) Other financial liabilities

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

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

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

2.6.2(b) Derecognition

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

2.6.3 Derivative financial assets

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

2.6.4 Investment income

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Impairment of assets

2.7.1 Impairment of financial assets

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

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

2.7.1(a) Loans and receivables

The Group considers evidence of impairment for Loans and receivables at both a specific asset and collective level. All individually significant Loans and receivables are assessed 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. 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 Loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The impairment loss is recognised in Investment income on the Consolidated Statements of Comprehensive Income/(Loss) and reflected in an allowance account against the Loans and receivables. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed in Investment income on the Consolidated Statements of Comprehensive Income/(Loss).

2.7.1(b) Available-for-sale financial assets

When there is objective evidence that an available-for-sale asset is impaired, the loss accumulated in Other comprehensive income is reclassified to the Consolidated Statements of Comprehensive Income/(Loss) 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 Comprehensive Income/(Loss). Impairment losses on available-for-sale equity securities are not reversed.

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

2.7 **Impairment of assets** (continued)

2.7.2 Impairment of non-financial assets

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

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

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

2.8 **Insurance, investment and service contracts**

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

2.8.1 Premiums

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

2.8.2 Receivables and payables related to insurance contracts

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

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

2.8 **Insurance, investment and service contracts** (continued)

2.8.3 Reinsurance

Reinsurance ceded premiums comprise the cost of reinsurance contracts into which the Group has entered. Reinsurance ceded are recognised from the date the reinsurer has contracted to accept the risks and the amount of premium can be measured reliably. The Reinsurers' share of unearned premium represents that part of reinsurance 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 Operating expense on the Consolidated Statements of Comprehensive Income/(Loss) in the period in which any impairment is determined.

2.8.4 Insurance contract liabilities

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

(i) Life and annuity policy reserves

Life and annuity policy reserves are determined by the Group's actuaries and represent the amounts which, together with future premiums and investment income, are required to discharge the obligations under life and annuity contracts and to pay expenses related to the administration of these contracts. These reserves are determined using generally accepted actuarial practices according to standards established by the Canadian Institute of Actuaries ("CIA"). The CIA requires the use of the 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 represents the best estimate of the ultimate costs of claims in the course of settlement and claims incurred but not yet reported. The provision is continually reviewed and updated by management and the Group's actuaries. Any adjustments resulting from the review process, as well as differences between estimates and ultimate payments, are reflected in Claims and adjustment expenses and Gross change in contract liabilities on the Consolidated Statements of Comprehensive Income/(Loss) in the year in which they are determined.

Provisions for unpaid and unreported claims are not discounted.

2.8.5 Investment contracts

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

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

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

2.8 **Insurance, investment and service contracts** (continued)

2.8.5 Investment contracts (continued)

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

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

2.8.6 Other service contracts

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

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

2.9 **Investment Properties**

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

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

2.10 **Property and equipment**

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

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

2.10 **Property and equipment** (continued)

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

Buildings 2.5%
Computer equipment 10% – 33%

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

2.11 **Segregated funds**

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

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

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 4).

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 Income/(Loss). Fees charged to policyholders, related to insured risk and associated administrative costs are recorded in Commissions, management fees and other on the Consolidated Statements of Comprehensive Income/(Loss). Refer to Note 2.8.6.

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

2.12 **Employee benefits**

2.12.1 Post-employment benefits

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

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

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

2.12 **Employee benefits** (continued)

2.12.1 Post-employment benefits (continued)

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

2.12.2 Pensions

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

2.12.3 Stock-based compensation

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

2.13 **Share capital**

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

2.14 **Leases**

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

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

2.15 **Application of new and revised accounting standards**

The Group has applied the following new and revised standards, relevant to the Group, which are issued by the International Accounting Standards Board (IASB) that are mandatorily effective for the Group for the accounting period beginning April 1, 2018.

2.15.1 IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers (IFRS 15), which replaces IAS 11 Construction Contracts, IAS 18 Revenue and various interpretations. Amendments to IFRS 15 were issued in September 2015 and April 2016. IFRS 15 establishes principles about the nature, amount, timing, and uncertainty of revenue arising from contracts with customers.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Application of new and revised accounting standards (continued)

2.15.1 IFRS 15 Revenue from Contracts with Customers (continued)

Effective April 1, 2018, the Group adopted IFRS 15. This standard requires revenue to be recognised when a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Insurance contracts and revenues arising from those contracts are not within the scope of this standard. Revenues from service contracts and service components of investment contracts which primarily arise from the Group's investment management, pensions and policyholder administration and brokerage businesses are within the scope of IFRS 15.

The adoption of IFRS 15 resulted in minor amendments to the Group accounting policies. Timing of revenue recognition has been updated to clarify which fee income are recognised at point in time or over time. Fee income from service contracts are generally recognised over time, as performance obligations are satisfied. Certain fee income from the brokerage and policyholder administration business are recognised at point in time, normally at the inception of the contract when performance obligation is satisfied.

The adoption of IFRS 15 did not result in transitional adjustments to the consolidated financial statements as the minor amendments discussed above are consistent with the Group's existing interpretation and application of the revenue recognition policy.

IFRS 15 had consequential disclosure amendments as disclosed in Note 2.8.6 and Note 17

2.15.2 Amendments to IAS 40 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. The adoption of the standard did not have a significant impact on the consolidated financial statements.

2.16 Future accounting and reporting changes

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

TOPIC	EFFECTIVE DATE FOR THE COMPANY	EXPECTED IMPACT
IFRS 16, *Leases*	April 1, 2019	No significant impact
Amendments to IAS 28, *Investments in Associates and Joint Ventures*	April 1, 2019	No significant impact
Annual Improvements to IFRSs 2015-2017 Cycle	April 1, 2019	No significant impact
2018 Conceptual Framework	April 1, 2020	Impact assessment in progress
Amendments to IFRS 3, *Business Combination*	April 1, 2020	Impact assessment in progress
Amendments to IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*	April 1, 2020	Impact assessment in progress
IFRS 9, *Financial Instruments*	April 1, 2022*	Impact assessment in progress
IFRS 17, *Insurance Contracts*	April 1, 2022	Impact assessment in progress

* Deferral option was exercised, refer to discussion in 2.16.7.

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

2.16 **Future accounting and reporting changes** (continued)

2.16.1 IFRS 16 *Leases*

IFRS 16 *Leases* (IFRS 16) was issued in January 2016 and should 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 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.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments, etc.). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early application is permitted, but not before an entity applies IFRS 15. The Group adopted IFRS 15 in 2018 and the adoption did not have significant impact to the financial statements.

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach.
The Group plans to adopt IFRS 16 using the modified retrospective approach and to recognise the right-of-use assets at an amount equal to the related lease liabilities at the date of initial application. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balances of property and equipment and accounts payable and accrued liabilities at April 1, 2019, with no restatement of comparative information. The Group will elect to use the exemptions in the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has agreements pertaining to certain office equipment that are considered of low value. The adoption of the standard is not expected to have a significant impact to the Group’s consolidated financial statements.

2.16.2 Amendments to IAS 28 *Investments in Associates and Joint Ventures*

In October 2017, the IASB issued narrow-scope amendments to IAS 28 *Investments in Associates and Joint Ventures* (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. The amendments are to be applied retrospectively with certain exceptions. As the Group will not adopt IFRS 9 until 2022, the Group is required to apply IAS 39 to the long-term interests in associates or joint ventures covered by these amendments. The adoption of the standard is not expected to have a significant impact to the Group’s consolidated financial statements.

2.16.3 Annual Improvements to IFRSs 2015-2017 Cycle

In December 2017, the IASB issued Annual Improvements to IFRSs 2015-2017 Cycle, which includes minor amendments to four IFRS standards. Adoption of this standard is not expected to have a significant impact to the consolidated financial statements.

2.16.4 2018 Conceptual Framework

In March 2018, the IASB issued a revised Conceptual Framework for Financial Reporting (2018 Conceptual Framework), which replaces the Conceptual Framework for Financial Reporting issued in 2010. The 2018 Conceptual Framework includes revised definitions of an asset and a liability, as well as new guidance on measurement, derecognition, presentation and disclosure. Management is assessing the impact of this standard on the consolidated financial statements.

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

2.16 **Future accounting and reporting changes** (continued)

2.16.5 Amendments to IFRS 3 *Business Combinations*

Amendments to IFRS 3 *Business Combinations* were issued in October 2018. The amendments revise the definition of a business and provide a simplified assessment of whether an acquired set of activities and assets qualifies as a business. Application of the amendments are expected to result in fewer acquisitions qualifying as business combinations. Management is assessing the impact of this standard on the consolidated financial statements.

2.16.6 Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The amendments clarify the definition of material and provide guidance to improve consistency in its application in IFRS standards. Management is assessing the impact of this standard on the consolidated financial statements.

2.16.7 IFRS 9 *Financial Instruments*

In July 2014, the final version of IFRS 9 *Financial Instruments* (IFRS 9) was issued, which replaces IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39) and will be applied retrospectively, or on a modified retrospective basis. The project has been divided into three phases: classification and measurement, impairment of financial assets, and hedge accounting.

IFRS 9 provides that financial assets are classified and measured on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. IFRS 9 also introduces an impairment model for financial instruments not measured at fair value through profit or loss that requires recognition of expected losses at initial recognition of a financial instrument and the recognition of full lifetime expected losses if certain criteria are met. A new model for hedge accounting aligns hedge accounting with risk management activities. Revisions issued in July 2014 replace the existing incurred loss model used for measuring the allowance for credit losses with an expected loss model. In October 2017, the IASB issued narrow-scope amendments to IFRS 9. The amendments clarify the classification of certain prepayable financial assets and the accounting of financial liabilities following modification. Management is assessing the impact of this standard on the consolidated financial statements.

To address concerns about differing effective dates of IFRS 9 which is effective on January 1, 2018 and IFRS 17 *Insurance Contracts* which is effective on January 1, 2022, amendments to IFRS 4 *Insurance Contracts* was issued, which provide companies whose activities are predominantly related to insurance an optional temporary exemption from applying IFRS 9 until the effective date of IFRS 17.

Adoption of these amendments enabled the Group to defer the adoption of IFRS 9 and continue to apply IAS 39 until March 31, 2022.

To enable a comparison with entities applying IFRS 9, entities that apply the deferral approach are required to disclose the following information:

- Fair value and changes in fair value separately for (a) those financial assets that pass the solely payments of principal and interest (SPPI) test, excluding any financial asset that meets the definition of held for trading in IFRS 9, or that is managed and whose performance is evaluated on a fair value basis and (b) all other financial assets, including financial assets that are managed and whose performance is evaluated on a fair value basis. Refer to Note 5.1.
- Credit ratings of financial assets that pass the SPPI test. Financial assets which pass the SPPI test are assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Refer to Note 13.1.3(c).

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Future accounting and reporting changes (continued)

2.16.8 IFRS 17 *Insurance Contracts*

In May 2017, the IASB issued IFRS 17, which replaces IFRS 4. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 requires entities to measure insurance contract liabilities at their current fulfillment values using one of three measurement models, depending on the nature of the contract. IFRS 17 is effective for annual periods beginning on or after January 1, 2021 and is to be applied retrospectively to each group of insurance contracts unless impracticable. If, and only if, it is impracticable to apply IFRS 17 retrospectively for a group of insurance contracts, an entity shall apply IFRS 17 using a modified retrospective approach or a fair value approach. In November 2018, the IASB tentatively decided to defer the effective date of IFRS 17 and IFRS 9 by one year, to January 1, 2022.

In order to evaluate the effects of adopting IFRS 17 in the consolidated financial statements, a joint IFRS 17 and IFRS 9 Group Implementation Program was set up and a third party advisory team was hired. A steering committee comprising senior management from Finance, Risk, Operations and Investment Management oversees the work performed by the third party advisory team and the internal individual work streams. The third party advisory team works with the technical committee in the assessment of the Group accounting policies and methodologies and with the transformation committee for assessment of systems implications and data flows. The Group is expecting that adoption of this standard will have a significant impact on the Group's consolidated financial statements.

3. CASH AND SHORT-TERM INVESTMENTS

	2019	2018
Cash at bank and in hand	$ 13,492	$ 4,743
Short-term investments	4,551	4,863
	$ 18,043	$ 9,606

4. ASSETS AND LIABILITIES HELD-FOR-SALE

In March 2018, Management committed to a plan for the settlement of an outstanding mortgage loan receivable, which is fully collateralised via a first mortgage over a property in receivership that is situated in Bermuda. The settlement of the outstanding loan is dependent upon the sale of the collateral property. The sale of the majority of the assets are expected to be finalised in the next fiscal year.

As disclosed in Note 21.6, the Group did a portfolio transfer which resulted in moving all of the international division's assets and liabilities to Argus International Life Bermuda Limited ("AILBL"). These were included in the Group's assets and liabilities held-for-sale in the prior year.

The operations and cash flows of the International Life Division were clearly distinguished and reported as part of the Parent'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.

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

4. ASSETS AND LIABILITIES HELD-FOR-SALE (continued)

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

	2019	2018
Investments	$ 11,556	$ 11,556
Cash and short-term investments	-	1,345
Insurance balances receivable	-	2,146
Reinsurers share of claims provisions	-	777
Other assets	-	7
Total general fund assets held-for-sale	11,556	15,831
Segregated fund assets	-	143,630
Assets held for sale	**$ 11,556**	**$ 159,461**
LIABILITIES		
Life and annuity policy reserves	-	827
Insurance balances payable	-	2,379
Total general fund liabilities-held-for-sale	-	3,206
Segregated fund liabilities	-	143,630
Liabilities held for sale	**$ -**	**$ 146,836**

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

5. INVESTMENTS

5.1 Carrying values and estimated fair values of investments

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

	March 31, 2019		March 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Available-for-sale				
Bonds	$ 389,740	$ 389,740	$ 359,598	$ 359,598
Equities	5,386	5,386	10,639	10,639
	395,126	395,126	370,237	370,237
Investments at FVTPL				
Bonds	14,265	14,265	19,360	19,360
Equities	151	151	2,651	2,651
	14,416	14,416	22,011	22,011
Loans and receivables				
Mortgages and loans	15,086	15,445	14,272	15,015
Policy loans	40	40	81	81
	15,126	15,485	14,353	15,096
Derivatives				
Other [1]	707	707	455	455
Foreign currency forward contracts	82	82	115	115
	789	789	570	570
Total Investments	$ **425,457**	**$ 425,816**	**$ 407,171**	**$ 407,914**

[1] Other consists of interest rate swaps, credit default swaps, options and futures

Included in Bonds are investments of $152.8 million (2018 - $152.7 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 plans.

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

5. **INVESTMENTS** (continued)

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

Investments that meet the SPPI criterion:
As discussed in Note 2.16.7, the Group has investments of $366.8 million that meet the SPPI criterion. This refers to bonds, mortgages and loans and policy loans. Investments with a carrying value of $58.6 million do not have SPPI qualifying cash flows as at March 31, 2019. The change in the fair value of these invested assets during the year is a loss of $ 0.1 million.

Investment in mortgages and loans presented as assets held-for-sale amounting to $11.5 million do not have SPPI qualifying cash flows as at March 31, 2019.

5.2 **Derivative financial instruments**

The Group's investment guidelines permit the investment managers to utilise exchange-traded futures and options contracts, over-the-counter (OTC) instruments including interest rate swaps, credit default swaps, interest rate 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 may also use OTC or exchange traded managed derivatives to mitigate interest rate risk and foreign currency exposures. 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.

At March 31	**Note**	**2019**	**2018**
Derivative assets		$ 789	$ 570
Derivative Liabilities	15	(332)	(336)
Collateral [(1)]		914	680

[(1)] Collateral refers to cash held in favour of third parties, which is included in Cash and short-term investments on the Consolidated Balance Sheets.

The net income arising from the Group's derivative financial instruments recognised as Investment income on the Consolidated Statements of Comprehensive Income/(Loss) is as follows:

For the year ended March 31	**Note**	**2019**	**2018**
Derivative financial instruments			
Foreign currency forward		$ 372	$ (300)
Other derivatives [(1)]		606	296
	5.4	$ 978	$ (4)

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

5.2.1 Futures

Futures provide the Group with participation in market movements, determined by the underlying instrument on which the future 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. Future 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 or losses settled daily in cash and/or securities. A realised gain or loss is recognised when the contract is closed.

5. **INVESTMENTS** (continued)

5.2 **Derivative financial instruments** (continued)

5.2.1 Futures (continued)

Future 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 rapidly adjust 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 settlements of unrealised gains and losses and counterparty credit risk evaluation. Credit, market and liquidity risk and how these risks are mitigated are disclosed in Note 13.

At March 31, 2019, the Group has outstanding money market futures with long positions of $18.5 million and short positions of $18.0 million based on notional values (2018 - long positions of $12 million and short position of $14.5 million).

5.2.2 Options

The Group's investment guidelines permit the use of exchange-traded options on U.S. treasury future 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, 2019, the Group has options with long positions of $Nil and short positions of $7.2 million based on notional values (2018 - long positions of $Nil and short position of $Nil).

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 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 Comprehensive Income/(Loss).

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 13.

At March 31, 2019, the Group has open interest rate swaps with long positions of $Nil million and short positions amounted to $30.8 million based on notional values (2018 - long positions of $0.7 million and short position of $8.6 million).

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

5. **INVESTMENTS** (continued)

5.2 **Derivative financial instruments** (continued)

5.2.4 Credit default swaps

Credit default swaps ("CDS") are used to manage exposure to the market or certain sectors of the market. 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, 2019, the Group has open CDS contracts with long positions of $7.5 million and short positions amounted to $7.3 million based on notional values (2018 - long position of $4.6 million and short position of $4.2 million).

5.2.5 Foreign currency forwards

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 utilize currency forward contracts to gain exposure to a certain currency or market rate or manage the impact of fluctuations in foreign currencies on the value of its foreign currency denominated 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 short position is equivalent to having sold the underlying currency.

The Group had the following open foreign currency forward contracts:

As at March 31	**2019**		**2018**	
	Notional Short	**Notional Long**	**Notional Short**	**Notional Long**
Argentine Peso	$ 11,723	$ 22,546	$ -	$ -
Australian dollar	693	-	883	-
Euro	384	2,998	5,620	2,810
Indian Rupee	-	25,649	-	45,002
Mexican peso	-	6,826	-	20,045
Russian Ruble	-	39,347	6,967	46,315
Sterling	1,154	1,648	2,010	1,005
U.S. dollar	2,628	8,179	-	-

At March 31, 2019, the U.S dollar equivalent of notional value of outstanding foreign currency forward contracts with long positions and short positions amounted to $7.4 million and $2.3 million respectively (2018 - $6.7 million and $10.5 million).

The Group also held foreign currency contracts denominated in African, Asian and South American currencies as of March 31, 2019. The U.S. dollar equivalent of notional value of these outstanding foreign currency forward contracts with long positions and short positions amounted to $0.8 million and $0.8 million, respectively (2018- long positions of $1.5 million and short positions of $1.3 million).

5. **INVESTMENTS** (continued)

5.3 Reverse sale and repurchase agreements

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

During the year, cash flows arising from these agreements amounted to sales and purchases of $1.1 billion (2018 - $3.5 billion) which are shown net in cash flows generated from/(used in) investing activities on the Consolidated Statement of Cash Flows.

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

As of March 31, 2019 and 2018, the Group does not hold any outstanding balances arising from reverse repos.

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

5. **INVESTMENTS** (continued)

5.4 Investment income

For the years ended March 31	**2019**	**2018**
Interest Income		
Bonds - available-for-sale	$ 12,061	$ 11,212
Bonds - at FVTPL	179	217
Mortgages and loans	712	822
Cash and other	8	(65)
	12,960	12,186
Dividend Income		
Equities - available-for-sale	142	372
Equities - at FVTPL	45	149
	187	521
Net realised and changes in unrealised gains and losses on investments		
Bonds - available-for-sale	(1,167)	815
Bonds - at FVTPL	(55)	(438)
Equities - at FVTPL	1,706	444
Equities - available-for-sale	1,083	463
Derivative financial instrument	965	(4)
Investment Properties	74	(104)
	2,606	1,176
Other		
Amortisation of premium on Bonds	(1,125)	(1,191)
Net rental income and other	2,089	2,056
Reversal of impairment charges on mortgages and loans [1]	148	(9,918)
	1,112	(9,053)
Investment income before deductions	16,865	4,830
Deductions		
Investment income relating to Deposit administration pension plan	(1,713)	(1,776)
Total Investment Income	**$ 15,152**	**$ 3,054**

[1] During 2018, the Group recorded an impairment on certain non-residential mortgages, classified under assets held-for-sale. The impairment recognized is the difference between the carrying value and the recoverable value, determined based on the market value of the underlying collateral property.

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

5. **INVESTMENTS** (continued)

5.5 Re-designation of Investments

Effective April 1, 2016, the Group re-designated certain fixed income investments with a carrying value and fair value of $305.1 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 these assets for tactical asset/ liability management. These investments are not held for the purpose of being sold or repurchased in the near term, with the intention of profiting from short term price changes. Management believes that the users of the financial statements will be better served by re-designating these investments to available-for-sale.

Management re-designated these investments to the available-for-sale category as allowed by IAS 39, Financial Instruments. These investments were designated at their fair value on April 1, 2017, and the effect of the change was applied prospectively in these financial statements from the date of re-designation.

The carrying value of the re-designated investments as of March 31, 2019 is $66.5 million (2018 - $101.9 million).

The table below sets out the amounts designated as Investment Income on the Consolidated Statements of Comprehensive Income/(Loss) in respect to investments re-designated out of the held-for-trading category.

	2019		2018	
	Consolidated Statements of Comprehensive Income/(Loss)	Other Comprehensive Income	Consolidated Statements of Comprehensive Income/(Loss)	Other Comprehensive Income
Investment Income	$3,026	-	$4,875	-
Net unrealised gains of investments	-	$765	-	(976)

If the investments had not been re-designated, net unrealized gains of $0.8 million (2018- net unrealized losses of $1.0 million) would have been recognized as investment income on the Consolidated Statements of Comprehensive Income/(Loss).

The effective interest rates on trading investments re-designated as available-for-sale investments at April 1, 2017 and still held at the reporting date ranged from 6.3 percent to 6.4 percent with expected recoverable cash flows of $105.2 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.

6. **FAIR VALUE MEASUREMENT** (continued)

The Group determines the estimated fair value of each individual security utilizing the highest level inputs available. Prices for the majority of the Group's investment portfolio are provided by a third-party investment accounting firm whose pricing processes and the controls thereon are subject to an annual audit on both the operation and the effectiveness of those controls. The audit reports are available to clients of the firm and the report is reviewed annually by management. In accordance with their pricing policy, various recognised reputable pricing sources are used including broker-dealers and pricing vendors. The pricing sources use bid prices where available, otherwise indicative prices are quoted based on observable market trade data. The prices provided are compared to the investment managers' pricing. The Group has not made any adjustments to any pricing provided by independent pricing services or its third-party investment managers for either year ending March 31, 2019 or 2018.

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

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

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

Other similar quoted instruments or market transactions may be used.

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

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

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

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

6. **FAIR VALUE MEASUREMENT** (continued)

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

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

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

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

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

6. FAIR VALUE MEASUREMENT (continued)

6.1 Assets and liabilities measured at fair value

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

March 31, 2019	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Cash and short-term investments	$ 18,043	$ -	$ -	$ 18,043
Interest and dividends receivables	-	2,870	-	2,870
Available-for-sale investments				
Bonds				
US government	86,177	-	-	86,177
US and Bermuda Corporates	-	207,913	-	207,913
Municipal, other government and agency	-	44,927	-	44,927
Mortgage/asset-backed securities	-	36,863	-	36,863
Other - Investment in bond funds	-	13,860	-	13,860
	86,177	303,563	-	389,740
Equities				
Investment in equity funds	-	5,018	-	5,018
Private equity funds and unquoted equities	-	-	368	368
	86,177	308,581	368	395,126
Investments at FVTPL				
Bonds				
US government	14,265	-	-	14,265
Equities				
Private equity funds and unquoted equities	-	-	151	151
	14,265	-	151	14,416
Derivatives	-	789	-	789
Investment properties	-	575	-	575
Total assets at fair value	**$ 118,485**	**$ 312,815**	**$ 519**	**$ 431,819**
Liabilities				
Investment contract liabilities	$ -	$ 704	$ -	$ 704
Payables arising from investment transactions	-	56,545	-	56,545
Total liabilities at fair value	**$ -**	**$ 57,249**	**$ -**	**$ 57,249**
Segregated funds	**$ 1,678**	**$ 934,766**	**-**	**$936,444**

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

6. FAIR VALUE MEASUREMENT (continued)

6.1 Assets and liabilities measured at fair value (continued)

March 31, 2018	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Cash and short-term investments	$ 9,606	$ -	$ -	$ 9,606
Interest and dividends receivables	-	2,538	-	2,538
Available-for-sale investments				
Bonds				
US Government	75,952	-	-	75,952
US and Bermuda Corporates	-	178,075	-	178,075
Municipal, other government and agency	-	19,359	-	19,359
Foreign bonds	-	-	-	-
Mortgage/asset-backed securities	-	70,737	-	70,737
Other - Investment in bond funds	-	15,475	-	15,475
	75,952	283,646	-	359,598
Equities				
Investment in equity funds	-	10,369	-	10,369
Private equity funds and unquoted equities	-	-	270	270
	85,558	296,553	270	382,381
Investments at FVTPL				
Bonds				
US Government	$ 19,360	$ -	$ -	$ 19,360
Equities				
Bermuda listed equities	2,500	-	-	2,500
Private equity funds and unquoted equities	-	-	151	151
	21,860	-	151	22,011
Derivatives	-	570	-	570
Investment properties	-	501	-	501
Total assets at fair value	**$ 107,418**	**$ 297,624**	**$ 421**	**$ 405,463**
Liabilities				
Investment contract liabilities	$ -	$ 2,516	$ -	$ 2,516
Payables arising from investment transactions	-	26,671	-	26,671
Total liabilities at fair value	**$ -**	**$ 29,187**	**$ -**	**$ 29,187**
Segregated funds (1)	**$ 15,313**	**$ 981,689**	**$ 66,066**	**$1,063,068**

(1) Segregated funds include certain segregated funds held-for-sale, which were classified Level 1 - $12.9 million, Level 2 - $64.7 million and Level 3 - $66.1 million

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

6. **FAIR VALUE MEASUREMENT** (continued)

6.1 **Assets and liabilities measured at fair value** (continued)

The table below provides a fair value roll forward for the assets and liabilities measured at fair value for which significant unobservable inputs (Level 3) are used in the fair value measurement for the year ended March 31, 2019.

For the year ended March 31, 2019	**At FVTPL Bonds**	**At FVTPL Equities**	**Available-for-sale Bonds**	**Available-for-sale Equities**	**Total**
Balance, beginning of year	**$ -**	**$ 151**	**$ -**	**$ 270**	**$ 421**
Included in Other comprehensive income	-	-	-	98	98
Assets based on Level 3 inputs	**$ -**	**$ 151**	**$ -**	**$ 368**	**$ 519**

For the year ended 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	$ 341	$ 3,691
Included in Investment income	-	-	-	10	10
Included in Other comprehensive income	-	-	6	39	45
Sales / Write off	-	-	(1,538)	(120)	(1,658)
Transfer to Level 2	-	-	(1,667)	-	(1,667)
Assets based on Level 3 inputs	**$ -**	**$ 151**	**$ -**	**$ 270**	**$ 421**

The roll-forward of Segregated funds measured at fair value using Level 3 inputs were included in Note 25 and does not impact the Group's Consolidated Statements of Comprehensive Income/(Loss) and Cash Flows. During the year, there were no transfers made between the levels within the fair value hierarchy for Segregated funds during the year (2018 – $nil).

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

6. FAIR VALUE MEASUREMENT (continued)

6.2 Assets and liabilities not measured at fair value

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

March 31, 2019	Level 1	Level 2	Level 3	Total fair value	Carrying value
Assets					
Mortgages and loans [(1)]	$ -	$ 15,445	$ -	$ 15,445	$ 15,086
Policy loans	-	40	-	40	40
Assets held for sale	-	-	11,556	11,556	11,556
Total assets disclosed at fair value	**$ -**	**$ 15,485**	**$ 11,556**	**$ 27,041**	**$ 26,682**
Liabilities					
Investment contract liabilities [(2)]	$ -	$ 232,488	$ -	$ 232,488	$ 241,518
Total liabilities disclosed at fair value	**$ -**	**$ 232,488**	**$ -**	**$ 232,488**	**$ 241,518**

March 31, 2018	Level 1	Level 2	Level 3	Total fair value	Carrying value
Assets					
Mortgages and loans [(1)]	$ -	$ 15,015	$ -	$ 15,015	$ 14,272
Policy loans	-	81	-	81	81
Assets held for sale	-	-	11,556	11,556	11,556
Total assets disclosed at fair value	**$ -**	**$ 15,096**	**$ 11,556**	**$ 26,652**	**$ 25,909**
Liabilities					
Investment contract liabilities [(2)]	$ -	$ 237,316	$ -	$ 237,316	$ 227,571
Total liabilities disclosed at fair value	**$ -**	**$ 234,800**	**$ -**	**$ 234,800**	**$ 225,054**

[(1)] Fair value of mortgages and loans is determined by discounting expected future cash flows using current market rates.
[(2)] Fair value of Investment contract liabilities is based on the following methods:
a) Deposit administration pension plans - based on a discounted cash flow method. Factors considered in the valuation include current yield curve, plus appropriate spreads which have market observable inputs; and
b) Self – funded group health policies – the carrying value approximates the fair value due to the short-term nature of these investment contract liabilities.

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

The Group’s policy is to record transfers of assets and liabilities between levels at their fair values as at the end of each reporting period, consistent with the date of determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. There were no transfers between Levels 1 and 2 during the year ended March 31, 2019 and 2018.

Transfers out of Level 3 amounted to $nil during the year ended March 31, 2019 (2018- $1.7 million).

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

7. INVESTMENT PROPERTY

Balance, March 31, 2017	$ 400
Additions	501
Disposals	(296)
Loss on disposals	(104)
Balance, March 31, 2018	**501**
Net unrealised gains and losses from change in fair value	74
Balance, March 31, 2019	**$ 575**

Included in the Group's investment properties are residential properties. In the prior year, the Group acquired the ownership rights to a residential property used as a collateral for a mortgage loan. The property was recorded at discounted carry value at the acquisition date. The Group also sold a residential property in the prior year with net proceeds of $0.3 million and $0.1 million was recorded as loss on disposition. Investment properties are held for rental income and capital appreciation.

8. INSURANCE BALANCES RECEIVABLE

Insurance balances receivable are comprised of:

March 31, 2019	**Insured Employee Benefits**	**Life and Pensions**	**Total**
Due from policyholders, agents and brokers	$ 1,926	$ 48	$ 1,974
Due from reinsurers	3,283	-	3,283
Total insurance balances receivable	**$ 5,209**	**$ 48**	**$ 5,257**

March 31, 2018	**Insured Employee Benefits**	**Life and Pensions**	**Total**
Due from policyholders, agents and brokers	$ 1,976	$ 48	$ 2,024
Due from reinsurers	2,387	-	2,387
Total insurance balances receivable	**$ 4,363**	**$ 48**	**$ 4,411**

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

9. OTHER ASSETS

As at March 31	**2019**	**2018**
Other financial assets		
Fees receivable	$ 1,663	$ 680
Receivable from self-funded group health policies	-	906
Notes and other receivables	166	328
Total other financial assets	**1,829**	**1,914**
Prepaid expenses	2,180	2,778
Total other assets	**$ 4,009**	**$ 4,692**

10. PROPERTY AND EQUIPMENT

	Land and buildings	**Computer equipment**	**Total**
Gross carrying amount			
Balance, March 31, 2017	$ 57,955	$ 1,652	$ 59,607
Additions	-	-	-
Balance March 31, 2018	**57,955**	**1,652**	**59,607**
Additions	-	-	-
Balance March 31, 2019	**$ 57,955**	**$ 1,652**	**$ 59,607**
Accumulated depreciation			
Balance, March 31, 2017	14,470	1,652	16,122
Depreciation charge for the year	1,766	-	1,766
Balance March 31, 2018	**$ 16,236**	**$ 1,652**	**$ 17,888**
Depreciation charge for the year	1,579	-	1,579
Balance March 31, 2019	**$ 17,815**	**$ 1,652**	**$ 19,467**
Net carrying amount, end of year			
As at March 31, 2018	$ 41,719	$ -	$ 41,719
As at March 31, 2019	**$ 40,140**	**$ -**	**$ 40,140**

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

11. INSURANCE CONTRACT LIABILITIES

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

March 31, 2019	**Note**	**Gross**	**Ceded**	**Net**
Life and annuity policy reserves	11.1	$ 174,594	$ (5,433)	$ 169,161
Provision for unpaid and unreported claims	11.2	12,563	-	12,563
		187,157	(5,433)	181,724
Unearned premiums	11.4	2	(200)	(198)
Total insurance contract liabilities		**$ 187,159**	**(5,633)**	**181,526**

March 31, 2018	**Note**	**Gross**	**Ceded**	**Net**
Life and annuity policy reserves	11.1	$ 172,681	$ (5,056)	$ 167,625
Provision for unpaid and unreported claims	11.2	11,888	(20)	11,868
		184,569	(5,076)	179,493
Unearned premiums	11.4	2	(352)	(350)
Total insurance contract liabilities		**$ 184,571**	**(5,428)**	**179,143**

11.1 Life and annuity policy reserves

The table below sets out the Group's life and annuity policy reserves shown by type of product and by reportable segment. The majority of the Life and annuity policy reserves relate to policies issued to individuals domiciled in Bermuda. The Reinsurers' 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, 2019	**Group Insurance**	**Life and pensions**	**Total**
Annuities	$ -	$ 165,662	$ 165,662
Long-term disability	6,584	-	6,584
Life	-	2,348	2,348
Life and annuity policy reserves	6,584	168,010	174,594
Reinsurers' share of claims provisions	(5,624)	191	(5,433)
Life and annuity policy reserves, net of reinsurance	**$ 960**	**$ 168,201**	**$ 169,161**

March 31, 2018	**Group Insurance**	**Life and pensions**	**Total**
Annuities	-	$ 163,753	$ 163,753
Long-term disability	$ 6,630	-	6,630
Life	-	2,298	2,298
Life and annuity policy reserves	6,630	166,051	172,681
Reinsurers' share of claims provisions	(5,227)	171	(5,056)
Life and annuity policy reserves, net of reinsurance	**$ 1,403**	**$ 166,222**	**$ 167,625**

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

11. **INSURANCE CONTRACT LIABILITIES** (continued)

11.1 **Life and annuity policy reserves** (continued)

The Reinsurers' 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, 2019	**Cash**	**Bonds**	**Mortgage and loans**	**Equities**	**Land and buildings**	**Total**
Annuities	$ 6,386	$128,160	$11,363	$4,113	$15,640	$165,662
Long-term disability	-	764	-	196	-	960
Life	132	1,912	-	495	-	2,539
Life and annuity policy reserves, net of reinsurance	**$6,518**	**$130,836**	**$11,363**	**$4,804**	**$15,640**	**$169,161**

March 31, 2018	**Cash**	**Bonds**	**Mortgage and loans**	**Equities**	**Land and buildings**	**Total**
Annuities	$ 7,532	$128,114	$9,561	$3,120	$15,428	$163,755
Long-term disability	-	1,034	-	367	-	1,401
Life	122	1,900	-	447	-	2,469
Life and annuity policy reserves, net of reinsurance	**$7,654**	**$131,048**	**$9,561**	**$3,934**	**$15,428**	**$167,625**

The Group examines the assumptions used in determining the Life and annuity policy reserves on an ongoing basis to ensure they appropriately reflect emerging experience and changes in risk profile. Annually the Group conducts a comprehensive review of all actuarial methods and assumptions. Changes to actuarial methods and assumptions used in determining Insurance contract liabilities will result in a change to the projected value of policy cash flows and therefore, to the Life and annuity policy reserves. The net impact of changes in actuarial methods and assumptions was an increase in reserves backing policyholder liabilities of $nil (2018 – $0.8 million). These amounts are net of the impact of the reinsurance assets on policyholder liabilities of $4.9 million (2018 - $5.8 million).

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

March 31	**2019**	**2018**
Balance, beginning of year	$167,623	$171,480
Changes due to:		
Reclassification to Assets and liabilities held-for-sale	-	(13,019)
Issuance of new policies	10,364	15,545
Normal in-force movement	(8,852)	(7,232)
Mortality/morbidity assumptions	(162)	657
Interest rate assumptions	(316)	576
Expense assumptions	504	(171)
Other [1]	-	(213)
Balance, end of year	**$ 169,161**	**$ 167,623**

[1] For the year ended March 31, 2018, Other changes comprise of enhancements in the modelling of assets under CALM.

11. **INSURANCE CONTRACT LIABILITIES** (continued)

11.1 **Life and annuity policy reserves** (continued)

11.1.1 Key assumptions – Life and annuity policy reserves

ASSUMPTIONS, METHODOLOGY AND SENSITIVITIES	RISK MANAGEMENT
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. 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 in the conservative end of the ranges suggested by the CIA.	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.
(a) Mortality and morbidity risk Mortality refers to the likelihood of death. The mortality assumption is based on industry standard life insurance and standard annuity past and emerging experience. The Group's life insurance and annuity business is not sufficient to use company specific mortality tables. A five percent decrease in the best estimate assumption for annuitant mortality is estimated to increase the policy reserves by $3.9 million, 2.3 percent (2018 - $3.8 million, 2.3 percent). 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.	The Group maintains underwriting standards to determine the insurability of applicants. Claim trends are monitored on an ongoing basis. To offset some of the mortality risk, the Group cedes a proportion of the risk with reinsurers. Mortality and morbidity are monitored regularly.

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

11. **INSURANCE CONTRACT LIABILITIES** (continued)

11.1 **Life and annuity policy reserves** (continued)

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

ASSUMPTIONS, METHODOLOGY AND SENSITIVITIES	RISK MANAGEMENT
(b) Investment returns and interest rate risk Assets are allocated to the different business segments. For each significant operating segment, CALM is used to project the cash flows from the supporting assets and the cash flows from the liabilities. The projected asset cash flows are combined with the projected cash flows from future asset sales and purchases to determine the expected investment returns for all future years. 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 (2018 - $13.3 million). A 100 basis points decrease in the best estimate assumption increases the total Life and annuity policy reserves by $15.6 million (2018 – $15.7 million).	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. 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.
(c) Credit risk 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 $2.1 million (2018 – $1.1 million) to provide for future asset defaults and loss of asset value on current assets and future purchases.	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.

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

11. **INSURANCE CONTRACT LIABILITIES** (continued)

11.1 **Life and annuity policy reserves** (continued)

11.1.1 Key assumptions – Life and annuity policy reserves

ASSUMPTIONS, METHODOLOGY AND SENSITIVITIES	RISK MANAGEMENT
(d) Expenses 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. A ten percent increase in the best estimate assumption for unit expenses would increase the policy reserves by approximately $0.6 million (2018- $0.6 million).	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.

11.2 **Provision for unpaid and unreported claims**

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

March 31	**2019**	**2018**
Provision for unpaid and unreported claims	12,563	11,888
Reinsurers' share of claims provision	-	(20)
Provision for unpaid and unreported claims, net of reinsurance	**$ 12,563**	**$ 11,868**

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

11. **INSURANCE CONTRACT LIABILITIES** (continued)

11.2 **Provision for unpaid and unreported claims** (continued)

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

For the years ended March 31	**2019**			**2018**		
	Provision for unpaid and unreported claims	**Reinsurers' share of claims provisions**	**Net**	**Provision for unpaid and unreported claims**	**Reinsurers' share of claims provisions**	**Net**
Balance, beginning of year	$ 11,888	$ (20)	$ 11,868	$ 9,882	$ (20)	$ 9,862
Claims and adjustment expenses incurred						
Current year	82,738	(2,839)	79,899	81,768	(2,256)	79,512
Prior years	4,384	-	4,384	8,500	-	8,500
	87,122	(2,839)	84,283	90,268	(2,256)	88,012
Claims and adjustment expenses paid						
Current year	(70,259)	2,839	(67,420)	(69,951)	2,256	(67,695)
Prior years	(16,188)	20	(16,168)	(18,311)	-	(18,311)
	(86,447)	2,859	(83,588)	(88,262)	2,256	(86,006)
Balance, end of year	**$ 12,563**	**-**	**$ 12,563**	**$ 11,888**	**$ (20)**	**$ 11,868**

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

11. **INSURANCE CONTRACT LIABILITIES** (continued)

11.3 Key assumptions - Provision for unpaid and unreported claims

ASSUMPTIONS AND METHODOLOGY	RISK MANAGEMENT
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. The key assumptions underlying the application of the actuarial methods and the estimate of unpaid claim liabilities are the expected development of paid and reported losses and the derivation of initial expected losses. Paid and reported loss development patterns are based on the Group's historical claims experience. These patterns are updated as of each annual evaluation to incorporate and reflect the most recent claims experience. The estimate of initial expected losses is most significant for immature policy periods, where it is given the greatest weight in determining unpaid claim liabilities. Initial expected losses are derived based on the Group's historical experience adjusted for the impact of inflationary trends on loss costs and the impact of historical changes in rates charged policyholders. As the experience in each policy year matures, the weight assigned to the initial expected losses decreases with greater weight assigned to actual loss experience. The actuarial analysis performed by the Group's actuaries employs commonly used actuarial techniques for estimating the Group's Provision for unpaid and unreported claims. These include the Paid Loss Development Method, Reported Loss Development Method, the Bornhuetter-Ferguson Method (applied to both paid and reported losses), and the Case Reserve Development Method. The particular methods employed in the analysis of each reserve segment are judgmentally selected based on the applicability of each method and the availability of data to use each particular method. There have been no material changes in the assumptions or methodology underlying the actuarial analysis in the year under review.	The Group has policies and procedures in place to reduce the risk exposure, which includes a strict claims review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims. Further, the Group enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. The Group has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events. The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the Group's risk appetite as determined by management. 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 Consolidated Balance Sheets date, the provision is necessarily an estimate and claims may ultimately be settled for greater or lesser amounts. It is reasonably possible that management will revise this estimate significantly in the near term. Any subsequent differences are recorded in the Gross change in contract liabilities on the Consolidated Statements of Comprehensive Income/(Loss) in the period in which they are determined.

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

11. **INSURANCE CONTRACT LIABILITIES** (continued)

11.4 **Unearned premiums**

The Group is exposed to pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluations are performed regularly to estimate future claims costs, related expenses, and expected profit in relation to unearned premiums. There was no premium deficiency at March 31, 2019 or 2018.

As at March 31	**2019**			**2018**		
	Unearned premiums	**Reinsurers' share of unearned premiums**	**Net**	**Unearned premiums**	**Reinsurers' share of unearned premiums**	**Net**
Balance, beginning of year	$ 2	$ (352)	$ (350)	$ 9	$ (339)	$ (330)
Premiums written during the year	127,232	(7,504)	119,728	124,374	(7,873)	116,501
Premiums earned during the year	(127,232)	7,656	(119,576)	(124,381)	7,860	(116,521)
Balance, end of year	**$ 2**	**$ (200)**	**$ (198)**	**$ 2**	**$ (352)**	**$ (350)**

12. **INVESTMENT CONTRACT LIABILITIES**

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

As at March 31	**2019**		**2018**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
At amortised cost:				
Deposit administration pension plans	$ 227,164	218,134	$ 224,456	214,710
Self-funded group health policies	14,354	14,354	10,344	10,344
	241,518	**232,488**	**234,800**	**225,054**
At FVTPL:				
Deposit administration pension plans	704	704	2,516	2,516
Total investment contract liabilities	**$ 242,222**	**233,192**	**$ 237,316**	**227,570**

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

12. INVESTMENT CONTRACT LIABILITIES (continued)

12.1 Investment contract liabilities at amortised cost

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

March 31	**2019**	**2018**
Balance, beginning of year	$ 234,800	$ 240,545
Deposits	85,158	87,303
Withdrawals	(78,232)	(90,618)
Fees deducted	(3,727)	(3,860)
Interest	1,958	1,640
Other	1,561	(210)
Balance, end of year	**$ 241,518**	**$ 234,800**

For the year ended March 31, 2019, the net gain relating to Investment contracts liabilities measured at amortised cost is $3.4 million (2018 - net gain of $3.3 million).

12.2 Investment contract liabilities at FVTPL

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

March 31	**2019**	**2018**
Balance, beginning of year	$ 2,516	$ 2,384
Included in net income [1]	298	(189)
Deposits	442	3,472
Withdrawals	(2,552)	(3,151)
Balance, end of year	**$ 704**	**2,516**

[1] Amount is recorded under Change in contract liabilities on the Consolidated Statements of Comprehensive Income/(Loss). See Note 19.

13. RISK MANAGEMENT

13.1 Governance framework

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

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

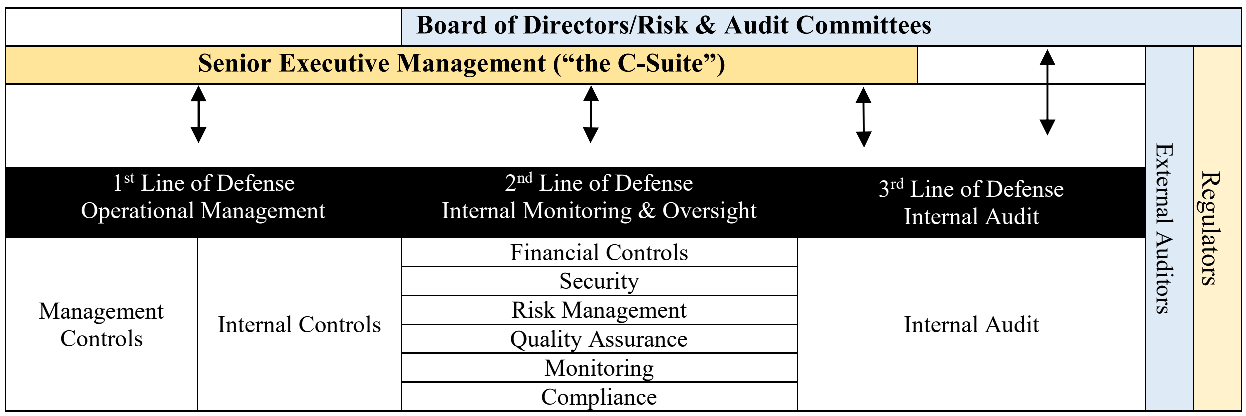
  The Board of Directors approves the Group's risk management policies and meets regularly to approve any commercial, regulatory and organizational requirements of such policies. These policies define the Group's identification of risk and its interpretation and sets out the risk profiles for the Group,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

13. **RISK MANAGEMENT** (continued)

13.1 **Governance framework** (continued)

- Three lines of defense model.

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



13.1.1 Capital management

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

The Bermuda Monetary Authority (the "BMA") is the regulator of the Group. The laws and regulations of Bermuda require that the Group maintain a minimum amount of statutory capital and surplus based on the enhanced capital requirement. As of March 31, 2019, the amount of group statutory capital and surplus exceeds this regulatory requirement.

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

The statutory capital and surplus for the Group as at March 31, 2019 was $49.6 million (2018 - $37.8 million) and the minimum solvency margin of the Group was $24.8 million (2018 - $23.0 million).

The Bermuda Solvency Capital Requirement (BSCR) is the prescribed form of capital and solvency reporting in Bermuda, which was revised under new legislation enacted in 2008. The BSCR includes a standardised model used to measure the risk associated with an insurance subsidiary's assets, liabilities and premiums, and a formula to take account of catastrophe risk exposure. The BMA requires all insurers to maintain their statutory capital and surplus at a target level which is 120 percent of the amount calculated in accordance with the BSCR. As of March 31, 2019 and 2018, the statutory capital and surplus of the insurance subsidiaries exceeded this regulatory requirement.

13. **RISK MANAGEMENT** (continued)

13.1 **Governance framework** (continued)

13.1.1 Capital management (continued)

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

13.1.2 Investment Risk

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

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

13.1.3 Credit risk

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

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

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

13. **RISK MANAGEMENT** (continued)

13.1 **Governance framework** (continued)

13.1.3 Credit risk (continued)

13.1.3(a) Maximum exposure to credit risk

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

As at March 31	Note	**2019**	**2018**
Cash and short-term investments		$ 18,043	$ 9,606
Interest and dividends receivable		2,870	2,538
Bonds - at FVTPL and available-for-sale	5.1	404,005	378,958
Mortgages and loans	5.1	15,086	14,272
Policy loans	5.1	40	81
Derivative financial instruments	5.1	789	455
Other financial assets included in Other assets	9	1,829	1,921
Insurance balances receivable	8	5,257	4,411
Reinsurers' share of claims provisions	11	5,433	5,076
Total consolidated balance sheet maximum credit exposure		**$ 453,352**	**$ 417,318**

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.

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

13. **RISK MANAGEMENT** (continued)

13.1 **Governance framework** (continued)

13.1.3 Credit risk (continued)

13.1.3(b) Concentration of credit risk

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

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

For the years ended March 31	**2019**	**2018**
Bonds available-for-sale and FVTPL issued or guaranteed by:		
Supranational	$ 106,017	$ -
Banking	93,158	83,963
Asset Backed Securities	63,940	69,034
Communications	27,645	23,664
Oil and Gas	19,488	17,750
Pharmaceutical	6,304	7,749
Transportation	11,358	8,924
Manufacturing	10,975	7,487
Government and Agency	10,003	113,286
Utilities and Energy	8,063	9,184
Insurance	6,291	5,650
Mining	6,825	2,778
Real estate investment trust	-	7,464
Retail	-	2,017
Other(1)	33,938	20,008
Total bonds	**$ 404,005**	**$ 378,958**
Derivative financial instruments issued or guaranteed by:		
Other	$ 789	$ 570
Total derivative financial instruments	**$ 789**	**$ 570**

(1) Includes investment with less than $2 million of concentration of credit risk by industry sector or geographical distribution and bond funds of $13.9 million (2018 - $15.4 million).

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

13. **RISK MANAGEMENT** (continued)

13.1 **Governance framework** (continued)

13.1.3 Credit risk (continued)

13.1.3(b) Concentration of credit risk (continued)

As at March 31	**2019**	**2018**
Geographical distribution of bonds available for sale and FVTPL is as follows:		
United States of America	$ 316,098	$ 305,743
United Kingdom	20,441	8,751
Cayman Islands	7,232	6,799
France	5,715	4,896
Japan	1,538	4,213
Switzerland	3,876	3,926
Mexico	3,372	3,741
Ireland	4,253	3,666
Canada	4,738	3,634
Netherlands	4,991	2,721
India	1,661	2,649
Australia	2,225	2,338
Other(1)	27,865	25,881
Total bonds	**$ 404,005**	**$ 378,958**
Geographical distribution of derivative financial instruments is as follows:		
United States of America	$ 789	$ 570
Total derivative financial instruments	**$ 789**	**$ 570**

(2) Includes investment with less than $2 million of concentration of credit risk by industry sector or geographical distribution and bond funds of $13.9 million (2018 - $15.4 million).

Mortgages comprise first mortgages on real property situated in Bermuda which include certain mortgages classified under Assets held-for-sale. Residential mortgages include mortgages for both single and multiple family dwellings. As at March 31, 2019, the Group's mortgages and loans amount to $13.5 million (2018 – $14.3 million).

13.1.3(c) Asset quality

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

March 31	**2019**	**2018**
Bond portfolio quality:		
AAA	$ 153,787	$ 146,597
AA	12,266	28,745
A	86,029	81,178
BBB	146,338	106,008
BB or lower	5,585	16,430
Not rated	-	-
Total bonds at FVTPL	**$ 404,005**	**$ 378,958**
Derivative financial instruments quality:		
Not Rated	$ 789	$ 570
Total derivative financial instruments	**$ 789**	**$ 570**

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

13. **RISK MANAGEMENT** (continued)

13.1 **Governance framework** (continued)

13.1.3 Credit risk (continued)

13.1.3(d) Allowance for credit losses on impaired investments

Mortgages and loans

Changes in the allowance for credit losses are as follows:

As at March 31	**2019**	**2018**
Balance, beginning of year	$ 10,969	$ 1,858
Net provisions made/(reversed) during the year - mortgages and loans	(148)	9,918
Provisions written off during the year	(9,703)	(807)
Balance, end of year	**$ 1,118**	**$ 10,969**

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

As at March 31, 2019, there were $13.2 million mortgages and loans and $0.1 million receivables from continuing operations (2018 - $13.0 million mortgages and loans and $nil receivables from continuing operations) that were past due. Past due financial assets do not have an allowance for losses because at a minimum, either the fair value of the collateral or the expected future cash flows exceed the carrying value of these financial assets.

The assets-held-for sale include past due receivable amounting to $11.6 million (2018 - $11.6 million). There were $nil (2018 - $9.9 million) impairment recorded during the year.

13.1.4 Liquidity risk

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

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

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

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

13. **RISK MANAGEMENT** (continued)

13.1 **Governance framework** (continued)

13.1.4 Liquidity risk (continued)

13.1.4 (a) Liability maturity profile

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

March 31, 2019	**Within 1 year**	**2-5 years**	**6-10 years**	**Over 10 years**	**Total**
Life and annuity policy reserves - net of reinsurance (1)	$ 15,054	$ 55,910	$ 59,029	$ 126,095	$ 256,088
Provision for unpaid and unreported claims - net of reinsurance (1)	12,563	-	-	-	12,563
Insurance balances payable	2,614	-	-	-	2,614
Payables arising from investment transactions	56,545	-	-	-	56,545
Investment contract liabilities (1)	60,772	29,116	32,788	105,450	228,126
Accounts payable and accrued liabilities	7,357	-	-	-	7,357
Total from general fund liabilities	**$ 154,905**	**$ 85,026**	**$ 91,817**	**$ 231,545**	**$ 563,293**

March 31, 2018	**Within 1 year**	**2-5 years**	**6-10 years**	**Over 10 years**	**Total**
Life and annuity policy reserves - net of reinsurance (1)	$ 14,747	$ 54,706	$ 58,156	$ 128,125	$ 255,734
Provision for unpaid and unreported claims - net of reinsurance (1)	11,888	-	-	-	11,888
Insurance balances payable	1,818	-	-	-	1,818
Payables arising from investment transactions	26,900	-	-	-	26,900
Investment contract liabilities (1)	43,663	34,352	37,450	111,819	227,284
Accounts payable and accrued liabilities	7,962	649	828	2,142	11,581
Total from general fund liabilities	**$ 106,978**	**$ 89,707**	**$ 96,434**	**$ 242,086**	**$ 535,205**

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

13.1.5 Market risk

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

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

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

13. **RISK MANAGEMENT** (continued)

13.1 **Governance framework** (continued)

13.1.5 Market risk (continued)

13.1.5(a) Interest rate risk

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

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

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

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

The sensitivity of other comprehensive income attributable to shareholders to changes in interest rates is shown below. There is no sensitivity of net earnings at March 31, 2019 and 2018.

As at March 31	**2019**	**2018**
Change in interest rate assumptions		
100 basis points increase	$ (5,943)	$ (5,784)
100 basis points decrease	$ 5,332	$ 5,784

13.1.5(b) Equity risk

Equity investments are held in accordance with the Group's investment policy as part of the well diversified asset portfolio that are appropriate for the 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 $Nil and $0.5 million respectively (2018 - $0.3 million and $1.1 million respectively); conversely the impact of a ten percent decrease would have an equal but opposite effect. The direct exposure to equity markets generally falls within the risk-taking philosophy of the Group's Investment Policy and is regularly monitored by management.

13. **RISK MANAGEMENT** (continued)

13.1 **Governance framework** (continued)

13.1.6 Limitations of sensitivity analysis

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

13.1.7 Insurance risk management

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

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

The Group purchases reinsurance as part of its risks mitigation programme. Reinsurance 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, see Note 11.

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

14. INSURANCE BALANCES PAYABLE

Insurance balances payable is comprised of:

March 31	**2019**	**2018**
Due to policyholders, agents and brokers	$ 1,496	$ 741
Due to reinsurers	1,118	1,077
Total insurance balances payable	**$ 2,614**	**$ 1,818**

15. PAYABLES ARISING FROM INVESTMENT TRANSACTIONS

March 31	**Note**	**2019**	**2018**
Derivatives	5.2	$ 332	$ 336
Investment trades awaiting settlement		56,213	26,335
		$ 56,545	**$ 26,671**

16. NET CHANGE IN UNEARNED PREMIUMS

For the years ended March 31	**2019**	**2018**
Gross change in unearned premiums	$ (152)	$ 8
Change in unearned premiums on premiums ceded	-	-
Net change in unearned premiums	**$ (152)**	**$ 8**

17. COMMISSIONS, MANAGEMENT FEES AND OTHER

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

For the years ended March 31	**2019**	**2018**
Fee income service contracts		
Pension administration	$ 3,591	$ 4,054
Policyholder administration	9,521	9,108
Total fee income from service contracts	13,112	13,161
Reinsurance commission income	1,762	1,010
Total commissions, management fees and other	**$ 14,874**	**$ 14,172**

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

18. REINSURANCE RECOVERIES

For the years ended March 31	**2019**	**2018**
Claims and adjustment expenses recovered from reinsurers	$ 2,839	$ 2,359
Policy benefits recovered from reinsurers	833	1,392
Total reinsurance recoveries	**$ 3,672**	**$ 3,751**

19. NET CHANGE IN CONTRACT LIABILITIES

For the year ended March 31, 2019	**Property and Casualty**	**Employee Benefits**	**Total**
Gross change in contract liabilities:			
Insurance contracts	$ 675	$ 2,474	$ 3,149
Investment contracts	-	(298)	(298)
	675	2,176	2,851
Change in reinsurers' share of claims provisions - insurance contracts	-	(390)	(390)
Net change in contract liabilities	**$ 675**	**$ 1,786**	**$ 2,461**

For the year ended March 31, 2018	**Property and Casualty**	**Employee Benefits**	**Total**
Gross change in contract liabilities:			
Insurance contracts	$ 2,108	$ 8,924	$ 11,032
Investment contracts	-	(189)	(189)
	2,108	8,735	10,843
Change in reinsurers' share of claims provisions - insurance contracts	-	(260)	(260)
Net change in contract liabilities	**$ 2,108**	**$ 8,475**	**$ 10,583**

20. OPERATING EXPENSES

Operating expenses incurred during the year are as follows:

For the years ended March 31	**2019**	**2018**
Allocated expenses and management fees	$ 18,116	$ 18,009
Employee benefits expense (see below)	6,673	7,047
Professional fees	2,728	1,902
General and corporate expenses	1,134	244
Provision for bad debts	856	(144)
IT related expenses	1,171	2,141
Other expenses	825	826
Total operating expenses	**$ 31,503**	**$ 30,025**

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

20. **OPERATING EXPENSES** (continued)

Employee benefits expense during the year is comprised of:

For the years ended March 31	**2019**	**2018**
Salaries and other short-term benefits	$ 6,310	$ 6,679
Pension costs	259	292
Post-employment medical benefits	80	44
Stock-based compensation	24	32
Total employee benefits expense	**$ 6,673**	**$ 7,047**

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

21. **RELATED PARTY TRANSACTIONS**

Significant related party transactions are as follows:

21.1 The Group provided insurance-related products and services to various significantly influenced investees. The premiums and fees received from these transactions totaled $Nil in the year (2018 - $399,000) and are shown as Gross premium written and Commission, management fees and other on the Consolidated Statements of Comprehensive Income/(Loss).

21.2 Operating expenses include the Group's allocation of group overhead expenses of $6.6 million (2018 - $6.6 million).

21.3 Netted in Operating expenses is the management fee of $275,000 (2018 - $275,000) which was charged to recover the allocated costs of administering the insurance policies of an affiliate.

21.4 Due from parent includes surplus cash deposits with the Parent. These deposits are payable on demand and bears no interest. Netted against Due to Parent are asset transfers between the Group and the Parent. Prior year amount includes the $1.7 million transfer of a local equity investment to the Parent.

21.5 Compensation of key personnel

Key personnel have been identified as the Board of Directors of the Group. These individuals have the authority and responsibility for planning, directing and controlling the activities of the Group. Fees paid to directors for the reporting period totaled $38,375 (2018 - $38,375).

21.6 Portfolio transfer to a related party

Effective June 29, 2018, and pursuant to section 25 of the Insurance Act 1978, the final tranche of the transfer of certain private placement variable life insurance policies from the Group to AILBL was completed. The Group's total assets and liabilities decreased by $137.9 million, which includes segregated fund assets and liabilities of $133.4 million.

The first tranche of the transfer was completed on April 1, 2017 and resulted in a decrease in the Group's total assets and liabilities of $269.0 million, which includes segregated fund assets and liabilities of $267.9 million.

The Group assigned and transferred all rights and obligations, title and interest related to these policies to AILBL. The portfolio transfer did not impact the Group's net equity position at the date of transfer, and fulfilled all terms and conditions as stated in the Amended Scheme of Transfer Order, sanctioned by the Supreme Court of Bermuda, dated March 17, 2017.

The policies were transferred in order to consolidate the international life insurance business into one company, as part of the Parent's divestment plan.

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

21. **RELATED PARTY TRANSACTIONS** (continued)

21.7 Mortgage loans
The Group has extended mortgage loans to certain Officers totaling $2.1 million as at March 31, 2019 (2018 - $1.5 million).

22. **DIVIDENDS AND RETURN OF CAPITAL TO PARENT**

The Group declared and paid dividends of $7.0 million (2018 - $13.0 million) during the year. Additionally, the Group paid $1.4 million (2018 - $nil) return of capital to the Parent.

23. **INCOME TAXES**

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

24. **COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)**

For the years ended March 31	**2019**	**2018**
Available-for-sale investments – unrealized gains/(losses)	$ 1,496	$ (2,340)
Re-measurement of post-employment medical benefit obligation	104	(89)
Total accumulated other comprehensive income /(loss)	**$ 1,600**	**$ (2,429)**

25. **SEGREGATED FUNDS**

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

Changes to Segregated funds are as follows:

For the year ended March 31	Note	**2019**	**2018**
Additions to Segregated Funds			
Premiums, contributions and transfers		$ 82,239	$ 133,236
Net investment income		54	557
Net increase/(decrease) in fair value of investments		(138)	106,896
Segregated Funds acquired		31	406
		82,186	**241,095**
Deductions from Segregated Funds			
Withdrawals, benefit payments and transfers to the General Fund		65,869	103,298
Operating expenses		9,588	56,857
Transfer to related party	21.6	133,354	267,927
		208,811	**428,082**
Net additions/(deductions) to/(from) Segregated Funds for the year		(126,625)	(186,987)
Segregated funds, beginning of year		1,063,069	1,250,055
Segregated Funds, end of year		**$ 936,444**	**$ 1,063,068**
Segregated Funds classified under held-for-sale, end of year	4	**-**	**(143,630)**
Segregated Funds from continuing operations, end of year		**$ 936,444**	**$ 919,438**

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

26. COMMITMENTS AND CONTINGENCIES

26.1 Group as a lessor

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

Future minimum lease rentals receivable under non-cancellable operating leases as at March 31, 2019, are as follows:

For the years ended March 31	**2019**	**2018**
Within one year	$ 1,562	$ 1,419
After one year but no more than five years	3,048	-
	$ 4,610	**$ 1,419**

26.2 Contingencies

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

27. COMPARATIVES

Certain of the comparative figures in these consolidated financial statements and note disclosures have been reclassified to conform to the presentation adopted for the year ended March 31, 2019.

28. SUBSEQUENT EVENTS

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