ARGUS INTERNATIONAL LIFE BERMUDA LIMITED

Consolidated Financial Statements
(With Independent Auditor's Report Thereon)

March 31, 2020

KPMG Audit Limited
Crown House
4 Par-la-Ville Road
Hamilton
HM 08
Bermuda

Telephone +1 441 295 5063
Fax +1 441 295 8280
Internet www.kpmg.bm

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Argus International Life Bermuda Limited

We have audited the accompanying consolidated financial statements of Argus International Life Bermuda Limited and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of March 31, 2020 and 2019, and the related consolidated statements of comprehensive income, 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 as issued by the International Accounting Standards Board; 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 Company'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 Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Argus International Life Bermuda Limited and its subsidiaries as of March 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
July 29, 2020

ARGUS INTERNATIONAL LIFE BERMUDA LIMITED

Consolidated Balance Sheets
As at March 31, 2020 and 2019
(Expressed in thousands of Bermuda Dollars)

	Note	2020	2019
Assets			
Cash and short-term investments	3	2,750	2,974
Investments	4,5	11,269	13,055
Reinsurance balance receivable	6	–	438
Fees receivable	7	1,426	2,597
Reinsurers' share of:			
Claims provisions	8	3,467	3,462
Unearned premium		67	71
Intangible assets	9	363	614
Total general fund assets		19,342	23,211
Total segregated fund assets	18	460,449	594,436
Total assets		**479,791**	**617,647**
Liabilities			
Life and annuity policy reserves	8	10,996	11,997
Due to related parties	16	660	1,872
Insurance and reinsurance balances payable	10	4,576	4,659
Accounts payable and accrued liabilities	11	231	1,043
Total general fund liabilities		16,463	19,571
Total segregated fund liabilities	18	460,449	594,436
Total liabilities		**476,912**	**614,007**
Equity			
Share capital		250	250
Additional paid-in capital		550	550
Contributed surplus	16	15,365	15,365
Accumulated deficit		(13,088)	(13,012)
Accumulated other comprehensive income/(loss)		(307)	455
Total equity attributable to shareholders		2,770	3,608
Attributable to non-controlling interests		109	32
Total equity		**2,879**	**3,640**
Total equity and liabilities		**479,791**	**617,647**

The accompanying notes form part of these consolidated financial statements.

Signed on behalf of the Board

__________________ Director   __________________ Director

ARGUS INTERNATIONAL LIFE BERMUDA LIMITED

Consolidated Statements of Comprehensive Income
For the years ended March 31, 2020 and 2019
(Expressed in thousands of Bermuda Dollars)

	Note	2020	2019
Revenue			
Gross premiums written		91	164
Reinsurance ceded		(2,770)	(2,705)
Net premiums written		(2,679)	(2,541)
Net change in unearned premiums		(5)	(11)
Net premiums earned		(2,684)	(2,552)
Investment income	4	673	945
Policy charges and fee income	13	4,282	4,532
Total revenue		2,271	2,925
Expenses			
Net policy benefits	14	(500)	(56)
Commission expenses		330	320
Operating expenses	15	2,189	3,228
Amortisation of intangible	9	251	251
Total expenses		2,270	3,743
Net earnings/(loss) for the year		**1**	**(818)**
Other comprehensive income			
Items that may subsequently be reclassified to net earnings/(loss):			
Net change in unrealised gains/(losses) on available-for-sale investments		(762)	(226)
Other comprehensive income/(loss) for the year		(762)	(226)
Total comprehensive income/(loss) for the year		**(761)**	**(1,044)**
Net earnings/(loss) for the year attributable to:			
Shareholder		(76)	(841)
Non-controlling interest		77	23
		1	**(818)**
Other comprehensive income/(loss) for the year attributable to:			
Shareholder		(762)	(226)
Non-controlling interest		–	–
		(762)	**(226)**
Total comprehensive income/(loss) attributable to:			
Shareholder		(838)	(1,067)
Non-controlling interest		77	23
		(761)	**(1,044)**

The accompanying notes form part of these consolidated financial statements.

Consolidated Statements of Changes in Equity
For the years ended March 31, 2020 and 2019
(Expressed in thousands of Bermuda dollars, except the number of shares)

	Note	2020	2019
Share capital			
Authorised:			
250,000 common shares of $1.00 each (2019 - 250,000)		250	250
Issued and fully paid:			
250,000 common shares of $1.00 each (2019 - 250,000)		**250**	**250**
Additional paid-in capital			
Balance, beginning and end of year		**550**	**550**
Contributed surplus			
Balance, beginning of year		15,365	21,402
Return of capital to parent	16.1	–	(6,037)
Balance, end of year		**15,365**	**15,365**
Accumulated deficit			
Balance, beginning of year		(13,012)	(12,171)
Net earnings/(loss) for the year		(76)	(841)
Balance, end of year		**(13,088)**	**(13,012)**
Accumulated other comprehensive income			
Balance, beginning of year		455	681
Other comprehensive income/(loss)		(762)	(226)
Balance, end of year		**(307)**	**455**
Total equity attributable to shareholder of the Company		**2,770**	**3,608**
Attributable to non-controlling interest			
Balance, beginning of year		32	9
Comprehensive income/(loss) during the year		77	23
Balance, end of year		**109**	**32**
Total equity		**2,879**	**3,640**

See accompanying notes to the consolidated financial statements.

ARGUS INTERNATIONAL LIFE BERMUDA LIMITED

Consolidated Statements of Cash Flows
For the years ended March 31, 2020 and 2019
(Expressed in thousands of Bermuda dollars)

	Note	2020	2019
Cash flows from operating activities			
Net earnings/(loss) for the year		1	(818)
Adjustments to reconcile net earnings/(loss) to cash basis (Footnote (i) below)		(422)	(691)
Change in operating balances (Footnote (ii) below)		(1,500)	1,578
Interest income received		482	353
Dividend income received		25	75
Net cash (used in)/generated from operating activities		**(1,414)**	**497**
Cash flows from investing activities			
Purchase of investments		(382)	(13,324)
Sale and maturity of investments		1,572	14,104
Portfolio transfer from a related party	16.5	–	1,560
Net cash generated from investing activities		**1,190**	**2,340**
Cash flows from financing activities			
Return of capital to Parent	16.1	–	(6,037)
Net cash (used in) financing activities		–	**(6,037)**
Net increase/(decrease) in cash and short-term investments		(224)	(3,200)
Cash and short-term investments, beginning of year		2,974	6,174
Cash and short-term investments, end of year		**2,750**	**2,974**

Footnotes

	2020	2019
(i) Interest income	(482)	(353)
Dividend income	(25)	(75)
Net realised and unrealized losses/(gains) on investments	(166)	(517)
Amortisation of intangible assets	251	251
Stock-based compensation	-	3
	(422)	**(691)**
(ii) Reinsurance balances receivable	438	1,708
Fees receivable	1,171	(2,589)
Reinsurers' share of:		
Claims provision	(5)	(298)
Unearned premiums	4	11
Life and annuity policy reserves	(1,001)	(4,138)
Due to related parties	(1,212)	5,134
Insurance and reinsurance balances payable	(83)	1,066
Accounts payable and accrued liabilities	(812)	684
	(1,500)	**1,578**

See accompanying notes to the consolidated financial statements.

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

1. Operations

Argus International Life Bermuda Limited (the Company), was incorporated on July 3, 1996 and is domiciled in Bermuda. The Company's registered office is The Argus Building, 14 Wesley Street, Hamilton, HM 11, Bermuda. The Company is a wholly owned subsidiary of Argus Group Holdings Limited (the Parent), a Bermuda public company.

The Company is a shareholder of the following subsidiaries:

Name of Subsidiary	% of ownership held	% of ownership held by non-controlling interest	Country of Incorporation and Place of Business
Bermuda Life Worldwide Limited	100%	–	Bermuda
Argus International Life Insurance Limited (1)	74%	26%	Bermuda

(1) The Company also owns 100% of Argus International Life Insurance Limited's preference shares.

These consolidated financial statements comprise the Company and its subsidiaries, together referred to as the Group. The Group's voting rights percentages are the same as the ownership percentages.

Certain entities of the Group offers private placement variable universal life insurance and deferred annuity products in and from Bermuda to trusts, private companies and other eligible entities for the benefit of high net worth individuals who are either tax resident in the Unites States (U.S.) or other jurisdictions. The Group does not offer products to local, Bermuda-resident individuals. These particular entities of the Group each benefit either directly from, or as a registered affiliate under, the Argus International Life Insurance Limited Consolidation and Amendment Act 2008. The Act provides for the legal segregation of each policy's assets through a separate segregated account linked to each policy, providing additional protection against the potential creditors of any other policy, of any other separate account or of the Group entity itself. The Group also includes a closed book of fixed interest universal life policies on individuals who are not tax resident in the U.S. These policies do not benefit from a segregated accounts structure or the protections provided thereunder.

In March 2018, the Parent committed to a plan to sell the Group, including the related assets and liabilities. As at March 31, 2020, the sale is pending submission for regulatory approval.

2. Significant accounting policies

The significant accounting policies used in the preparation of these 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.

The consolidated financial statements as at and for the year ended March 31, 2020 were authorized for issue by the Board of Directors on July 29, 2020.

2. **Significant accounting policies** (continued)

2.2 Basis of presentation

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

2.2.1 Presentation currency

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

2.2.2 *Use of critical estimates, judgments and assumptions*

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

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

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in Note 2.8 – Insurance contracts and Note 8 – Life and annuity policy reserves.

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

Note 2.6 – impairment of financial assets;
Note 2.10 – intangible assets;
Note 5 – fair value measurement; and
Note 8 – life and annuity policy reserves.

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 the business combination are expensed as incurred.

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 financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

The Group's consolidated financial statements include the financial statements of the Company and its subsidiaries after all 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)

2.3 **Basis of consolidation** (continued)

2.3.3 Non-controlling interests

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

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

2.4 **Cash and short-term investments**

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

2.5 **Financial instruments**

2.5.1 Financial assets

2.5.1(a) Classification and initial recognition of financial assets

The Group has the following financial assets: (i) financial assets at Fair Value through Profit or Loss (FVTPL), (ii) available-for-sale financial assets, and (iii) 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 receivables. The Group recognises receivables at their date of inception. All other financial assets (including assets designated at FVTPL) are recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument. Balances pending settlement as a result of sales and purchases are reflected in the Consolidated Balance Sheet as Receivable for investments sold or Payable for investments purchased.

(i) Financial assets at FVTPL

A financial asset is classified at 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 purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy.

Attributable transaction costs upon initial recognition are recognised in Investment income in the Consolidated Statements of Comprehensive Income as incurred. FVTPL financial assets are measured at fair value, and changes therein are recognised in Investment income in the Consolidated Statements of Comprehensive Income. Dividends earned on equities are recorded in Investment income in the Consolidated Statements of Comprehensive Income.

2. **Significant accounting policies** (continued)

2.5 **Financial instruments** (continued)

2.5.1(a) Classification and initial recognition of financial assets (continued)

(ii) Financial assets at Available-for-sale

Available-for-sale financial assets include equity and debt funds. Investments in this category are intended to be held for an indefinite period of time and may be sold from time to time to effectively manage interest rate exposure, prepayment risk and liquidity needs.

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 in the Consolidated Statements of Comprehensive Income. 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.

The carrying value of accrued interest income approximates estimated fair value due to its short term nature and high-liquidity. Dividends on equity securities are recognised as investment income on the date the dividends become payable to the holders of record.

(iii) Receivables

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.

For the purpose of classification, Receivables are comprised of Fees receivables in the Consolidated Balance Sheet.

2.5.1(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 in the Consolidated Balance Sheet when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

2. **Significant accounting policies** (continued)

2.5 **Financial instruments** (continued)

2.5.2 Financial liabilities

2.5.2(a) Classification and recognition of financial liabilities

Management determines the classification of financial liabilities at initial recognition. The Group's financial liabilities consist of Due to related parties, Insurance and reinsurance balances payable, and Accounts payable and accrued liabilities. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest method.

Accounts payable and accrued liabilities are considered short-term payables with no stated interest.

2.5.2(b) Derecognition

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

2.6 **Impairment**

2.6.1 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.

2.6.2 Receivables

The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant 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.

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 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

2. **Significant accounting policies** (continued)

2.6 **Impairment** (continued)

2.6.2 Receivables (continued)

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 in the Consolidated Statements of Comprehensive Income and reflected in an allowance account against the 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 in the Consolidated Statements of Comprehensive Income.

2.6.3 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 Investment income in the Consolidated Statements of Comprehensive Income. The loss accumulated that is reclassified from Other comprehensive income to Investment income is the difference between the cost and the current fair value less any impairment loss recognised previously in Investment income. Impairment losses on available-for-sale equity securities are not reversed.

2.7 **Investment income**

Interest income is recorded as it accrues, using the effective interest method, in Investment income in the Consolidated Statements of Comprehensive Income. 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.

Dividend income is recognised on the date the dividends become payable to the holders of record.

2.8 **Insurance contracts**

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

2.8.1 Premiums and acquisition costs

Universal life and annuity premiums are recorded as revenue once they are due from policyholders.

Direct and indirect costs incurred during the financial period arising from new insurance contracts, are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred in the Consolidated Statements of Comprehensive Income. Subsequent to initial recognition, deferred acquisition costs are amortised over the expected life of the contracts as a constant percentage of expected premiums.

2. **Significant accounting policies** (continued)

2.8 **Insurance contracts** (continued)

2.8.2 Receivables and payables related to insurance and reinsurance contracts

Receivables and payables related to insurance and reinsurance contracts are recognised when due and measured on initial recognition at the fair value of the consideration receivable or payable. The carrying value of insurance and reinsurance 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 in the Consolidated Statements of Comprehensive Income. Receivables and payables related to insurance and reinsurance contracts are derecognised when the derecognition criteria for financial assets and financial liabilities, as described in Note 2.5.1(b) and 2.5.2(b) have been met.

2.8.3 Reinsurance

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

The Group periodically assesses any reinsurance assets for impairment, with any impairment loss recognised in Operating expenses in the Consolidated Statements of Comprehensive Income in the period in which any impairment is determined.

2.8.4 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).

Life and annuity policy reserves consist of:

- Actuarial liability reserves for variable universal life insurance policies with unit-linked features

  The Group bears the mortality risk related to the variable universal life insurance policies to the extent that death benefits exceed policyholder account values. The reserve for future policyholder benefits are calculated by projecting the liability cash flows using best estimate assumptions, together with margins for adverse deviations with respect to contingencies pertinent to the valuation.

- Actuarial liability reserves for fixed universal life insurance and annuity policies

  The CIA requires the use of the Canadian Asset Liability Method (CALM) for the valuation of actuarial liabilities for certain lines of business. The actuarial liability reserves under CALM are calculated by projecting asset and liability cash flows under a variety of interest rate scenarios using best-estimate assumptions, together with margins for adverse deviations with respect to other contingencies pertinent to the valuation. The actuarial liability reserves make provision for the expected experience scenario and for adverse deviations in experience.

2. **Significant accounting policies** (continued)

2.9 Segregated accounts linked to variable universal life insurance policies

For certain entities within the Group which are registered segregated accounts companies, a segregated account is linked to each variable universal life insurance policy issued to policyholders.

Segregated fund assets are recorded at fair value based on net asset values reported by third parties, such as investment managers and fund administrators. The investment results are reflected directly in segregated fund assets and liabilities. Segregated funds liabilities are limited to the value of the segregated fund assets.

The Group provides minimum guarantees on variable universal life insurance policies. These include minimum death benefit guarantees and minimum maturity value guarantees. The liability associated with these minimum guarantees is recorded in Life and annuity policy reserves in the Consolidated Balance Sheets.

Insurance premiums arising from these type of policies are treated as deposits and increases the segregated funds balance. The insurance premiums are not recorded as revenue in the Consolidated Statements of Comprehensive Income. Fees charged to policyholders, related to insured risk and associated administrative costs are recorded in Fees Receivable in the Consolidated Balance Sheets and in Policy charges and fee income in the Consolidated Statements of Comprehensive Income. Policy charges and fee income are 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.

2.10 Intangible assets

Intangible assets refer to customer lists which are initially measured at fair value by estimating the net present value of future cash flows from the contracts in force at the date of acquisition. These are amortised on a straight-line basis over the estimated useful life of 17 years.

The carrying amount if the intangible assets are reviewed at each reporting date to determine if there is objective evidence of impairment. Management reviews the valuation of intangible assets based upon estimates of future earnings and recognises any permanent impairment in Amortisation of intangible in the Consolidated Statements of Comprehensive Income in the year in which it is identified.

2.11 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.

2.12 Application of new and revised accounting standards

2.12 (a)IFRIC 23 Uncertainty over Income Tax Treatments (IFRIC 23)

Effective April 1, 2019, the Group adopted IFRIC 23 Uncertainty over Income Tax Treatments, which was issued in June 2017. IFRIC 23 was applied retrospectively. IFRIC 23 provides guidance on applying the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments including whether uncertain tax treatments should be considered together or separately based on which approach better predicts resolution of the uncertainty. Adoption of IFRIC 23 did not have a significant impact on the Group's Consolidated Financial Statements.

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

2. **Significant accounting policies** (continued)

2.12 (b) Annual Improvements 2015–2017 Cycle

Effective April 1, 2019, the Group adopted amendments issued within the Annual Improvements 2015 – 2017 Cycle which was issued in December 2017.The IASB issued four minor amendments to different standards as part of the Annual Improvements process, with the amendments to be applied prospectively. Adoption of these amendments did not have a significant impact on the Group's Consolidated Financial Statements.

2.13 **Future accounting 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 2020 and beyond is as follows:

Topic	Effective Date for the Company	Expected Impact
2018 Conceptual Framework	April 1, 2020	No significant impact
Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*	April 1, 2020	No significant impact
Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7	April 1, 2020	No significant impact
IFRS 9 *Financial Instruments*	April 1, 2023*	Impact assessment in progress
IFRS 17 *Insurance Contracts*	April 1, 2023	Impact assessment in progress

*Deferral option was exercised, refer to discussion in 2.13.4

2.13.1 *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. Adoption of these amendments is not expected to have a significant impact on the Group's Consolidated Financial Statements

2.13.2 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. Adoption of these amendments is not expected to have a significant impact on the Group's Consolidated Financial Statements.

2.13.3 *Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7*

Amendments to IFRS 9, IAS 39 and IFRS 7 were issued in September 2019 related to interest rate benchmark reform and are effective retrospectively for annual periods beginning on or after April 1, 2020. The amendments provide temporary relief for hedge accounting to continue during the period of uncertainty before replacement of an existing interest rate benchmark with an alternative risk-free rate.

2. **Significant accounting policies** (continued)

2.13 **Future accounting changes** (continued)

2.13.3 *Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7* (continued)

The amendments apply to all hedge accounting relationships that are affected by the interest rate benchmark reform. The IASB is expected to issue further guidance addressing various accounting issues that will arise when the existing interest rate benchmark has been replaced. Adoption of these amendments is not expected to have a significant impact on the Group's Consolidated Financial Statements.

2.13.4 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, 2023, amendments to IFRS 4 Insurance Contracts was issued, which provide companies whose activities are predominantly related to insurance an optional temporary exemption from applying IFRS 9 until the effective date of IFRS 17. Based on an analysis performed as of March 31, 2019, the Group applied the temporary exemption as the predominance ratio reflecting the share of liabilities connected with insurance to total liabilities exceeds 90 percent. For the purpose of calculating the predominance ratio, liabilities connected with insurance include segregated fund liabilities of $594.4 million (Note 18).

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

- Fair value and changes in fair value separately for (a) those financial assets that pass the solely payments of principal and interest (SPPI) test, excluding any financial asset that meets the definition of held for trading in IFRS 9, or that is managed and whose performance is evaluated on a fair value basis and (b) all other financial assets, including financial assets that are managed and whose performance is evaluated on a fair value basis. Refer to Note 4.1.
- 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 12.3.1(c).

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

2. **Significant accounting policies** (continued)

2.13 **Future accounting changes** (continued)

2.13.5 *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 provides comprehensive guidance on accounting for insurance contracts. For non-life insurance contracts, IFRS 17 introduces mandatory discounting of loss reserves as well as a risk adjustment for non-financial risk. Further, IFRS 17 will change the presentation of insurance contract revenue, gross written premium will no longer be presented in the Consolidated Statement of Comprehensive Income. For long-duration life insurance contracts, IFRS 17 is expected to have a significant impact on actuarial modelling, as more granular cash flow projections and regular updates of all assumptions will be required, either resulting in profit or loss or impacting the "contractual service margin", a separate component of the insurance liability representing unearned profits from in-force contracts.

In order to evaluate the effects of adopting IFRS 17 on the Consolidated Financial Statements, a joint IFRS 17 and IFRS 9 Group Implementation Programme 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's accounting policies and methodologies and with the transformation committee for assessment of systems implications and data flows. The Group is evaluating the impact of adopting IFRS 17 on the Consolidated Financial Statements.

IFRS 17 is currently expected to be effective for the Group on April 1, 2023, and is to be applied retrospectively to each group of insurance contracts unless impracticable. If, and only if, it is impracticable to apply IFRS 17 retrospectively for a group of insurance contracts, an entity shall apply IFRS 17 using a modified retrospective approach or a fair value approach.

In November 2018, the IASB decided to defer the effective date of IFRS 17 and IFRS 9 by one year, to April 1, 2022. In March 2020, IASB decided to further defer the effective date by another year, to April 1, 2023.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**

	2020	**2019**
Cash at bank and in hand	2,232	1,483
Short-term investments	518	1,491
	2,750	2,974

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

4. Investments

4.1 Carrying values and estimated fair values of investments

The carrying values of investments are as follows:

	2020	2019
Investments at available-for-sale		
Investment in bond funds	8,790	9,805
Investment in equity fund	2,479	3,250
	11,269	13,055
	11,269	13,055

Investments that meet the SPPI criterion:

As discussed in Note 2.13.4, investments in bond funds with a carrying value of $8.8 million (2019- $9.8 million) refers to investments which do not have SPPI qualifying cash flows as at March 31, 2020. The bonds credit rating has been discussed in Note 12.3.1(c). The change in the fair value of these invested assets recorded in Investment income in the Consolidated Statements of Comprehensive Income during the year is $0.5 million (2019- $nil). Investment in equity funds with a carrying value of $2.5 million (2019 – $3.2 million) do not meet the SPPI criterion.

4.2 Investment income

	2020	2019
Interest Income		
Investment in bond funds - available-for-sale	356	303
Investment in bond funds - at FVTPL	–	5
Cash and Other	126	45
	482	353
Dividend Income		
Investment in equity fund - available-for-sale	25	75
	25	75
Net realised and unrealised gains/(losses) on investments		
Investment in bond funds - available-for-sale	50	37
Investment in bond funds - at FVTPL	–	(79)
Investment in equity fund - available-for-sale	116	559
	166	517
	673	945

5. **Fair value measurement**

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

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

The Group determines the estimated fair value of each individual security utilising the highest level inputs available. Prices for the majority of the Group's investment portfolio are provided by a third-party investment accounting firm whose pricing processes and the controls thereon are subject to an annual audit on both the operation and the effectiveness of those controls.

The audit reports are available to clients of the firm and the report is reviewed annually by Management. In accordance with their pricing policy, various recognised reputable pricing sources are used, including broker-dealers and pricing vendors. The pricing sources use bid prices where available, otherwise indicative prices are quoted based on observable market-trade data.

The prices provided are compared to the investment managers' pricing. The Group has not made any adjustments to any pricing provided by independent pricing services or its third-party investment managers for either year ending March 31, 2020 and 2019.

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;
- present values;
- 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 fixed maturity investments such as:

- US corporate bonds;
- Municipal, other government and agency bonds;
- Foreign corporate bonds;
- Mortgage/asset-backed securities; and
- Bond and equity funds with listed underlying assets.

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

5. **Fair value measurement** (continued)

The fair value of equity and bond funds was determined by third-party investment managers. Fair value is based on the reported net asset value of these funds. These assets are classified as Level 2.

The carrying value of Cash and short-term investments and Fees receivable approximate fair value and are categorised as Level 1 and Level 2, respectively.

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

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

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 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.

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

	2020				
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**	**Carrying Value**
Assets					
Cash and short-term investments	2,750	–	–	2,750	2,750
Fees receivable	–	1,426	–	1,426	1,426
Investments					
Investments at available-for-sale					
Investment in bond funds	–	8,790	–	8,790	8,790
Investment in equity fund	–	2,479	–	2,479	2,479
Total Investments	–	11,269	–	11,269	11,269
Total assets at fair value	2,750	12,695	–	15,445	15,445
Segregated funds	64,483	232,735	163,231	460,449	460,449

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

5. **Fair value measurement** (continued)

	2019				
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**	**Carrying Value**
Assets					
Cash and short-term investments	2,974	–	–	2,974	2,974
Fees receivable	–	2,597	–	2,597	2,597
Investments					
Investments at available-for-sale					
Investment in bond funds	–	9,805	–	9,805	9,805
Investment in equity fund	–	3,250	–	3,250	3,250
Total Investments	–	13,055	–	13,055	13,055
Total assets at fair value	2,974	15,652	–	18,626	18,626
Segregated funds	34,193	404,254	155,989	594,436	594,436

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 transactions volume and frequency are indicative of an active market. During the year ended March 31, 2020 and 2019, there were no transfers between levels 1, 2, and 3.

6. **Reinsurance balance receivable**

As at March 31, 2020, the Group had outstanding receivable from reinsurers of $nil (2019 - $0.4 million).

7. **Fees receivable**

Fees receivable are comprised of:

	2020	**2019**
Policy fees receivable	1,426	2,597
	1,426	2,597

8. **Life and annuity policy reserves**

The Group's life and annuity policy reserves are comprised of:

	2020		
	Gross	**Ceded**	**Net**
Variable universal life insurance policies with unit-linked features	3,876	3,736	140
Fixed universal life insurance and annuity policies	7,120	(269)	7,389
	10,996	3,467	7,529

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

8. **Life and annuity policy reserves** (continued)

	2019		
	Gross	**Ceded**	**Net**
Variable universal life insurance policies with unit-linked features	3,970	3,691	279
Fixed universal life insurance and annuity policies	8,027	(229)	8,256
	11,997	3,462	8,535

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 Reinsurers' share of claims provisions were assessed for impairment at year end and no impairment were identified.

The net impact of changes in actuarial methods and assumptions was a decrease in reserves backing policyholder liabilities of $0.3 million (2019 – increase of $0.2 million). These amounts are net of the impact of the reinsurance assets on policyholder liabilities of $3.5 million (2019 - $3.5 million).

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

	2020	**2019**
Balance, beginning of year	8,535	12,969
Changes due to:		
Normal in-force movement	(719)	(4,662)
Interest rate assumptions	(287)	233
Other	-	(5)
Balance, end of year	7,529	8,535

8. **Life and annuity policy reserves** (continued)

8.1 **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 volume of the Group's life insurance and annuity business is not sufficient to use company specific mortality tables. A five percentage basis increase in the best estimate assumption is estimated to decrease the policy reserves by $4 thousand, 0.06 percent (2019 – $5 thousand, 0.06 percent).	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)

8. **Life and annuity policy reserves** (continued)

8.1 **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 operating segments. For each significant operating segment, CALM is used to project the cash flows from the supporting assets and the cash flows from the liabilities. The projected asset cash flows are combined with the projected cash flows from future asset sales and purchases to determine the expected investment returns for all future years. 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 $0.5 million (2019 - $0.6 million). A 100 basis points decrease in the best estimate assumption increases the total Life and annuity policy reserves by $0.6 million (2019 – $0.7 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 $0.06 million (2019 – $0.04 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)

8. **Life and annuity policy reserves** (continued)

8.1 **Key assumptions – Life and annuity policy reserves** (continued)

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 10% increase in the best estimate assumption for unit expenses would increase the policy reserves by approximately \$0.1 million (2019 - \$0.1 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.

9. **Intangible assets**

Intangible assets refer to customer lists which are initially measured at fair value by estimating the net present value of future cash flows from the contracts in force at the date of acquisition.

	2020	**2019**
Gross carrying amount	13,194	13,194
Accumulated amortisation and impairment losses		
Balance, beginning of year	12,580	12,329
Amortisation charge for the year	251	251
Balance, end of year	12,831	12,580
Net carrying value	363	614

10. **Insurance and reinsurance balances payable**

Insurance and reinsurance balances payable is comprised of:

	2020	**2019**
Due to policyholders	4,397	4,440
Due to reinsurers	179	219
	4,576	4,659

11. **Accounts payable and accrued liabilities**

Accounts payable and accrued liabilities is comprised of:

	2020	**2019**
Accruals and deferred income	184	997
Commissions payable	47	46
	231	1,043

12. Risk management

12.1 Governance framework

The Group aligns its risk management functions with that of its Parent, the Argus Group Holdings Limited. 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.

- 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.

		Board of Directors/Risk & Audit Committees			
Senior Executive Management ("the C-Suite")				External Auditors	Regulators
1st Line of Defense Operational Management		2nd Line of Defense Internal Monitoring & Oversight	3rd Line of Defense Internal Audit		
Management Controls	Internal Controls	Financial Controls Security Risk Management Quality Assurance Monitoring Compliance	Internal Audit		

12.2 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 loss as disclosed in the Consolidated Balance Sheet.

The Bermuda Monetary Authority (the BMA) is the regulator of the Group. The laws and regulations of Bermuda require that as a Class C Long-Term insurer, the Group should maintain a minimum amount of statutory capital and surplus based on the enhanced capital 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.

12. **Risk management** (continued)

12.2 **Capital management** (continued)

The statutory capital and surplus for the Group as at March 31, 2020 was $2.2 million (2019 - $3.0 million) and the minimum solvency margin of the Group was $0.5 million (2019 - $0.5 million).

The BSCR is the prescribed form of capital and solvency return in Bermuda, which was revised under new legislation enacted in 2008. The BSCR includes a standardised model used to measure the risk associated with an insurance subsidiary's assets, liabilities and premiums, and a formula to take account of catastrophe risk exposure. The BMA requires all insurers to maintain their statutory capital and surplus at a target level which is 120% of the amount calculated in accordance with the BSCR. As of March 31, 2020 and 2019, the statutory capital and surplus of the insurance subsidiaries exceeded this regulatory requirement.

In addition, minimum liquidity ratios must be maintained by Bermuda entities writing general insurance business whereby relevant assets, as defined by the Act, must exceed 75% 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% or more or statutory capital and surplus by 25% 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.

12.3 **Financial instrument risk management**

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

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

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

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

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

12. **Risk management** (continued)

12.3 **Financial instrument risk management** (continued)

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

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

12.3.1 Credit risk

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

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

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

12.3.1(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.

	Note	**2020**	**2019**
Cash and short-term investments	3	2,750	2,974
Bonds – Available-for-sale	4.1	8,790	9,805
Reinsurance balances receivable	6	–	438
Fees receivable	7	1,426	2,597
Reinsurers' share of claims provisions	8	3,467	3,462
Total Consolidated Balance Sheet maximum credit exposure		16,433	19,276

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 of Directors.

12. **Risk management** (continued)

12.3 **Financial instrument risk management** (continued)

12.3.1(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 Group holds investments in bond funds of $8.7 million at March 31, 2020 (2019 - $9.8 million).

12.3.1(c) Asset Quality

Bonds by credit rating

The Group's investment in bond funds had an average rating of A- in 2020 (2019 - A-).

12.3.1(d) Age analysis of financial assets past due

As of March 31, 2020, there were no past due receivables from operations. There were no impairment recorded during the year (2019 - $nil).

12.3.2 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet all cash outflow obligations as they come due. The Group's asset-liability management process allows it to maintain its good financial position by ensuring that sufficient liquid assets are available to cover its 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, the sale of equities, as well as by current operating cash flows. 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)

12. **Risk management** (continued)

12.3 **Financial instrument risk management** (continued)

12.3.2 Liquidity risk (continued)

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.

	2020				
	Within 1 year	**2-5 years**	**6-10 years**	**Over 10 years**	**Total**
Life and annuity policy reserves, net of reinsurance [(1)]	545	1,969	2,035	3,044	7,593
Due to related parties	660	–	–	–	660
Insurance balances payable	4,576	–	–	–	4,576
Accounts payable and accrued liabilities	231	–	–	–	231
	6,012	1,969	2,035	3,044	13,060

	2019				
	Within 1 year	**2-5 years**	**6-10 years**	**Over 10 years**	**Total**
Life and annuity policy reserves, net of reinsurance [(1)]	607	2,004	2,047	3,599	8,257
Due to related parties	1,872	–	–	–	1,872
Insurance balances payable	4,659	–		–	4,659
Accounts payable and accrued liabilities	1,043	–	–	–	1,043
	8,181	2,004	2,047	3,599	15,831

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

12.3.3 Market risk

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

The Group has no 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.

12. **Risk management** (continued)

12.3 **Financial instrument risk management** (continued)

12.3.3 Market risk (continued)

12.3.3(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 8.

12.3.3(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 10% increase in value across all equity markets would be an increase in Other comprehensive income of $0.2 million (2019 - $0.3 million); conversely the impact of a 10% 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.

12.3.4 Limitations of sensitivity analysis

The sensitivity information given above and in Note 8 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.

12. **Risk management** (continued)

12.4 Insurance risk management

Insurance risk is the risk of deviations between actual and expected actuarial assumptions including mortality, morbidity, and expense variations. The objective of the Group is to ensure that sufficient reserves are available to cover its liabilities.

As discussed in Note 2.9, a segregated account is linked to each variable universal life insurance policy issued to policyholders. The Group's exposure for this type of policy is limited to the minimum guarantees. The Group purchases reinsurance as part of its risk mitigation programme. Existing variable universal life insurance policies are reinsured for the net amount at risk less the retention based on treaties entered into with a number of reinsurers. Generally, the maximum automatic treaty limit per insured is $35.0 million. The Group may periodically, on a facultative basis, place larger amounts. The net amount at risk is defined to be the death benefit minus the policy cash value. The amount of reinsurance coverage for each month is the net amount at risk at the end of such month minus the initial amount retained by the Group being $50,000 to $100,000 per insured for all reinsured policies issued after January 1, 2002 ($15,000 for policies issued before 2002). For policies issued in 2001 and prior years, the Group reinsured the variable universal life insurance policies for the lesser of five times the initial net amount at risk or $20.0 million. The Group periodically, on a facultative basis, placed larger amounts.

Bermuda Life Worldwide Limited insures a book of fixed universal life business and reinsures a portion of it. It generally retains $50,000 per insured.

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.

The Group constantly monitors the credit worthiness of the reinsurance companies to which it cedes and assesses any reinsurance assets for impairment, with any impairment loss recognised in Operating expense in the Consolidated Statements of Comprehensive Income in the period in which any impairment is determined. The Group's reinsurers have an average AM Best (or equivalent) rating of 'A' as at March 31, 2020 and 2019.

For details on insurance risk management policies of the Group, see Note 8.

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

13. Policy charges and fee income

Income recognised during the year are as follows:

	2020	2019
Cost of insurance	2,946	3,223
Fee income	1,336	1,309
	4,282	4,532

Fee income from policyholder administration under segregated fund arrangement is recognised 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.

14. Net policy benefits

	2020	2019
Net policy benefits paid	506	4,380
Net change in contract liabilities	(1,006)	(4,436)
	(500)	(56)

15. Operating expenses

Operating expenses incurred during the year are as follows:

	2020	2019
Employee benefits expense (see below)	95	168
Allocation of overhead expenses from Parent (Note 16.2)	1,126	500
Finance cost and bad debt provision	56	817
Professional fees	816	1,763
General and corporate expenses	96	18
Total operating expenses	2,189	3,266
Management fee from a related party (Note 16.3)	–	(38)
	2,189	3,228

Employee benefits expense during the year is comprised of:

	2020	2019
Salaries and other short-term benefits	90	159
Pension costs	2	6
Stock-based compensation	3	3
	95	168

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

16. Related party transactions

All related party transactions were conducted in the normal course of business. Significant related party transactions are as follows:

16.1 As part of the Parent's capital management actions during the year, the Group returned capital of $nil million (2019 - $6.0 million) to the Parent.

16.2 Due to related parties includes payables arising from amounts settled by the Parent on behalf of the Group and Group's allocation of Parent overhead expense. These advances bear no interest and are net settled through the Due from related parties' outstanding balance.

16.3 Netted in Operating expenses is the management fee of $nil million (2019 - $0.04 million). In 2019 management fee was charged to Bermuda Life Insurance Company Limited (BLIC), a related party, to recover the allocated costs of administering the life insurance policies of this related party prior to the portfolio transfer as discussed in Note 16.5. The amounts are net settled through the Due from related parties' outstanding balance.

16.4 Compensation of key personnel

Key personnel have been identified as the Board of Directors of the Group. These individuals have the authority and responsibility for planning, directing and controlling the activities of the Group. Fees paid to directors for the reporting period totaled $0.01 million (2019 - $0.01 million).

The Group has a consultancy agreement with a director with an annual fee of $0.02 million (2019 - $0.02 million).

16.5 Portfolio transfer from 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 BLIC to Argus International Life Bermuda Limited was completed. The Group's total assets and liabilities increased 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 an increase in the Group's total assets and liabilities of $269.0 million, which includes segregated fund assets and liabilities of $267.9 million.

BLIC assigned and transferred all rights and obligations, title and interest related to these policies to the Group. 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 private placement life insurance business into one company, as part of the Parent's divestment plan.

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

17. Income taxes

Under current Bermuda law, the Group is not required to pay any taxes in Bermuda on either income or capital gains. The Group has received an undertaking from the Minister of Finance in Bermuda that in the event of any such taxes being imposed, the Group will be exempt from taxation until the year 2035.

Argus International Life Insurance Limited (AILIL) has elected under section 953(d) of the U.S. Internal Revenue Code (IRC) to be taxed as a U.S. domestic corporation. AILIL is subject to a U.S. corporate income tax rate of 21% for its fiscal year ended March 31, 2020 due to U. S. tax reform (2019-21%).

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

	2020	2019
Tax losses carried forward	523	516
Deductible temporary differences	41	97
Net unrecognised deferred tax assets	564	613

As at March 31, 2020, the Group has net operating loss carryforwards of $2.5 million (2019 - $2.4 million). Of the total net operating loss carryforwards of the Group, $0.1 million (2019 - $0.1 million) is subject to limitations under IRC section 382. The Group's net operating loss carryforwards will expire in 2022 through 2032 under the current U.S. tax legislation. Net operating losses incurred from December 31, 2018 onwards do not expire.

18. Segregated funds

The assets for policies held under the segregated funds are allocated to separate accounts as authorised by the Argus International Life Insurance Limited Consolidation and Amendment Act 2008.

Changes to the segregated funds are as follows:

	2020	2019
Additions to segregated funds		
Premiums	41	1,786
Portfolio transfer from a related party (Note 16.5)	–	133,354
Return on investments	7,745	(1,589)
	7,786	**133,551**
Deductions from segregated funds		
Withdrawals and benefits paid	134,922	80,488
Operating expenses	6,851	6,030
	141,773	**86,518**
Net additions/(deductions) to segregated funds for the year	(133,987)	47,033
Segregated accounts, beginning of year	594,436	547,403
Segregated accounts, end of year	**460,449**	**594,436**

19. **Contingencies**

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

20. **Comparative Figures**

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, 2020.

21. **Subsequent events**

Many countries are experiencing the outbreak of the COVID-19 disease which was declared to be a global pandemic by the World Health Organization on March 11, 2020. The Group is monitoring the developments related to this pandemic closely and continues to evaluate its impact on the Group's business. Though the magnitude of the impact on the Group's financial performance as of March 31, 2020 was not significant, the full scale impact post year end is currently uncertain and could be potentially significant to the Group.

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