2013 ANNUAL REPORT

Going for Gold and Meeting the Challenge

THE ARGUS GROUP

Building on decades of experience and a strong capital base, Argus provides a broad range of insurance, retirement and financial services to meet the needs of both businesses and individuals.

OUR VISION

Our vision is to be the customer's first choice for insurance, retirement and financial services. We are committed to providing our customers with financial security and peace of mind through innovative solutions, which provide excellent value.

OUR MISSION

We will achieve our vision by:

- Focusing first on the needs of the market segments we choose to serve
- Building upon the strength of the Argus name
- Introducing innovative products and enhancements
- Continuing to focus on direct distribution as our primary channel, while developing alternative channels such as intermediaries, strategic partnerships and technology
- Recruiting and retaining the very best people
- Developing knowledgeable people who provide fast, friendly and convenient service to our customers
- Developing our ability to perform as one cross-functional team
- Exploring opportunities to exploit our leading financial performance and capital position

In addition, Argus will look for growth opportunities by expanding into related business products and services.

OUR PHILOSOPHY AND VALUES

As we interact with our colleagues and meet our responsibilities to our customers, shareholders and the community, we welcome the challenge inherent in change, while adhering to values that remain constant.

- We do not compromise on individual or corporate honesty or integrity
- We respect every person as an individual
- We actively promote competence and professionalism within our organisation
- We achieve higher levels of performance through teamwork
- We recognise that fairness is critical in reaching decisions
- We promote and acclaim creativity as we strive to achieve our goals

THE ARGUS GROUP

ARGUS GROUP HOLDINGS LIMITED
Group Holding Company

ARGUS INSURANCE COMPANY LIMITED
Fire and Windstorm
(Home and Commercial Property),
Contractors' All Risks,
Liability, Marine, Motor,
Employer's Indemnity
(Workers' Compensation)

CENTURION INSURANCE SERVICES LIMITED
Insurance Agent and Licenced Broker

ARGUS INSURANCE COMPANY (EUROPE) LIMITED, *Gibraltar*
Home and Commercial Property,
Contractors' All Risks, Liability,
Marine and Motor

WESTMED INSURANCE SERVICES LIMITED, *Gibraltar*
Insurance Agent and Licenced Broker

BERMUDA LIFE INSURANCE COMPANY LIMITED
Pensions, Group Life and Long-Term
Disability Insurance,
Individual Life and Annuities,
Group and Individual Health Insurance
including: Major Medical, Dental and
Vision Care

ARGUS INTERNATIONAL LIFE BERMUDA LIMITED
Individual Life and Annuities

ARGUS INTERNATIONAL LIFE INSURANCE LIMITED
Individual Life and Annuities
(74% Interest)

BERMUDA LIFE WORLDWIDE LIMITED
Individual Life and Annuities

AFL INVESTMENTS LIMITED
Investment Management Services
(60% Interest)

ARGUS INVESTMENT NOMINEES LIMITED
Nominee Company
(60% Interest)

ARGUS INTERNATIONAL MANAGEMENT LIMITED
Company Management

ARGUS MANAGEMENT SERVICES LIMITED
Financial and General Management
Services

DATA COMMUNICATIONS LIMITED
Information Systems

ST. MARTIN'S REINSURANCE COMPANY, LTD.
Financial Reinsurance
(in run-off)

TROTT PROPERTY LIMITED
Property Holding Company

ARGUS PROPERTY (GIBRALTAR) LIMITED
Property Holding Company

FOGG INSURANCE AGENCIES LIMITED, *Malta*
Insurance Agent

Argus Group Holdings Limited is a public company, its shares trading on the Bermuda Stock Exchange. At March 31, 2013 it had 1,264 shareholders; 88 percent of whom were Bermudian, holding 85 percent of the issued shares.

BOARD OF DIRECTORS

Sheila E. Nicoll, FCII
CHAIRMAN

Alan R. Thomson
DEPUTY CHAIRMAN

Wendall S. F. Brown

Peter R. Burnim, MBA

John D. Campbell, QC, JP

Alison S. Hill, ACMA
CHIEF EXECUTIVE OFFICER

Sen. James S. Jardine, FCA, FCIS, JP

Reginald S. Minors, JP

Everard Barclay Simmons, MBA, LLB

Robert D. Steinhoff, FCA, JP

Paul C. Wollmann, MBA, CPCU, ARe, ARM

COMMITTEES OF THE BOARD

Audit Committee

Nominations and Governance Committee

Compensation Committee

Risk Committee

Succession Planning Committee

OFFICERS OF ARGUS GROUP HOLDINGS

Sheila E. Nicoll, FCII
CHAIRMAN

Alan R. Thomson
DEPUTY CHAIRMAN

Alison S. Hill, ACMA
CHIEF EXECUTIVE OFFICER

David W. Pugh, FCA
CHIEF FINANCIAL OFFICER

George N.H. Jones, MBA, LLB
GROUP GENERAL COUNSEL
& COMPANY SECRETARY

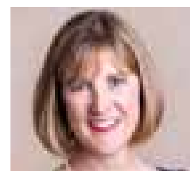
Larry A. Peck, FSA, FCIA, MAAA
EXECUTIVE VICE PRESIDENT
GROUP ACTUARY

BUSINESS UNIT HEADS

Andrew I. Baker, FCII
CHIEF EXECUTIVE
ARGUS INSURANCE COMPANY
(EUROPE) LIMITED

Lauren M. Bell, FLMI, HIA, ACS
EXECUTIVE VICE PRESIDENT
LIFE & PENSIONS

Andrew H. Bickham, ACII
EXECUTIVE VICE PRESIDENT
BROKING


Cindy F. Campbell, CPA, MBA
CHIEF OPERATING OFFICER
AFL INVESTMENTS LIMITED

John Doherty, CPCU, ARM, ARe
EXECUTIVE VICE PRESIDENT
PROPERTY & CASUALTY

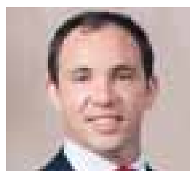
Michelle A. Jackson, MBA, MSc
EXECUTIVE VICE PRESIDENT
GROUP INSURANCE

Tyrone Montovio, ACII
GENERAL MANAGER
ARGUS INSURANCE COMPANY
(EUROPE) LIMITED

Sen. Lynne Woolridge, FLMI, FALU, HIA
HEAD OF INTERNATIONAL LIFE

SUPPORT UNIT HEADS

Alex Cabe, CFA
GROUP INVESTMENT MANAGER


Peter J. Dunkerley, FCA
EXECUTIVE VICE PRESIDENT
FINANCE & TREASURY

Martin N. M. Gutteridge, BA, MA
EXECUTIVE VICE PRESIDENT
INFORMATION SYSTEMS

Gary Hitchens
DIRECTOR
OF GLOBAL SALES & MARKETING

Onesimus Nzabalinda
MBA, MSc, CISA, CFE, CRISC
HEAD OF RISK & COMPLIANCE

Wanda E. Richardson, MA, SPHR
VICE PRESIDENT
ORGANISATIONAL DEVELOPMENT

Sheena M. Smith, CPA
VICE PRESIDENT
FINANCE

Philip R. Trussell
VICE PRESIDENT & MANAGING DIRECTOR
INTERNATIONAL LIFE

FIVE YEAR SUMMARY

Financial and Shareholder Data

	2013	2012	2011	2010	2009
FOR THE YEAR *(In $ thousands)*					
Total revenue	171,911	154,787	138,188	131,679	32,146
Earnings/(Loss) for the year	12,576	1,696	(6,092)	(18,435)	(115,701)
Cash dividends	-	-	8,414	12,187	13,429
AT YEAR END *(In $ thousands)*					
Total General Fund Assets	432,479	386,423	533,459	533,887	528,996
Shareholders' Equity	95,479	83,794	82,406	96,415	114,837
FINANCIAL RATIOS					
Earnings/(Loss) per share – fully diluted	$0.60	$0.08	$(0.29)	$(0.88)	($5.53)
Return on average Shareholders' Equity	14.03%	2.04%	(6.81%)	(17.45%)	(61.62%)
SHAREHOLDER DATA					
Shares in issue	21,511,163	21,511,163	21,511,163	21,511,163	21,485,744
Book value per share	$4.44	$3.90	$3.83	$4.48	$5.34
NUMBER OF EMPLOYEES	202	201	199	171	176

Contents PAGE

The Argus Group 1
Board of Directors and Group Management 2
Five Year Summary 3
Report to Shareholders 5
Management's Responsibility for the Financial Statements 18
Independent Auditors' Report 19
Consolidated Balance Sheet 20
Consolidated Statement of Operations 21
Consolidated Statement of Comprehensive Income/(Loss) 22
Consolidated Statement of Changes in Equity 23
Consolidated Statement of Cash Flows 24
Contents page: Notes to the Consolidated Financial Statements 25
Notes to the Consolidated Financial Statements 26
Directors of Principal Operating Subsidiaries 76

2013 has been a memorable and successful year for Argus in numerous ways – empowering and building relationships with the people who work here, supporting the community through financial means and volunteer hours and reporting excellent year-end financial results. We have highlighted some of those moments and attributes in this Annual Report by using snapshots taken of Argus employees, their relatives and friends as they captured the spirit of Going for Gold and Meeting the Challenge by participating in the 2012 Corporate Games and achieving the Investors in People Gold Award accreditation.

LEFT TO RIGHT: **Alison Hill, The Hon. Patricia Gordon-Pamplin, Wanda Richardson and Kerry Judd.**

Investors in People are a National Quality Standard that defines good practice for improving an organisation's performance through its people. It is the only internationally recognised standard that uses a 'people-oriented' approach to business improvement. Argus achieved the regular Investors in People Accreditation in 2000, since which and especially over the past five years, Argus has increased its focus and investment in the development of its team. The Argus Group, now as a Gold Accredited organisation, sits within the top one percent of organisations recognised by Investors in People having successfully met 184 evidence points out of a possible 192, which is the highest score their assigned Assessor has ever awarded any organisation. In addition, Argus has been selected by Investors in People as a global case study for managing change through effective development and management of their people for inclusion on the international Investors in People website.

REPORT TO SHAREHOLDERS

THE YEAR IN REVIEW

The Argus Group reports net earnings of $12.6 million for the year ended March 31, 2013, compared to $1.7 million in the prior year.

Continued strong performance from our core business operations has produced results in line with overall business targets and, after four challenging years, the Group has achieved improved, positive results. Earnings from operations have once again been generated through achieving very high client retention levels while managing operating expenses and exceeding profit targets across most business lines.

These positive earnings represent a year of continued recovery for the Argus Group and were achieved against a backdrop of challenging economic times both locally and globally. Your Board and management remain confident that the Group has now placed the vast majority of its legacy issues firmly in the past and look forward to a return to more 'normal' times. This confidence stems from the continued strong performance of the core business operations, strong cash flows and the benefits arising from our sustained efforts over several years to optimise the Balance Sheet and capital structure in a considered and orderly fashion. The Balance Sheet now faces substantially less exposure to risks arising from non-core investments and will enable the Group to build on its history of over 60 years of service to Bermuda.

In addition, the Group has made progress with its strategic goal of focusing on markets where Argus can grow and earn higher returns within acceptable risk tolerances. Accordingly, we remain confident that the Argus Group is well positioned for the future.

Argus won the Corporate Games 'Sport for Life' Grand Award, which recognises commitment to company spirit, employee fitness and the value of participation – a reflection of Argus' dedication to leadership, commitment to the company and excellence in team building.

Shareholders' Equity now stands at $95.5 million, substantially in excess of the statutory capital required to conduct the Group's various insurance and investment related businesses. The result for the year represents a return on average Shareholders' Equity of 14.03 percent compared to 2.04 percent for the previous year. This will naturally lead shareholders to enquire when a dividend will be resumed. Your Board, having considered the declaration of a dividend each quarter since its temporary suspension in July 2011, believes that now is the appropriate time.

Accordingly, the Board has declared a dividend of six cents per share payable on September 9, 2013, for shareholders of record on July 15, 2013. This represents an interim dividend based upon the audited financial results of the Group for the fiscal year ended March 31, 2013.

In the future, the Board anticipates that dividends will be considered on a semi-annual basis to coincide with the six-monthly financial reporting cycles. In normal circumstances, it is intended that this will consist of an interim and final dividend for each fiscal year, or part thereof, under review and be based upon the results as declared for the prior financial year.

With effect from March 31, 2013, Somers Isles Insurance Company Limited (SIIC) and Bermuda Life Insurance Company Limited (BLIC) amalgamated into a single entity named Bermuda Life

ARGUS
156
ARGUS
152
WE RELY
ON EACH
OTHER

Insurance Company Limited (Bermuda Life) operating under BLIC's Class D Long Term Licence. SIIC and BLIC have respectively become the Argus Health and Argus Pension Divisions of Bermuda Life. Operationally, there are no material changes and it is expected that significant efficiencies will be gained. Legally, any and all of SIIC or BLIC's existing contracts, policies and liabilities continue as the contracts, policies and liabilities of Bermuda Life without need for amendment, notice or change.

Recently, the rating agency A.M. Best recognised the Group's progress by revising the outlook from negative to stable and affirmed the financial strength ratings for the Company and its two main operating subsidiaries in Bermuda – Argus Insurance Company Limited and Bermuda Life Insurance Company Limited. The stable outlook reflects the Group's return to profitability, the strengthening of its capital and improvement of its asset quality.

FINANCIAL RESULTS

Net Earnings for the Year attributable to Shareholders of the Company for the year ended March 31, 2013, were $12.6 million compared to earnings of $1.7 million for the previous year. The Earnings per share were $0.60 compared to $0.08 last year.

As at March 31, 2013, Total Assets including Segregated Fund Assets stood at $1.9 billion and Shareholders' Equity increased to $95.5 million from $83.8 million one year ago.

Net premiums written decreased by $2.8 million, or two percent, reflecting the recessionary environment as many clients have sought ways in which to contain costs by reducing headcount and revising employee benefits wherever available.

Argus has worked hard to achieve a close family environment, with a strong culture of teamwork, mutual support, engagement and empowerment.

Net Benefits and Claims decreased by one percent as the trend of increasing healthcare costs was offset by lower than expected claims experienced primarily in the area of overseas healthcare.

Investment income and Share of earnings/(loss) of associates have improved to provide a positive result of $16.5 million, an increase of $18.6 million over the prior year. Our equity portfolio has contributed $5.8 million through net unrealised gains and dividend income whilst our bond portfolio has contributed $12 million primarily through interest income and net realised gains during the year. The prolonged economic recession continues to impact the local real estate market which resulted in the requirement to record an impairment of $2.8 million on our mortgage portfolio.

WE ARE POISED TO WITHSTAND CHALLENGES

Commissions, management fees and other are in line with the prior year with a modest increase of one percent.

Operating expenses have increased by 12.8 percent over the prior year due to the Group's commitment to enhance the information systems infrastructure and the strengthening of the management team. Additionally, allowances have been included for the uncollectability of certain receivables across the Group.

Amortisation, depreciation and impairment has increased due to the acceleration of the depreciation charge on certain computer systems that are scheduled to be decommissioned next year and a reduction in Intangible Assets of $158,000 as a portion became impaired.

Interest on loan has decreased in the year as the loan taken out to fund the construction of 14 Wesley Street was repaid. This eliminates all debt from the Group's Balance Sheet.

PROPERTY AND CASUALTY, BERMUDA

This division continues to operate successfully within its planned parameters despite continued and overtly aggressive competition in the marketplace. In the current economic environment, this is a testament to our commitment to superior, proactive customer service combined with disciplined underwriting. Once again, this has resulted in high levels of client retention which has produced a solid underwriting result for the year.

Training and development is aimed at achieving organisational goals and vision. Argus has made long-standing efforts in developing its team and thereby strengthening the overall organisation.

The fire portfolio, which protects our insureds from fire and windstorm, among other perils, continues to perform satisfactorily due to several factors. These include a catastrophe-free year, for which we are thankful, combined with cost containment measures arising from increased streamlining of processes and further efficiencies delivered by our new underwriting administration platform.

Last year we successfully launched *Home Essentials*, a product designed to reduce premiums for Bermuda's senior population. Based on customer feedback, we have reduced the qualifying age to 60. This opens the product up for a wider segment of our community.

PROPERTY AND CASUALTY, EUROPE

This division operates in Gibraltar and Malta. It has been a challenging year in both jurisdictions for a variety of reasons. Aggressive competition coupled with a downturn in economic activity and contraction in spending on capital projects has had an adverse effect on premium growth. As a consequence, management has been focusing on the retention of renewals and reinforcing existing client relationships to protect our account.

Following an external review of the claims reserving processes and enhancement of the independent actuarial review process for Europe, the resultant strengthening of loss reserves across all lines of business in both European territories, but primarily the motor book in Malta, has contributed to an overall loss for European operations for the year.

Management has taken action to re-engineer the Malta motor portfolio through withdrawal from loss-making sectors, significant rate increases where appropriate and renewed focus on building a more balanced book of business in Malta.

Full implementation of the new underwriting administration platform is now close to completion in Gibraltar. Preparations are underway to introduce this platform into Malta during the current fiscal year.

GROUP INSURANCE

The Group Insurance division, comprised of group health, life, long-term disability, short-term disability and workers' compensation in Bermuda, has performed well this year in spite of challenging economic conditions. Although retention levels remained high for group insurance business, the average insured headcount over the year has decreased, indicating that the total numbers of employees insured within groups continues to fall as employers reduce staff in the face of a weak economy.

A key area of concern within the community continues to be the rising cost of healthcare. For many years management has recognised that escalating healthcare costs are unsustainable. Government recently announced an increase of 20 percent to the legislated premium (including the Standard Hospital Benefit; the minimum level of health insurance in Bermuda, and the Mutual Reinsurance Fund which health insurers collect on behalf of Government). This represents over 40 percent of claims' costs. The legislated increase, combined with the continued rise in medical cost inflation has put real pressure on the 2013-2014 annual health renewal pricing. Argus has strived to minimise the impact of these increases to our health insureds. In addition, we continue to work closely with the Bermuda Hospitals Board, the Ministry of Health and the Bermuda Health Council to address the current challenges of an aging population, increasing healthcare utilisation and rising medical inflation.

Unfortunately, health claims cost per capita has increased this year, particularly for services covered by the Standard Hospital Benefit. The main driver of these local claims costs continues to be an increased utilisation of services at the local hospitals. Our focus continues to be on developing programmes aimed at reducing the cost of healthcare and delivering excellent service to our customers. In this vein, we are proud to have sponsored *teleNurse*, a free medical advice line which aims to address the rising cost of healthcare by preventing unnecessary visits to the doctor's office or emergency room. We are pleased with the continued successful partnerships with our overseas facilities, resulting in better than expected claims costs for overseas treatment.

Argus Health maintains that a crucial way to control rising healthcare costs is to reduce utilisation of services by living healthy lifestyles. Our wellness programmes strive to promote prevention and early detection and we are proud of our partnership with those agencies promoting prevention and wellness in our community. We continue to focus on wellness initiatives and promoting healthy lifestyles.

PENSIONS

We are pleased that pension assets under management have continued to increase and the client base has remained stable over the year.

During the year, Argus Pensions announced an expansion of the investment options available under its plans to include a range of Traditionally Managed Funds. Argus now offers the broadest range of investment options available locally. In addition to the comprehensive selection of actively managed Argus Select Funds, plan members also have the choice of a guaranteed account or a self-directed option which is appropriate for sophisticated investors. There is also a 401k plan for U.S. tax payers who are not subject to the requirements of local legislation. The division also expanded its comprehensive online services to allow members to initiate investment election changes online.

We are pleased that only a relatively small number of employers and employees have found it necessary to temporarily suspend their pension contributions, as allowed under the National Pension Scheme (Occupational Pensions) Temporary Amendment Act 2012, as we are very aware of the long-term impact that any such suspension will have on lifetime pensions.

INTERNATIONAL LIFE

The International Life division had an excellent financial year, adding over $120 million of new premium. Global investment markets continued to prosper, resulting in a significant increase in our policy assets under management, which in turn led to increased fee income on existing business.

Our pipeline of new enquiries has gained further momentum, with a number of significant new cases expected to come to fruition in the near future. Management continues to explore new markets with our enhanced product range and are confident of increasing our contribution to the Group's net earnings in the years to come.

AFL INVESTMENTS (AFL)

Even though Bermuda is facing unprecedented financial challenges, AFL has not only maintained, but actually grown its client base over the year. Our personalised approach and focus on financial well-ness has enabled AFL to help clients restructure their portfolios to adapt to changing situations. This flexibility and personal focus on each individual client is a key driver to our retention and growth.

SALES AND MARKETING

The main focus in our Bermuda and Europe operations continues to be the retention of existing clients. Despite experiencing the most competitive and challenging business conditions, we are very proud that well over 90 percent of our clients have remained loyal to Argus. Building long-term value-added relationships and working with our clients to understand the challenges they face enables us to find best value solutions and remains a strategic imperative. The Group's growth strategy of diversifying the product offering, cross-selling and maintaining underwriting integrity is reaping rewards as we continue to see an increase in the profitability from new business activity. Sales have been particularly impressive in our Health, Personal Lines (both Europe and Bermuda) and International divisions throughout the year under review. The teams have also built a very healthy pipeline to support the generation of future sales.

INFORMATION TECHNOLOGY (IT)

As part of its IT focus, the Group has created a comprehensive client relationship management system that allows us to work with our customers in an integrated manner, so that we have a cohesive view of the needs and performance of both our large and small customers. IT has also replaced the core Argus Group website technology, which is now scalable across the Group.

Following last year's strategic review, the Group has begun a significant commitment to technology in order to position the Group for the future. A major part of this investment is the phased replacement of the Group Insurance systems, which will occur over the next eighteen months. This will take advantage of the new software architecture implemented during 2013, and enable substantially increased functionality and scalability.

RISK AND COMPLIANCE GOVERNANCE

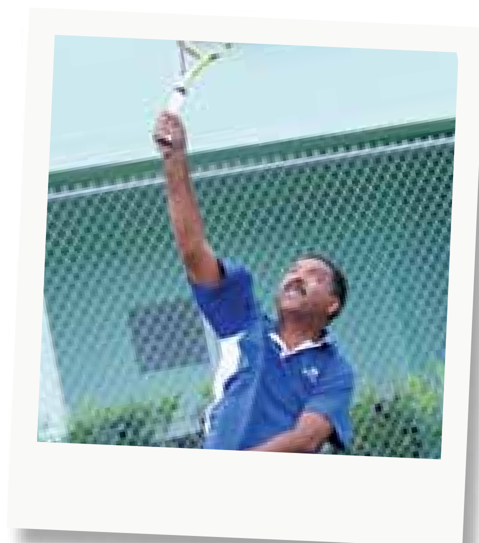
The types of material risk to which the Group is exposed have not changed significantly over the year and are more fully described in Note 13 to the consolidated financial statements. The Group's risk management framework and its oversight have significantly matured. The major components of the framework included the design and implementation of our risk appetite policy, the process of continuous internal auditing and a system to record, analyse and report on operational risk events and customer feedback.

Argus has long been a company that places a priority on our people and, as a result, our employees were found to have a genuine commitment to the delivery of service excellence and our customer-centric approach which has been demonstrated in the most recent financial results.

STAYING FOCUSED ON A UNIFIED GOAL

COMMITMENT TO COMMUNITY

HUMAN RESOURCES (HR)



In November 2012, Mr. Peter Dunkerley was appointed to the new position of Executive Vice President Finance & Treasury responsible for leading and developing the overall implementation of the Group's new management accounting framework. In this new role, Mr. Dunkerley will work closely with the Chief Financial Officer and the finance team to enable Argus to enhance all aspects of financial reporting and administration.

In Europe, this year's focus was on continued execution of the Europe HR integration plan by standardising and aligning HR policies and practices between corporate and overseas offices. The investment in staff training continues apace. For example, over 80 percent of the staff in Malta are studying for professional qualifications, with a 90 percent success rate to date.

In March 2013, the Argus Group in Bermuda successfully achieved Investors in People Gold Level Accreditation for its ongoing investment in the development of its people and overall company performance.

A number of initiatives were undertaken to further foster the Group's client-focused culture. These include a revised annual business planning process to encourage a client-centric view across the organisation, facilitate better collaboration amongst departments and enhance cross-functional execution of group-wide priorities. In addition, we continued with the employee engagement strategy which involved staff in cross-functional initiatives including business process improvement teams, product knowledge workshops and people management forums.

Argus has a very clear purpose and vision with a strong ethos of social responsibility, supported by group and individual business plans. Everyone knows where they fit and how their role is helping Argus to achieve its vision.

The third annual *PassionWorks!* employee engagement survey highlighted that management and staff remain highly committed and passionate about working at Argus. This year's results evidenced positive trending in all areas as employees felt more supported by their environment. Compared to the *PassionWorks!* global database of 100 companies (5,000 employees), the Argus Group has received the highest corporate average score on key drivers of employee motivation and commitment. As a result, Argus has been asked to participate as a global best practice case study in supporting employee engagement.

COMMUNITY

At Argus we focus on community education, promotion of health and positive lifestyles with a very deep reach into the broad community. The Argus Group takes its responsibility to support the community very seriously, particularly during periods of social and economic turmoil. The Group actively supports organisations and community events for the benefit of all in Bermuda. Our corporate giving programme continues to focus on the theme of prevention as Argus is in the business of helping our clients prevent financial and physical misfortune. Argus has supported a selection of charities that are making a positive difference in the community and in the lives of young people in particular. The charity partnerships in the year were: The Adult Education School, Bermuda Cancer & Health Centre, The Family Centre, SCARS (Saving

Children and Revealing Secrets), YouthNet, the Bermuda Diabetes Association and the Bermuda Zoological Society.

In addition, we supported a number of community events that are in line with our wellness philosophy, including the very popular Bermuda National Trust Palm Sunday Walk and the Argus Walks the Walk with The Centre on Philanthropy Charity 5K Walk, where over $30,000 was raised for 118 charities. The Group also sponsored the Jump 2b Fit Programme organised by the Bermuda Heart Foundation where emphasis is placed on improving the level of fitness of children in our schools.

Argus employees, family members and friends participated in the Bermuda Corporate Games held in October 2012. We had 90 participants competing in ten sports during this four-day multi-sports festival. This festival has been staged in various countries over the past 25 years and was the largest community-driven event to come to Bermuda. We were pleased to have been awarded the Sport For Life Grand Award which recognises commitment to company spirit, employee fitness and the value of participation.

We were delighted to be the recipient of the Bermuda Insurance Institute's inaugural Corporate Social Responsibility Award.

The Bermuda Insurance Institute selection committee felt that although there are larger organisations in Bermuda with well-established charitable foundations that contribute very significant resources to community needs, what stood out about the Argus Group was how completely integrated the charitable and community mindset is throughout the entire organisation, and how at Argus, we focus our efforts on a day-to-day basis.

FORWARD LOOKING STATEMENTS

This and certain other statements in this report may be deemed to include 'forward looking statements' and are based upon management's current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from those included in these statements for a variety of reasons including worldwide economic conditions, success in business retention and other factors.

NEW DIRECTOR

In January 2013, Mr. Paul Wollmann was appointed to the Board to fill a casual vacancy. Mr. Wollmann holds an MBA from The School of Risk Management, Insurance and Actuarial Science, St. John's University, New York. He has extensive reinsurance and capital markets knowledge and has direct work experience with the most senior levels of large financial institutions. In addition to his reinsurance background in Bermuda, he has extensive experience in the structured finance area.

NOTE OF APPRECIATION

On behalf of the Board and management, we would like to express our appreciation to Mr. Gerald Simons who retired from the Board of Argus Group Holdings Limited during the year under review. We thank him for his over 40 years of service in various capacities.

Our entire staff is focused on delivering excellent service, value and satisfaction to our customers and long-term sustainable value to our Shareholders, while also fulfilling our commitment to the community. We wish to thank our staff for their hard work and dedication and thank our Shareholders and clients for your continued loyalty and support.

Sheila E. Nicoll
CHAIRMAN

Alison S. Hill
CHIEF EXECUTIVE OFFICER

July 18, 2013

MAXIMISING OUR STRENGTHS

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

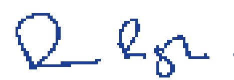
These consolidated financial statements have been prepared in conformity with International Financial Reporting Standards and, where appropriate, reflect estimates based on management's judgment. The financial information presented throughout this Annual Report is generally consistent with the information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

KPMG Audit Limited, the independent chartered accountants appointed by the Shareholders, have examined the consolidated financial statements set out on pages 20 through 75 in accordance with International Standards on Auditing to enable them to express to the Shareholders their opinion on the consolidated financial statements. Their report is shown opposite.

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

These consolidated financial statements were authorised for issue by the Board of Directors on July 18, 2013.

Alison S. Hill
CHIEF EXECUTIVE OFFICER



David W. Pugh
CHIEF FINANCIAL OFFICER

July 18, 2013

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF ARGUS GROUP HOLDINGS LIMITED AND SUBSIDIARIES

We have audited the accompanying consolidated financial statements of Argus Group Holdings Limited (the "Group"), which comprise the consolidated balance sheet as at March 31, 2013, and the consolidated statements of operations, comprehensive income / (loss), changes in equity and cash flows for the year ended March 31, 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

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, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and 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 our 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, we consider internal control relevant to the Group'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 Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of 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 present fairly, in all material respects, the consolidated financial position of Argus Group Holdings Limited as at March 31, 2013, and its consolidated financial performance and its consolidated cash flows for the year ended March 31, 2013 in accordance with International Financial Reporting Standards.

KPMG Audit Limited

Chartered Accountants
Hamilton, Bermuda

July 18, 2013

CONSOLIDATED BALANCE SHEET

(In $ thousands)	*Note*	MARCH 31 2013	MARCH 31 2012
ASSETS			
Cash and short-term investments		30,326	46,127
Interest and dividends receivable		2,706	404
Investments	3	250,518	185,068
Insurance balances receivable	5	18,469	22,164
Reinsurers' share of:			
Claims provisions	11	14,001	11,573
Unearned premiums	11	10,202	10,860
Other assets	7	7,982	7,083
Deferred policy acquisition costs	8	2,182	2,295
Investment in associates	4	11,918	11,404
Investment properties	6	6,936	7,010
Property and equipment	9	71,719	75,648
Intangible assets	10	5,520	6,787
TOTAL GENERAL FUND ASSETS		432,479	386,423
TOTAL SEGREGATED FUND ASSETS	26	1,476,685	1,334,693
TOTAL ASSETS		1,909,164	1,721,116
LIABILITIES			
Insurance contract liabilities	11	198,144	190,932
Insurance balances payable	15	10,772	12,751
Payable for investments purchased		21,530	-
Investment contract liabilities	12	83,932	69,764
Tax payable		61	188
Accounts payable and accrued liabilities		16,580	14,730
Loan payable	16	-	7,843
Post-employment benefit liability	14	4,524	4,078
TOTAL GENERAL FUND LIABILITIES		335,543	300,286
TOTAL SEGREGATED FUND LIABILITIES	26	1,476,685	1,334,693
TOTAL LIABILITIES		1,812,228	1,634,979
EQUITY			
Attributable to Shareholders of the Company			
Share capital		16,742	16,433
Contributed surplus		52,615	52,737
Retained earnings		28,085	15,913
Accumulated other comprehensive loss		(1,963)	(1,289)
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY		95,479	83,794
Attributable to non-controlling interests		1,457	2,343
TOTAL EQUITY		96,936	86,137
TOTAL EQUITY AND LIABILITIES		1,909,164	1,721,116

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF OPERATIONS

For the years ended March 31 (In $ thousands, except per share data)	*Note*	2013	2012
REVENUE			
Gross premiums written		162,852	167,985
Reinsurance ceded		(40,179)	(42,507)
Net premiums written		122,673	125,478
Net change in unearned premiums	*18*	1,210	274
Net premiums earned		123,883	125,752
Investment income	*3.5*	15,799	10,089
Share of earnings/(loss) of associates	*4*	714	(12,197)
Commissions, management fees and other	*21*	31,515	31,143
		171,911	154,787
EXPENSES			
Policy benefits		13,196	15,927
Claims and adjustment expenses		87,184	91,077
Reinsurance recoveries	*19*	(5,890)	(11,126)
Gross change in contract liabilities	*20*	11,055	6,301
Change in reinsurers' share of claims provisions	*20*	(2,595)	2,180
NET BENEFITS AND CLAIMS		102,950	104,359
Commission expenses		5,015	3,481
Operating expenses	*22*	43,992	39,007
Amortisation, depreciation and impairment	*9 ; 10*	6,827	5,350
Interest on loan	*16*	193	528
		158,977	152,725
EARNINGS BEFORE INCOME TAXES		12,934	2,062
Income taxes	*25*	8	112
NET EARNINGS FOR THE YEAR		12,926	1,950
Attributable to:			
Shareholders of the Company		12,576	1,696
Non-controlling interests		350	254
		12,926	1,950
Earnings per share:	*17*		
basic		*0.60*	*0.08*
fully diluted		*0.60*	*0.08*

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/(LOSS)

For the years ended March 31 (In $ thousands)	2013	2012
NET EARNINGS FOR THE YEAR	12,926	1,950
OTHER COMPREHENSIVE LOSS		
Change in unrealised losses on available for sale investments		
Unrealised gains/(losses) arising during the year	24	(35)
Share of other comprehensive income of associates		
Reclassification of realised gains to net earnings	-	(305)
Change in unrealised losses on translating financial statements of foreign operations	(698)	(83)
OTHER COMPREHENSIVE LOSS FOR THE YEAR	(674)	(423)
COMPREHENSIVE INCOME FOR THE YEAR	12,252	1,527
OTHER COMPREHENSIVE LOSS ATTRIBUTABLE TO:		
Shareholders of the Company	(674)	(423)
Non-controlling interests	-	-
	(674)	(423)
COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Shareholders of the Company	11,902	1,273
Non-controlling interests	350	254
	12,252	1,527

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the years ended March 31 (In $ thousands)	*Note*	2013	2012
SHARE CAPITAL			
Authorised:			
25,000,000 common shares of $1.00 each (2012 – 25,000,000)		25,000	25,000
Issued and fully paid, beginning of year 21,511,163 shares (2012 – 21,511,163 shares)		21,511	21,511
Deduct: Shares held in Treasury, at cost 510,041 shares (2012 – 478,223 shares)		(4,769)	(5,078)
TOTAL, NET OF SHARES HELD IN TREASURY, END OF YEAR		16,742	16,433
CONTRIBUTED SURPLUS			
Balance, beginning of year		52,737	52,629
Stock-based compensation expense	23	44	108
Treasury shares granted to employees		(166)	-
BALANCE, END OF YEAR		52,615	52,737
RETAINED EARNINGS			
Balance, beginning of year		15,913	14,217
Net earnings for the year		12,576	1,696
Loss on treasury shares granted to employees		(404)	-
BALANCE, END OF YEAR		28,085	15,913
ACCUMULATED OTHER COMPREHENSIVE LOSS			
Balance, beginning of year		(1,289)	(866)
Change in unrealised gains/(losses) on available-for-sale investments		24	(35)
Share of other comprehensive income of associates		-	(305)
Change in unrealised losses on translating financial statements of foreign operations		(698)	(83)
BALANCE, END OF YEAR	28	(1,963)	(1,289)
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY		95,479	83,794
ATTRIBUTABLE TO NON-CONTROLLING INTERESTS			
Balance, beginning of year		2,343	2,089
Net earnings for the year		350	254
Distributions to non-controlling interests		(1,236)	-
BALANCE, END OF YEAR		1,457	2,343
TOTAL EQUITY		96,936	86,137

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended March 31 (In $ thousands)	2013	2012
OPERATING ACTIVITIES		
Earnings before income taxes	12,934	2,062
Adjustments to reconcile net earnings to cash basis (Footnote (i) below)	(8,565)	9,411
Change in operating balances (Footnote (ii) below)	23,843	14,772
Interest income received	4,297	7,016
Dividend income received	1,477	1,655
Income tax paid	(130)	(172)
CASH GENERATED FROM OPERATING ACTIVITIES	33,856	34,744
INVESTING ACTIVITIES		
Purchase of investments	(756,789)	(1,761,683)
Sale and maturity of investments	718,808	1,895,862
Transfer of investments to segregated funds	-	(136,889)
Purchase of property and equipment	(1,739)	(3,254)
Purchase of intangible assets	(66)	(251)
CASH USED IN INVESTING ACTIVITIES	(39,786)	(6,215)
FINANCING ACTIVITIES		
Dividends paid to Shareholders	-	(2,103)
Dividends paid to non-controlling interests	(1,236)	-
Acquisition of shares held in Treasury	(261)	7
Repayment of loan	(7,843)	(6,000)
Interest paid on loan	(193)	(528)
CASH USED IN FINANCING ACTIVITIES	(9,533)	(8,624)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND SHORT-TERM INVESTMENTS	(338)	(23)
NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS	(15,801)	19,882
CASH AND SHORT-TERM INVESTMENTS, beginning of year	46,127	26,245
CASH AND SHORT-TERM INVESTMENTS, end of year	30,326	46,127

Footnotes

	2013	2012
(i) Interest income	(9,724)	(10,685)
Dividend income	(1,702)	(1,624)
Investment income related to the Deposit administration pension plans	830	4,084
Investment income related to Segregated funds with guaranteed return	2,517	-
Net realised gains/(losses) on sale of investments	(4,086)	1,166
Amortisation of net premium of bonds	1,160	1,141
Change in fair value of investments	(6,549)	(3,557)
Net impairment losses	2,615	711
Share of loss/(earnings) of associates	(714)	12,197
Change in fair value of investment property	24	(8)
Depreciation of property and equipment	5,638	4,359
Amortisation of intangible assets	1,031	991
Impairment of intangibles	158	-
Interest on loan	193	528
Expense on vesting of stock-based compensation	44	108
	(8,565)	9,411
(ii) Insurance balances receivable	3,512	(3,805)
Reinsurers' share of:		
Claims provisions	(2,595)	2,179
Unearned premiums	524	(404)
Other assets	(573)	(693)
Deferred policy acquisition costs	12	(165)
Insurance contract liabilities	8,346	6,426
Insurance balances payable	(1,879)	(1,858)
Investment contract liabilities	14,168	14,594
Accounts payable and accrued liabilities	1,882	(1,955)
Post-employment benefit liability	446	453
	23,843	14,772

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Contents

Note		PAGE
1	Operations	26
2	Significant accounting policies	26
3	Investments	38
4	Investment in associates	44
5	Insurance balances receivable	45
6	Investment properties	45
7	Other assets	46
8	Deferred policy acquisition costs	46
9	Property and equipment	47
10	Intangible assets	48
11	Insurance contract liabilities	48
12	Investment contract liabilities	55
13	Risk management	56
14	Post-employment benefit liability	63
15	Insurance balances payable	64
16	Loan payable	65
17	Earnings per share	65
18	Net change in unearned premiums	65
19	Reinsurance recoveries	65
20	Net change in contract liabilities	66
21	Commissions, management fees and other	66
22	Operating expenses	66
23	Stock-based compensation	67
24	Related party transactions	68
25	Income taxes	69
26	Segregated funds and separate accounts	71
27	Operating segments	73
28	Components of accumulated other comprehensive income	74
29	Commitments and contingencies	74
30	Comparative figures	75
31	Subsequent events	75

1 OPERATIONS

Argus Group Holdings Limited (the Company) was incorporated in Bermuda with limited liability on May 26, 2005, as a holding company and has its registered office at the Argus Building, 14 Wesley Street, Hamilton HM 11, Bermuda. The Company and its subsidiaries (the Group) operates predominantly in Bermuda, Gibraltar and Malta underwriting life, health, property and casualty insurance. The Group also provides investment, savings and retirement products, and offers a range of administrative services including company management and accounting services.

During the reporting period, the Company's subsidiaries were as follows:

AFL Investments Limited
Argus Insurance Company Limited
Argus Insurance Company (Europe) Limited, *Gibraltar*
Argus International Life Bermuda Limited
Argus International Life Insurance Limited
Argus International Management Limited
Argus Investment Nominees Limited
Argus Management Services Limited
Argus Property (Gibraltar) Limited
Bermuda Life Insurance Company Limited
Bermuda Life Worldwide Limited
Centurion Insurance Services Limited
Data Communications Limited
Fogg Insurance Agencies Limited, *Malta*
Somers Isles Insurance Company Limited
St. Martin's Reinsurance Company, Ltd.
Trott Property Limited
Westmed Insurance Services Limited, *Gibraltar*

On March 31, 2012, Argus Property Limited amalgamated with Bermuda Life Insurance Company Limited.

On March 31, 2013, Somers Isles Insurance Company Limited amalgamated with Bermuda Life Insurance Company Limited.

2 SIGNIFICANT ACCOUNTING POLICIES

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

2.1 STATEMENT OF COMPLIANCE

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

2.2 BASIS OF PRESENTATION

2.2.1 Basis of measurement

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

- Financial assets and financial liabilities at fair value through profit or loss (FVTPL) are measured at fair value;
- Available-for-sale financial assets are measured at fair value;
- Derivative financial instruments are measured at fair value;
- Investment properties are measured at fair value;
- Certain segregated fund assets and liabilities are measured at fair value; and
- Post-employment benefit liability is measured at the present value of the defined benefit obligation.

The Consolidated Balance Sheet is presented in order of decreasing liquidity.

2.2.2 Presentation currency

All amounts, excluding per share data or where otherwise stated, are in thousands of Bermuda dollars, which is the Group's presentation currency and which is on par with U.S. dollars.

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 in the consolidated financial statements is included in the following notes:
Note 2.4 – foreign currency translation;
Note 2.9 – insurance contracts and investment contracts;
Note 2.16 and *Note 29.1* – leases and operating leases;
Note 4 – investment in associates; and
Note 6 – investment properties.

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 3 and *Note 12* – investments and investment contract liabilities;
Note 11 – insurance contract liabilities; and
Note 14 – post-employment benefit liability.

2.3 BASIS OF CONSOLIDATION

2.3.1 Business combinations

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

The Group elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognised amount of the identifiable net assets, at the acquisition date. Transaction costs that the Group incurs in connection with the business combination are expensed as incurred.

Amalgamation transactions

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

2.3.2 Subsidiaries

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

Control is defined as the power to govern the financial and operating policies of an entity, so as to obtain benefits from its activities. This is assessed from both a legal and economic perspective. Entities are fully consolidated from the date control is obtained by the Company or one of its subsidiaries.

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

2.3.3 Investment in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operational policies. Significant influence is normally presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Investment in associates is initially recognised at cost, which includes transaction costs. Thereafter, these investments are measured using the equity method. Under the equity method, the Group records its proportionate share of income and loss from such investments on the Consolidated Statement of Operations and its proportionate share of Other Comprehensive Income on the Consolidated Statement of Comprehensive Income/(Loss). Certain associates have different accounting policies from the Group and, as a result, adjustments have been made to align the associate's accounting policies with the Group.

When the Group's share of losses exceeds its interest in an Investment in associates, the carrying amount of that interest is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associate.

2.4 FOREIGN CURRENCY TRANSLATION

2.4.1 Translation of transactions in foreign currencies

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

2.4.2 Translation to the presentation currency

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

2.5 CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments include cash balances and time deposits with maturities of three months or less at the date of purchase. Interest on these balances is recorded on the accrual basis and included in Investment income. The carrying value of Cash and short-term investments approximates their fair value.

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) held-to-maturity financial assets, (iii) loans and receivables and (iv) available-for-sale financial assets. Management determines the classification at initial recognition.

(i) FVTPL

A financial asset is classified at FVTPL if it is classified as 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 on the Consolidated Statement of Operations as incurred. FVTPL financial assets are measured at fair value, and changes therein are recognised in Investment income on the Consolidated Statement of Operations. Dividends earned on equities are recorded in Investment income on the Consolidated Statement of Operations.

(ii) Held-to-maturity financial assets

If the Group has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Amortisation of premiums and accretion of discounts are included in Investment income on the Consolidated Statement of Operations.

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

(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, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

For the purposes of this classification, Loans and receivables are comprised of Mortgages and loans, Receiv-

ables from reverse repurchase transactions, Interest and dividends receivable, Receivable for investments sold and Other receivables in Other assets on the Consolidated Balance Sheet.

Receivables from reverse repurchase transactions are carried at their initial acquisition cost with the difference between the acquisition cost and the selling price being recognised as Investment income on the Consolidated Statement of Operations. Reverse repurchase transactions are short-term holdings and are secured by collateral.

Interest and dividends receivable, Receivable for investments sold and Other receivables in Other assets are short-term in nature and their carrying values approximate their fair values.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are not classified in any of the previous categories. Certain equity securities of the Group are classified as available-for-sale financial assets. These equities are subsequently carried at fair value except unquoted equities, which are carried at cost. Changes in fair value other than impairment losses are recognised in Other comprehensive income and presented on the Consolidated Statement of Comprehensive Income/(Loss). When an investment is derecognised, the cumulative gain or loss in Other comprehensive income is transferred to the Consolidated Statement of Operations. Dividends earned on equities are recorded in Investment income on the Consolidated Statement of Operations.

The Group initially recognises loans and receivables at their date of inception. All other financial assets (including assets designated at FVTPL) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. Balances pending settlement as a result of sales and purchases are reflected on the Consolidated Balance Sheet as Receivable for investments sold and Payable for investments purchased.

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 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.

2.6.2 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 at initial recognition.

(i) FVTPL

The Group's financial liabilities at FVTPL relate to deposit accounted annuity policies shown under Investment contract liabilities on the Consolidated Balance Sheet. 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 Statement of Operations (Note 2.9.2).

(ii) Other financial liabilities

All remaining financial liabilities are classified as other financial liabilities which include Investment contract liabilities related to the deposit administration pension plans and self-funded group health policies (Note 2.9.2), Payable for investments purchased, Loan 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 these financial liabilities are measured at amortised cost using the effective interest method.

Payable for investments purchased, Accounts payable and accrued liabilities are considered short-term payables with no stated interest. The carrying amounts approximate fair value at the reporting date.

The Group initially recognised Loan payable on the date that it originated. 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 on the Consolidated Statement of Operations as incurred. These investments in derivative instruments are subsequently carried at estimated fair value. Changes in the estimated fair value of instruments that do not qualify for hedge accounting are recognised in Investment income on the Consolidated Statement of Operations. The Group does not hold any derivatives classified as hedging instruments. Derivative financial assets and liabilities are reported net under Investments on the Consolidated Balance Sheet.

2.6.4 Investment income

Interest is recorded as it accrues, using the effective interest method, in Investment income on the Consolidated Statement of Operations. 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.

2.7 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 estimated on the 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) Held-to-maturity financial assets and Loans and receivables

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

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

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

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 Statement of Operations in Investment income. The cumulative loss 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 on the Consolidated Statement of Operations. Impairment losses on available-for-sale equity securities are not reversed.

2.7.1 (c) Investment in associates

When there is objective evidence that an Investment in an associate is impaired, an impairment loss is measured by comparing the recoverable amount of the investment with its carrying value. The recoverable amount is determined in accordance with Note 2.7.2.

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

2.7.2 Impairment of non-financial assets

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

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

If objective evidence of impairment exists, then the asset's recoverable amount is estimated. An impairment loss is recognised in Amortisation, depreciation and impairment on the Consolidated Statement of Operations if the carrying amount of an asset exceeds its estimated recoverable amount. The recoverable amount of an asset is the greater of its value-in-use and its fair value less costs to sell. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Assets which 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 INVESTMENT PROPERTIES

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

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

2.9 INSURANCE CONTRACTS AND INVESTMENT CONTRACTS

2.9.1 Insurance contracts

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

2.9.1 (a) Premiums and acquisition costs

Premiums written from the Group's Property and casualty and Insured employee benefits operating segments as defined in Note 2.18 are recognised as revenue 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 are included in Insurance contract liabilities on the Consolidated Balance Sheet. Life and annuity premiums are recognised as income when due.

Costs relating to the acquisition of property and casualty and insured employee benefits premiums are charged to income over the period of the policy. Acquisition costs are comprised of commissions and those associated with unearned premiums are deferred and are amortised to income over the periods in which the premiums are earned. This is shown as Deferred policy acquisition costs on the Consolidated Balance Sheet. Policy acquisition costs related to unearned premiums are only deferred to the extent that they can be expected to be recovered from the unearned premiums. If the unearned premiums are insufficient to pay expected claims and expenses, a premium deficiency is recognised by writing down the deferred acquisition cost asset.

2.9.1 (b) Receivables and payables related to insurance contracts

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

Insurance balances receivable and Insurance balances payable are derecognised when the derecognition criteria for financial assets and financial liabilities, as described in Note 2.6 have been met.

2.9.1 (c) Reinsurance

Reinsurance ceded premiums comprise the cost of reinsurance contracts into which the Group has entered. Reinsurance premiums are recognised from the date the reinsurer has contracted to accept the risks and the amount of premium can be measured reliably. The provision for 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 Sheet. The Reinsurers' share of claims provisions are 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 Sheet. 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 Sheet.

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 as an expense on the Consolidated Statement of Operations in the period in which any impairment is determined.

2.9.1 (d) Insurance contract liabilities

Insurance contract liabilities shown on the Consolidated Balance Sheet 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 those 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 on the Consolidated Statement of Operations in the year in which they are determined.

Provision for unpaid and unreported claims are not discounted.

2.9.2 Investment contracts

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

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

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

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

(ii) Self-funded group health policies are refund accounting agreements which 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 type of policies are measured at amortised cost.

(iii) Deposit accounted annuity policies relate to policies which do not transfer significant insurance risk but transfer financial risk to the policyholders. These are measured at FVTPL.

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 Statement of Operations.

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

Buildings	2.5%
Computer equipment	20% – 33%
Furniture, equipment and leasehold improvements	10% – 15%

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 Statement of Operations.

2.11 INTANGIBLE ASSETS

Intangible assets include Customer lists and Website costs.

(i) Customer lists

These are finite intangible assets, which are initially measured at fair value by estimating the net present value of future cash flows from the contracts in force at the date of acquisition. These are amortised on a straight-line basis over their estimated useful lives, which range between 10 to 16 years.

(ii) Website costs

Website costs are charged as expenses when they are incurred, unless they relate to the acquisition or development of an asset, when they may be capitalised. Generally, costs in relation to feasibility studies during the planning phase of a website, and ongoing costs of maintenance during the operation phase are expensed. Costs incurred in building or enhancing a website, to the extent that they represent probable future economic benefits that can be reliably measured, are capitalised. Website costs are amortised on a straight-line basis over the estimated useful life, which is 3 years.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in Operating expenses on the Consolidated Statement of Operations as incurred.

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

2.12 SEGREGATED FUNDS

Segregated funds are lines of business in which the Group issues a contract where the benefit amount is directly linked to the fair value 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 contract holder has no direct access to the specific

assets, the contractual arrangements are such that the segregated fund policyholder bears the risk and rewards of the fund's investment performance. In addition, certain segregated fund contracts include a guaranteed rate of return.

Segregated funds are carried at fair value except for mortgages and policy loans which are carried at amortised cost and unpaid balance. Fair values are determined using quoted market values or, where quoted market values are not available, estimated fair values as determined by the Group. Segregated fund assets may not be applied against liabilities that arise from any other business of the Group. The investment results of the Segregated funds are reflected directly in Segregated fund liabilities except for Segregated funds with a guaranteed return where the excess or deficiency of the return on the assets over the guaranteed return is reflected in Investment income on the Consolidated Statement of Operations. For the Segregated funds where the benefit amount is directly linked to the fair value of the investments, the Group derives only fee income which is included within Commissions, management fees and other on the Consolidated Statement of Operations. Deposits to segregated funds are reported as increases in Segregated funds liabilities and are not reported as income on the Consolidated Statement of Operations.

2.13 EMPLOYEE BENEFITS

Post-employment benefits

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

Actuarial gains and losses are immediately recognised in Operating expenses on the Consolidated Statement of Operations.

Pensions

The Group 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 Statement of Operations under Operating expenses in the period to which they relate.

Stock-based compensation

The Group has two stock-based compensation plans for eligible employees, namely the Stock Option Plan and the Restricted Stock Plan.

The Stock Option Plan is accounted for under the fair value method. The fair value of stock-based awards is determined using the Black-Scholes option pricing model and is amortised over the applicable vesting period as compensation expense on the Consolidated Statement of Operations under Operating expenses and on the Consolidated Statement of Changes in Equity under Contributed surplus.

The Restricted Stock Plan is accounted for under the fair value method. The fair value of each share granted under the Restricted Stock Plan is based upon the market price at the date of grant. The estimated fair value is recognised as an expense pro-rata over the vesting period, adjusted for the impact of any non-market vesting conditions.

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

2.14 TAXATION

Current and deferred tax is recognised on the Consolidated Statement of Operations, except when it relates to items recognised in Other comprehensive income, in which case the current and deferred tax is also recognised in Other comprehensive income.

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

Deferred tax is generally recognised for all temporary differences. Deferred tax assets are recognised to the extent

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

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

2.15 SHARE CAPITAL

Common shares

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

Treasury shares

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

2.16 LEASES

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

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

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

2.17 EARNINGS PER SHARE

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

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

2.18 SEGMENT REPORTING

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The Group is organised into operating segments based on their products, services and location. These operating segments mainly operate in the financial services industry and reflect the management structure and internal financial reporting of the Group. All operating segments' results are reviewed regularly by the Group's Chief Executive Officer (CEO) to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Revenue from the operating segments is derived primarily from insurance premium, fees and commission income, investment income and fair value gains and losses on investments.

The Group has four reportable segments as follows:

(i) Insured employee benefits – including group health, life and long-term disability and employer's indemnity coverage;

(ii) Life and pensions – including individual life insurance, annuities and group retirement income plans;

(iii) Property and casualty – including fire and windstorm (home and commercial property), all risks, liability, marine and motor coverage in Bermuda, Gibraltar and Malta; and

(iv) All other – representing the combined operations of the remaining components of the Group comprising two management companies, a holding company and an investment management services company.

At March 31, 2013, the Group changed the reportable segment of the holding company. Previously, this was reported under Property and casualty. This was changed to All other to better align the reportable segments with the Group internal reporting structure.

2.19 NEW ACCOUNTING PRONOUNCEMENTS

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 2014 and beyond is as follows:

TOPIC	EFFECTIVE DATE FOR THE GROUP	EXPECTED IMPACT
Amendments to IAS 19, Employee Benefits	April 1, 2013	Could have a significant impact on net earnings
IFRS 13, Fair Value Measurement	April 1, 2013	No significant impact
IFRS 10, IFRS 12 and amendments to IAS 27, IAS 28 regarding consolidation, disclosures and related matters	April 1, 2013	No significant impact, with the exception of IFRS 10, where impact assessment is in progress
Amendments to IAS 1, Presentation of Financial Statements	April 1, 2013	No significant impact
Amendments to IFRS 7, Financial Instruments: Disclosure	April 1, 2013	No significant impact
Amendments to IAS 32, Financial Instruments: Presentation	April 1, 2014	Impact assessment in progress
IFRS 9, Financial Instruments	On or after April 1, 2015	Impact assessment in progress
IFRS 4, Insurance Contracts (Phase II)	Expected to be effective not earlier than 2018	Impact assessment in progress based on revised exposure draft

Amendments to IAS 19, Employee Benefits (IAS 19)

The amendments to IAS 19 were issued in June 2011. The amendments require full recognition of actuarial gains and losses in Other comprehensive income when they occur and are no longer recognised on the Consolidated Statement of Operations. Past service costs will be recognised when a plan is amended with no deferral over the vesting period. The service cost and finance cost components will continue to be recognised on the Consolidated Statement of Operations. Finance costs will be calculated using interest rates based on high quality corporate bond yields. Furthermore, the amendments include enhanced disclosures about the characteristics of the benefits and the risks to which the entity is exposed through participation in those benefits.

Upon adoption, the net cumulative actuarial loss arising from the Group's own defined benefit liability, amounting to $2.4 million as of March 31, 2013, will be reclassified from Retained earnings to Accumulated other comprehensive income. In addition, upon adoption, the Group's Investment in an associate with a defined benefit liability is expected to result in a decrease in the Group's equity of approximately $1.1 million.

IFRS 13, Fair Value Measurement (IFRS 13)

IFRS 13 was issued in May 2011 and replaces existing IFRS guidance on fair value measurement with a single standard.

IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value. The adoption of IFRS 13 will result in additional financial statement disclosure but is not expected to have a significant impact on the consolidated financial statements of the Group.

IFRS 10, Consolidated Financial Statements (IFRS 10), including:

Amendments to IAS 27, Separate Financial Statements (IAS 27)

IFRS 12, Disclosure of Interests in Other Entities (IFRS 12)

Amendments to IAS 28, Investments in Associates (IAS 28)

IFRS 10, amendments to IAS 27, IFRS 12 and amendments to IAS 28 were all issued in May 2011 to improve consolidation accounting.

IFRS 10 replaces the consolidation guidance in IAS 27 and Standing Interpretations Committee 12, Consolidation – Special Purpose Entities, by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee. Under IFRS 10, control is based on whether an investor has 1) power over the investee; 2) exposure, or rights, to variable returns from its involvement with the investee; and 3) the ability to use its power over the investee to affect the amount of the returns. The Group is evaluating the impact of adopting IFRS 10 on the Segregated funds. Specific issues under discussion and interpretation internationally related to segregated funds include how to assess variable returns, how the level of legal segregation of a segregated fund would influence the consolidation assessment, and the presentation of a segregated fund on the consolidated financial statements if it is concluded that a fund should be consolidated.

IFRS 12 requires enhanced disclosures about both consolidated and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to present information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvement with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of consolidated entities. The adoption of IFRS 12 will result in additional financial statement disclosure but is not expected to have a significant impact on the consolidated financial statements of the Group.

IAS 28 is amended for conforming changes based on the issuance of IFRS 10 and IFRS 12 and the adoption of these amendments is not expected to have a significant impact on the consolidated financial statements of the Group.

Amendments to IAS 1, Presentation of Financial Statements (IAS 1)

An amendment to IAS 1 was issued in June 2011 requiring changes to the presentation of items within Other comprehensive income. Under the amendments, presentation of items within Other comprehensive income will be separately presented based on whether or not the item will be subsequently reclassified into the Consolidated Statement of Operations. The adoption of these amendments is not expected to have a significant impact on the consolidated financial statements of the Group.

Amendments to IFRS 7, Financial Instruments: Disclosure (IFRS 7)

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g. collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on the entity's financial position. The new disclosures are required for all recognised financial instruments that are set-off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set-off in accordance with IAS 32. These amendments will not have a significant impact on the Group's financial position or performance.

Amendments to IAS 32, Financial Instruments: Presentation (IAS 32)

The amendments to IAS 32, issued in December 2011, clarify the basis for offsetting financial instruments presented on the Consolidated Balance Sheet. The amendments to IAS 32 are effective for fiscal years beginning on or after January 1, 2014. The Group is currently assessing the impact of these amendments on its consolidated financial statements.

IFRS 9, Financial Instruments (IFRS 9)

IFRS 9 was issued in November 2009 and amended in October 2010, and is the first phase of a three-phase project to replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 currently provides that financial assets are measured at either amortised cost or fair value on the basis of the entity's business model for managing the

financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement for financial liabilities remains generally unchanged. However, revisions have been made to the accounting for changes in fair value of a financial liability attributable to changes in the credit risk of that liability. The other phases of this project, which are currently under development, include impairment and hedge accounting.

The Group is currently assessing the impact of IFRS 9 on its consolidated financial statements.

IFRS 4, Insurance Contracts (IFRS 4)

IFRS 4, issued in March 2004, specifies the financial reporting for insurance contracts by an insurer. The current standard is Phase I in the IASB's insurance contract project and does not specify the recognition or measurement of insurance contracts. This will be addressed in Phase II of the IASB's and the U.S. Financial Accounting Standards Board's (FASB) joint project.

In July 2010 the IASB issued its Insurance Contracts (Phase II) Exposure Draft and the FASB issued its Insurance Contract Discussion paper. The insurance contract project is considered a "joint project" whereby the IASB and FASB (the Boards) discuss common research papers. A due process step for joint projects also involves assessing differences recognised by the two Boards and determining if they can be resolved.

In June 2013, the IASB issued a revised exposure draft of its proposals, with a 120 day comment period. Since publishing its first exposure draft in July 2010, the IASB has undertaken extensive outreach activities with a broad range of stakeholders. Industry concerns that the proposed measurement model would increase the volatility of reported results when compared with most current models have been a central theme for the IASB's discussions.

The final standard is not likely to be issued until the second half of 2014 and is not expected to be effective before January 1, 2018.

The draft proposals include a number of significant changes in the measurement and disclosure of insurance contracts. The Group will continue to monitor the progress of the project in order to assess the potential impact the new standard will have on its results and the presentation and disclosure thereof.

3 INVESTMENTS

3.1 Carrying values and estimated fair values of investments are as follows:

	MARCH 31, 2013		MARCH 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Investments at FVTPL				
Bonds	151,248	151,248	79,974	79,974
Equities	49,049	49,049	45,597	45,597
	200,297	200,297	125,571	125,571
Held-to-maturity				
Bonds	5,237	5,340	6,046	6,006
	5,237	5,340	6,046	6,006
Available-for-sale				
Equities	3,704	3,704	4,177	4,177
	3,704	3,704	4,177	4,177
Loans and receivables				
Mortgages and loans	41,236	41,835	46,650	47,533
Receivables from reverse repurchase transactions	-	-	2,700	2,700
Policy loans	66	66	61	61
	41,302	41,901	49,411	50,294
Derivatives				
Interest rate swaps	5	5	(45)	(45)
Foreign currency forward contracts	(27)	(27)	(92)	(92)
	(22)	(22)	(137)	(137)
TOTAL INVESTMENTS	250,518	251,220	185,068	185,911

Fair values for bonds in active markets are determined using quoted prices provided by third party independent pricing sources.

Fair values for equities are generally determined by quoted prices from the exchange where it is principally traded. Fair values for equities for which there is no active market are carried at cost, net of any provision for losses. Fair values for investments in hedge funds and private equity funds are derived using net asset values from the investment manager or general partner of the respective entity.

Fair values for Mortgages and loans are determined by discounting expected future cash flows using current market rates. Receivables from reverse repurchase transactions are carried at their initial acquisition cost with the difference between the acquisition cost and the selling price being recognised as Investment income on the Consolidated Statement of Operations. Reverse repurchase transactions are short-term holdings and are secured with collateral. The carrying value approximates fair value.

Derivative financial instruments derive their value from the underlying instrument and are subject to the same risks as that underlying instrument, including liquidity, credit and market risk. Estimated fair values are based on exchange or broker-dealer quotations, where available, or discounted cash flow models, which incorporate the pricing of the underlying instrument, yield curves and other factors.

3.2 FINANCIAL ASSETS MEASURED AT FAIR VALUE ON THE CONSOLIDATED BALANCE SHEET

The Group uses the following hierarchy for determining fair value of financial instruments by valuation techniques:

Level 1 – Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market. The investments classified as Level 1 include U.S. Treasury securities and exchange-traded equities.

Level 2 – Fair value is based on quoted prices for similar assets or liabilities in active markets. The valuation is based on significant observable inputs or inputs that are derived principally from or corroborated by observable market data through correlation or other means. The investments classified as Level 2 include investments in hedge funds, mutual funds and all exchange-traded bonds except U.S. Treasury securities.

Level 3 – Fair value is based on valuation techniques that require one or more significant inputs that are not based on observable market inputs. These unobservable inputs reflect the Group's assumptions about the market participants in pricing the investments. The investments classified as Level 3 include investments in private equity funds and unquoted equities.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

MARCH 31, 2013	Level 1	Level 2	Level 3	Total
Investments at FVTPL				
Bonds				
US government and agency	30,583	16,171	-	46,754
Other government and agency	-	8,413	-	8,413
Corporate	-	63,415	-	63,415
Mortgage/asset-backed securities	-	13,291	-	13,291
Other [(1)]	-	19,375	-	19,375
Equities				
Bermuda listed equities	22,176	-	-	22,176
Non-Bermuda listed equities	6,104	-	-	6,104
Investment in hedge funds and mutual funds	-	20,589	-	20,589
Private equity funds and unquoted equities	-	-	180	180
	58,863	141,254	180	200,297
Available-for-sale – equities				
Bermuda listed equities	-	-	-	-
Non-Bermuda listed equities	-	-	-	-
Investment in hedge funds and mutual funds	-	-	-	-
Private equity funds and unquoted equities	-	-	3,704	3,704
Derivatives	-	(22)	-	(22)
TOTAL INVESTMENTS AT FAIR VALUE	58,863	141,232	3,884	203,979

(1) Investment in bond funds

MARCH 31, 2012	Level 1	Level 2	Level 3	Total
Investments at FVTPL				
Bonds				
US government and agency	14,920	9,558	-	24,478
Other government and agency	-	4,618	-	4,618
Corporate	-	36,427	-	36,427
Mortgage/asset-backed securities	-	12,082	-	12,082
Other [1]	-	2,369	-	2,369
Equities				
Bermuda listed equities	21,070	-	-	21,070
Non-Bermuda listed equities	5,021	-	-	5,021
Investment in hedge funds and mutual funds	-	18,166	-	18,166
Private equity funds and unquoted equities	-	-	1,340	1,340
	41,011	83,220	1,340	125,571
Available-for-sale – equities				
Private equity funds and unquoted equities	-	-	4,177	4,177
Derivatives	-	(137)	-	(137)
TOTAL INVESTMENTS AT FAIR VALUE	41,011	83,083	5,517	129,611

[1] Investment in bond funds

Included within Bonds – Other and Equities – Investment in hedge funds and mutual funds are $25.3 million of investments in Argus Investment Strategies Fund Ltd. This fund has been classified between Bonds and Equities based on the underlying securities held. Valuation is performed on a weekly basis and investors are able to redeem the shares weekly, unless the value of redemption is more than 10 percentage of the net asset value of the fund, when the amount of the redemption is at the fund's discretion.

The following table shows a reconciliation of the beginning and ending balances for financial assets which are categorised at Level 3.

MARCH 31, 2013	INVESTMENTS		
	At FVTPL	Available-for-sale	
	Equities	Equities	Total
Balance, beginning of year	1,340	4,177	5,517
Included in Investment income	-	-	-
Included in Other comprehensive income	-	24	24
Purchases	-	-	-
Sales	(1,160)	(497)	(1,657)
BALANCE, END OF YEAR	180	3,704	3,884

FOR THE YEAR ENDED MARCH 31, 2012	INVESTMENTS		
	At FVTPL	Available-for-sale	
	Equities	Equities	Total
Balance, beginning of year	1,326	4,347	5,673
Included in Investment income	-	36	36
Included in Other comprehensive income	-	(35)	(35)
Purchases	14	299	313
Sales	-	(470)	(470)
BALANCE, END OF YEAR	1,340	4,177	5,517

3.3 RECEIVABLES FROM REVERSE REPURCHASE TRANSACTIONS

The Group's investment in reverse repurchase agreement contracts are commitments to resell bonds purchased at a higher price at a specific future date. Reverse repurchase transactions expose the Group to credit risk from the potential inability of counterparties to perform under the terms of the contract. The risk is mitigated by credit risk evaluation of the counterparty and holding the securities purchased as collateral. Under these agreements, the Group received $2.7 million on April 2, 2012. The Group has $nil investment in reverse repurchase agreement contracts at March 31, 2013. Market and liquidity risks and how these risks are mitigated are disclosed in Note 13.3.

3.4 DERIVATIVE FINANCIAL INSTRUMENTS

The Group's investment guidelines permit the investment managers to utilise derivative financial instruments such as foreign currency futures, interest rate swaps and foreign currency forwards for yield enhancement, duration management, interest rate and foreign currency exposure management or to obtain an exposure to a particular financial market. These positions are monitored regularly. The Group principally has exposure to derivatives related to foreign currency risk, interest rate risk and credit risk.

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

FOR THE YEARS ENDED MARCH 31	2013	2012
Derivative financial instruments		
Money market futures	-	(30)
Interest rate swaps	160	(371)
Foreign currency forward receivable	237	(1,013)
TOTAL NET INCOME/(LOSSES) FROM DERIVATIVE FINANCIAL INSTRUMENTS	397	(1,414)

3.4.1 Money Market Futures

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

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

Liquidity risk represents the possibility that the Group may not be able rapidly to 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 settlement of unrealised gains and losses and counterparty credit risk evaluation. Credit, market and liquidity risks and how these risks are mitigated are disclosed in Note 13.3.

At March 31, 2013, the notional amount of outstanding money market futures amounted to $2.5 million (2012 – $2.5 million).

3.4.2 Interest Rate Swaps

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

Interest rate swap agreements entail the exchange of commitments to pay or receive interest, such as an exchange of floating rate payments for fixed rate payments, with respect to a notional amount of principal. These agreements involve elements of credit and market risk. Such risks include the possibility that there may not be a liquid market, that the counterparty may default on its obligation to perform or that there may be unfavourable movements in

interest rates. Credit risk is mitigated by making collateral calls to mitigate exposure and counterparty credit risk evaluation. Credit, market and liquidity risks and how these risks are mitigated are disclosed in Note 13.3.

At March 31, 2013, the Group has open interest rate swaps with long positions of $500,000 and short positions of $3.0 million (2012 – long positions of $nil and short positions of $nil).

3.4.3 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 utilise foreign currency forward contracts to manage the impact of fluctuations in foreign currencies on the value of its foreign currency denominated investments or to gain exposure to a certain currency or market rate. Forward contracts may expose the Group to credit, market and liquidity risks. Credit risk arises from the potential inability of counterparties to perform under the terms of the contract. The Group is exposed to market risk to the extent that adverse changes occur in the exchange rate of the underlying foreign currency. Liquidity risk represents the possibility that the Group may not be able rapidly to adjust the size of its forward positions at a reasonable price in times of high volatility and financial stress. 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 13.3.

The Group had the following open foreign currency forward contracts:

	MARCH 31, 2013	
	Notional receivable	Notional payable
Australian dollar	1,847	-
Canadian dollar	1,096	-
Euro	1,113	545

	MARCH 31, 2012	
	Notional receivable	Notional payable
Australian dollar	1,748	-
Canadian dollar	1,102	-
Euro	1,134	-
Chinese Yuan	9,625	9,625
Indian Rupee	7,720	7,720
Japanese Yen	14,001	-
Malaysian Ringgit	1,001	1,001

At March 31, 2013, the U.S. dollar equivalent of outstanding foreign currency forward contracts with long positions and short positions amounted to $4.4 million and $700,000 respectively (2012 – $4.8 million and $2.0 million).

3.5 INVESTMENT INCOME

FOR THE YEARS ENDED MARCH 31	2013	2012
Interest income		
Bonds – at FVTPL	6,505	6,557
Bonds – held-to-maturity	344	364
Mortgages and loans	2,680	3,116
Cash and other	195	648
	9,724	10,685
Dividend income		
Equities – at FVTPL	1,380	1,264
Equities – available-for-sale	322	360
	1,702	1,624
Net realised gains/(losses) on sale of investments		
Bonds – at FVTPL	3,456	2,830
Equities – at FVTPL	358	(2,857)
Equities – available-for-sale	-	35
Derivative financial instruments	272	(1,174)
	4,086	(1,166)
Other		
Amortisation of premium on bonds	(1,160)	(1,141)
Rental income and other	884	1,317
Recovery of previously recognised impairment loss/(impairment loss)		
Bonds – held-to-maturity	208	(310)
Mortgages and loans	(2,823)	(401)
	(2,891)	(535)
INVESTMENT INCOME BEFORE DEDUCTIONS AND CHANGE IN FAIR VALUE	12,621	10,608
Deductions		
Investment income relating to Deposit administration pension plans	(830)	(4,084)
Investment income relating to Segregated funds with guaranteed return	(2,517)	-
	(3,347)	(4,084)
Change in fair value arising from		
Bonds	2,679	4,204
Equities	3,745	(407)
Derivative financial instruments	125	(240)
Investment property	(24)	8
	6,525	3,565
INVESTMENT INCOME	15,799	10,089

4 INVESTMENT IN ASSOCIATES

The Group holds equity interests in certain companies incorporated in Bermuda and has significant influence over the operational and financial policies of these companies.

Investment in associates is comprised of:

FOR THE YEARS ENDED MARCH 31	2013	2012
Investment in other associates	11,918	11,404
Investment in Northstar Group Holdings, Ltd.	-	-[1]
TOTAL INVESTMENT IN ASSOCIATES	11,918	11,404

[1] See Note 4.2

Proportionate share of earnings/(loss) of associates for the year is as follows:

FOR THE YEARS ENDED MARCH 31	2013	2012
Investment in other associates	714	(1,580)
Investment in Northstar Group Holdings, Ltd.	-	(10,617)
TOTAL SHARE OF EARNINGS/(LOSS) OF ASSOCIATES	714	(12,197)

Summarised financial information of the Group's associates is as follows:

FOR THE YEARS ENDED MARCH 31	2013	2012
Assets	67,122	66,888
Liabilities	26,241	27,121
Net assets	40,881	39,767
Revenue	52,809	45,938
Net income (loss)	1,990	(4,035)

Whilst the Group has 40% ownership of a local private company, it has no significant influence over the company's operational and financial policies due to restrictive voting rights. This investment is included in Note 3 under Available-for-sale equities and is recorded at cost.

4.1 INVESTMENT IN OTHER ASSOCIATES

$8.3 million (2012 – $8.1 million) of the Group's Investment in other associates relates to an investment in an associate whose shares are publicly traded. The fair value of the Group's interest based on the market price of the associate's shares is $4.5 million (2012 – $4.1 million). As the fair value is lower than the equity of the Investment in other associate, an impairment review and evaluation on the going concern basis was performed. The Group believes that the recoverable amount of the investment using the value-in-use method is higher than the published fair value because the market price continues to reflect ongoing uncertainty and volatility to the local economy as opposed to the fundamental long-term value of this investment. The recoverable amount under the value-in-use method is also higher than the equity of the Investment in associate.

During 2012, the associate discontinued certain operations of which the Group's share was a net loss of $410,000.

4.2 INVESTMENT IN NORTHSTAR GROUP HOLDINGS, LTD. (NGH)

During fiscal 2011, the Group obtained significant influence over NGH through an increase in voting rights as part of an agreement whereby, inter alia, the $16.8 million of promissory notes previously due to this affiliate were cancelled; effectively reducing the cost of this investment from $50 million to $33.2 million. This value, in the opinion of management, then approximated its fair value as at March 31, 2011, when the investment was re-classified from Equities-available-for-sale to Investment in associates on the Consolidated Balance Sheet.

NGH is a holding company and its wholly owned subsidiary, Northstar Reinsurance Ireland Limited (NRIL), transacted life reinsurance business. No new treaties had been written since 2006 and all treaties were closed to new business several years ago.

Under the terms of NGH's shareholder agreement each shareholder is required to cover a shortfall arising from any other shareholder's inability to meet their obligation. In late 2011 negotiations were concluded with a third party to novate one treaty and recapture the second. NRIL then ceased to do business and has now been placed into Members' voluntary liquidation.

There are various financial commitments due to NGH from other shareholders which are collateralised by various assets. These assets include holdings in hedge funds and equities, the valuation of which is inherently uncertain and, in the case of one major shareholder, events have suggested the charged assets may realise values that will not be sufficient to satisfy their obligations. The ultimate distribution of capital to the Group is dependent on the collection of the amounts due. During the year ended March 31, 2012, management had determined that the value of the investment in NGH should be treated as impaired to the extent of the likely inability of this one shareholder to meet its aforementioned obligations.

The Group's proportionate share of this obligation is $10.6 million and this write down has been reflected in the Share of (loss)/earnings of associates on the Consolidated Statement of Operations for the year ended March 31, 2012. The Group intends to pursue the recovery of this write down to the fullest extent under law.

Prior to March 31, 2012, and following the receipt of interim distributions from contributed surplus to NGH shareholders, Argus received $20.6 million in cash. The residual balance of the Investment in NGH is now represented by a fully collateralised and performing three-year loan of $2 million to another NGH shareholder which is included under Mortgages and loans on the Consolidated Balance Sheet.

5 INSURANCE BALANCES RECEIVABLE

Insurance balances receivable is comprised of:

MARCH 31, 2013	Insured Employee Benefits	Life and Pensions	Property and Casualty	Total
Due from policyholders, agents and brokers	8,948	1,062	6,687	16,697
Due from reinsurers	1,772	-	-	1,772
TOTAL INSURANCE BALANCES RECEIVABLE	10,720	1,062	6,687	18,469

MARCH 31, 2012	Insured Employee Benefits	Life and Pensions	Property and Casualty	Total
Due from policyholders, agents and brokers	6,893	1,540	8,806	17,239
Due from reinsurers	1,975	2,950	-	4,925
TOTAL INSURANCE BALANCES RECEIVABLE	8,868	4,490	8,806	22,164

6 INVESTMENT PROPERTIES

	Fair value
Balance, March 31, 2011	7,006
Additions	-
Fair value gains and losses	8
Foreign exchange rate movements	(4)
Balance, March 31, 2012	7,010
Additions	-
Fair value gains and losses	(24)
Foreign exchange rate movements	(50)
BALANCE, MARCH 31, 2013	6,936

The Group's investment properties consist of a residential apartment and condominium fractional units which are held for rental income. Investment properties are stated at fair value.

The valuations of the investment properties were performed as at March 31, 2013, and March 31, 2012, by industry specialists who have recent experience in the location and category of the investment property being valued.

The Group enters into operating leases for certain investment properties. The rental income arising during the year amounted to $152,000 (2012 – $234,000), which is included in Investment income on the Consolidated Statement of Operations. Direct operating expenses included within Investment income arising in respect of such properties during the year were $251,000 (2012 – $220,000).

There are no restrictions on the realisability of investment properties or the remittance of income and proceeds of disposal. The Group has no contractual obligations to purchase, construct or develop the investment properties other than normal service charge arrangements.

7 OTHER ASSETS

FOR THE YEARS ENDED MARCH 31	2013	2012
Other financial assets		
Fees receivable	1,559	1,634
Receivable from self-funded group health policies	2,653	1,851
Receivable for investments sold	366	-
Notes and other receivables	1,465	1,258
TOTAL OTHER FINANCIAL ASSETS	6,043	4,743
Income tax receivable	230	140
Prepaid expenses	1,709	2,200
TOTAL OTHER ASSETS	7,982	7,083

Carrying amounts approximate fair value due to the short-term nature of these assets.

8 DEFERRED POLICY ACQUISITION COSTS

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

FOR THE YEARS ENDED MARCH 31	2013	2012
Balance, beginning of year	2,295	2,135
Deferral during the year	3,873	3,555
Expense for the year	(3,885)	(3,390)
Foreign exchange rate movements	(101)	(5)
BALANCE, END OF YEAR	2,182	2,295

9 PROPERTY AND EQUIPMENT

	Land and buildings	Computer equipment	Furniture and other equipment	Total
Gross carrying amount				
Balance, March 31, 2011	76,929	25,869	6,914	109,712
Additions	1,639	1,581	34	3,254
Foreign exchange rate movements	(1)	(2)	(2)	(5)
Balance, March 31, 2012	78,567	27,448	6,946	112,961
Additions	556	1,117	66	1,739
Retirements	-	(38)	(43)	(81)
Foreign exchange rate movements	(38)	(34)	(29)	(101)
BALANCE, MARCH 31, 2013	79,085	28,493	6,940	114,518
Accumulated depreciation				
Balance, March 31, 2011	9,626	17,913	5,419	32,958
Depreciation charge for the year	2,475	1,674	210	4,359
Foreign exchange rate movements	(1)	(2)	(1)	(4)
Balance, March 31, 2012	12,100	19,585	5,628	37,313
Depreciation charge for the year	2,715	2,741	182	5,638
Retirements	-	(38)	(43)	(81)
Foreign exchange rate movements	(26)	(31)	(14)	(71)
BALANCE, MARCH 31, 2013	14,789	22,257	5,753	42,799
Net carrying amount, end of year				
As at March 31, 2012	66,467	7,863	1,318	75,648
AS AT MARCH 31, 2013	64,296	6,236	1,187	71,719

10 INTANGIBLE ASSETS

Intangible assets are comprised of:

	Website costs	Customer lists	Total
Gross carrying amount			
Balance, March 31, 2011	-	24,457	24,457
Additions [1]	-	251	251
Foreign exchange adjustments	-	(57)	(57)
Balance, March 31, 2012	-	24,651	24,651
Additions	66	-	66
Foreign exchange adjustments	-	(217)	(217)
BALANCE, MARCH 31, 2013	66	24,434	24,500
Accumulated amortisation and impairment losses			
Balance, March 31, 2011	-	16,489	16,489
Amortisation charge for the year	-	991	991
Subsequent adjustment to acquisition price [2]	-	401	401
Foreign exchange adjustments	-	(17)	(17)
Balance, March 31, 2012	-	17,864	17,864
Amortisation charge for the year	-	1,031	1,031
Impairment loss	-	158	158
Foreign exchange adjustments	-	(73)	(73)
BALANCE, MARCH 31, 2013	-	18,980	18,980
Net carrying amount, end of year			
As at March 31, 2012	-	6,787	6,787
AS AT MARCH 31, 2013	66	5,454	5,520

[1] During the year, a subsidiary within the Life and annuity operating segment purchased rights to customer lists.
[2] Arising from the acquisition of Fogg Insurance Agencies Limited.

11 INSURANCE CONTRACT LIABILITIES

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

MARCH 31, 2013	*Note*	Gross	Ceded	Net
Life and annuity policy reserves	*11.1*	146,731	(7,942)	138,789
Provision for unpaid and unreported claims	*11.2*	33,722	(6,059)	27,663
		180,453	(14,001)	166,452
Unearned premiums	*11.3*	17,691	(10,202)	7,489
TOTAL INSURANCE CONTRACT LIABILITIES		198,144	(24,203)	173,941

MARCH 31, 2012	*Note*	Gross	Ceded	Net
Life and annuity policy reserves	*11.1*	142,325	(7,181)	135,144
Provision for unpaid and unreported claims	*11.2*	29,048	(4,392)	24,656
		171,373	(11,573)	159,800
Unearned premiums	*11.3*	19,559	(10,860)	8,699
TOTAL INSURANCE CONTRACT LIABILITIES		190,932	(22,433)	168,499

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:

MARCH 31, 2013	Insured employee benefits	Life and pensions	Total
Annuities	-	120,977	120,977
Long-term disability	6,498	-	6,498
Life	-	19,256	19,256
Life and annuity policy reserves	6,498	140,233	146,731
Reinsurers' share of claims provisions	(4,790)	(3,152)	(7,942)
LIFE AND ANNUITY POLICY RESERVES, NET OF REINSURANCE	1,708	137,081	138,789

MARCH 31, 2012	Insured employee benefits	Life and pensions	Total
Annuities	-	117,679	117,679
Long-term disability	5,719	-	5,719
Life	-	18,927	18,927
Life and annuity policy reserves	5,719	136,606	142,325
Reinsurers' share of claims provisions	(4,115)	(3,066)	(7,181)
LIFE AND ANNUITY POLICY RESERVES, NET OF REINSURANCE	1,604	133,540	135,144

The majority of the Life and annuity policy reserves relate to policies issued to individuals domiciled in Bermuda. The Reinsurer's share of claims provisions are not considered impaired as at year end.

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

MARCH 31, 2013	Cash	Bonds	Mortgage and loans	Equities [1]	Land and buildings	Total
Annuities	340	56,633	9,572	35,682	18,750	120,977
Long-term disability	-	-	1,708	-	-	1,708
Life	3,118	6,632	3,047	3,307	-	16,104
LIFE AND ANNUITY POLICY RESERVES, NET OF REINSURANCE	3,458	63,265	14,327	38,989	18,750	138,789

[1] Includes Investment in associates

MARCH 31, 2012	Cash	Bonds	Mortgage and loans	Equities [1]	Land and buildings	Total
Annuities	440	39,090	14,929	44,895	18,325	117,679
Long-term disability	-	-	1,604	-	-	1,604
Life	2,944	5,788	2,691	4,438	-	15,861
LIFE AND ANNUITY POLICY RESERVES, NET OF REINSURANCE	3,384	44,878	19,224	49,333	18,325	135,144

[1] Includes Investment in associates

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 $3.5 million (2012 – $1.8 million). These amounts are net of the impact of the reinsurance assets on policyholder liabilities of $7.9 million (2012 – $7.2 million).

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

FOR THE YEARS ENDED MARCH 31	2013	2012
Balance, beginning of year	135,144	129,263
Changes due to:		
Issuance of new policies	5,700	9,713
Normal in-force movement	(5,520)	(5,596)
Mortality/morbidity assumptions	-	(2,157)
Interest rate assumptions	3,159	2,780
Expense assumptions	306	1,141
BALANCE, END OF YEAR	138,789	135,144

11.1.1 Key Assumptions – Life and annuity policy reserves

ASSUMPTION, 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 would increase the policy reserves by $2.07 million, 1.68 percent (2012 – $1.98 million, 1.65 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.

ASSUMPTION, 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 one percent increase in the best estimate investment return assumption decreases the total Life and annuity policy reserves by $11.3 million (2012 – $11.1 million). A one percent decrease in the best estimate assumption increases the total Life and annuity policy reserves by $13.3 million (2012 – $13.0 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 $1.6 million (2012 – $1.0 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.
(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 $0.7 million (2012 – $0.7 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 shown by type of product and by reportable segment. The majority of these insurance contracts are of a short-term nature.

MARCH 31, 2013	Insured employee benefits	Property and casualty	Total
Healthcare	14,873	-	14,873
Fire	-	945	945
Motor	-	14,873	14,873
Accident and liability	-	2,968	2,968
Marine	-	63	63
Provision for unpaid and unreported claims	14,873	18,849	33,722
Reinsurers' share of claims provisions	(442)	(5,617)	(6,059)
PROVISION FOR UNPAID AND UNREPORTED CLAIMS, NET OF REINSURANCE	14,431	13,232	27,663

MARCH 31, 2012	Insured employee benefits	Property and casualty	Total
Healthcare	15,083	-	15,083
Fire	-	713	713
Motor	-	10,150	10,150
Accident and liability	-	2,653	2,653
Marine	-	449	449
Provision for unpaid and unreported claims	15,083	13,965	29,048
Reinsurers' share of claims provisions	(20)	(4,372)	(4,392)
PROVISION FOR UNPAID AND UNREPORTED CLAIMS, NET OF REINSURANCE	15,063	9,593	24,656

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

FOR THE YEARS ENDED MARCH 31	2013			2012		
	Provisions for unpaid and unreported claims	Reinsurers' share of claims provisions	Net	Provisions for unpaid and unreported claims	Reinsurers' share of claims provisions	Net
Balance, beginning of year	29,048	(4,392)	24,656	27,218	(5,112)	22,106
Claims and adjustment expenses incurred						
Current year	94,087	(6,104)	87,983	94,069	(5,737)	88,332
Prior years	(1,575)	(217)	(1,792)	(1,122)	(63)	(1,185)
Foreign exchange adjustments	(656)	167	(489)	(26)	6	(20)
Total Claims and adjustment expenses incurred	91,856	(6,154)	85,702	92,921	(5,794)	87,127
Claims and adjustment expenses paid						
Current year	(71,036)	3,317	(67,719)	(74,095)	4,380	(69,715)
Prior years	(16,146)	1,170	(14,976)	(16,996)	2,134	(14,862)
Total Claims and adjustment expenses paid	(87,182)	4,487	(82,695)	(91,091)	6,514	(84,577)
BALANCE, END OF YEAR	33,722	(6,059)	27,663	29,048	(4,392)	24,656

11.2.1 Key Assumptions – Provision for unpaid and unreported claims

ASSUMPTION, METHODOLOGY AND SENSITIVITIES	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 to 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 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 (e.g., hurricanes, earthquakes and flood damage). 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 balance sheet date, the provision is necessarily an estimate and claims may ultimately be settled for greater or lesser amounts. It is reasonably possible that management will revise this estimate significantly in the near term. Any subsequent differences are recorded in the Gross change in contract liabilities on the Consolidated Statement of Operations in the period in which they are determined.

11.2.2 Claims Development Table

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

The Group has taken advantage of the transitional rules of IFRS 4 that permit a first-time adopter to not disclose information about claims development that occurred earlier than five years before the end of the financial year in which it applies IFRS 4. This will be developed in each succeeding additional year, until ten years of information is included.

Gross claims:

Accident year:	2008 and prior	2009	2010	2011	2012	2013	Total
Estimate of ultimate liability [1]							
as at end of accident year	90,584	20,752	24,612	27,287	27,683	31,082	
one year later	91,090	23,856	24,838	26,937	27,218	-	
two years later	91,708	25,726	24,500	26,754	-	-	
three years later	93,703	25,275	24,169	-	-	-	
four years later	94,013	24,845	-	-	-	-	
five years later	93,649	-	-	-	-	-	
Current estimate of cumulative liability	93,649	24,845	24,169	26,754	27,218	31,082	227,717
Cumulative payments to date	(91,761)	(23,979)	(22,565)	(24,923)	(22,952)	(7,815)	(193,995)
TOTAL GROSS LIABILITY	1,888	866	1,604	1,831	4,266	23,267	33,722

Net claims:

Accident year:	2008 and prior	2009	2010	2011	2012	2013	Total
Estimate of net ultimate liability [1]							
as at end of accident year	56,440	18,207	22,192	23,530	24,383	27,003	
one year later	59,135	21,343	22,244	23,240	23,812	-	
two years later	59,638	21,423	21,530	23,244	-	-	
three years later	60,852	21,276	21,286	-	-	-	
four years later	60,926	21,200	-	-	-	-	
five years later	60,247	-	-	-	-	-	
Current estimate of net cumulative liability	60,247	21,200	21,286	23,244	23,812	27,003	176,792
Cumulative payments to date	(59,126)	(20,725)	(20,390)	(21,898)	(20,458)	(6,532)	(149,129)
TOTAL NET LIABILITY	1,121	475	896	1,346	3,354	20,471	27,663

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

11.3 UNEARNED PREMIUMS

FOR THE YEARS ENDED MARCH 31	2013			2012		
	Unearned premiums	Reinsurer's share of Unearned premiums	Net	Unearned premiums	Reinsurer's share of Unearned premiums	Net
Balance, beginning of year	19,559	10,860	8,699	19,436	10,463	8,973
Premiums written during the year	162,852	40,179	122,673	167,985	42,507	125,478
Premiums earned during the year	(164,720)	(40,837)	(123,883)	(167,862)	(42,110)	(125,752)
BALANCE, END OF YEAR	17,691	10,202	7,489	19,559	10,860	8,699

The Group is exposed to a pricing risk to the extent that unearned premiums are insufficient to meet the related future policy cost. Evaluations are performed regularly to estimate future claim costs, related expenses, and expected profit in relation to unearned premiums. There was no premium deficiency at March 31, 2013 or 2012.

12 INVESTMENT CONTRACT LIABILITIES

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

FOR THE YEARS ENDED MARCH 31	2013		2012	
	Carrying value	Fair value	Carrying value	Fair value
At amortised cost:				
Deposit administration pension plans	72,522	71,714	60,967	60,029
Self-funded group health policies	8,623	8,623	5,935	5,935
	81,145	80,337	66,902	65,964
At FVTPL:				
Deposit accounted annuity policies	2,787	2,787	2,862	2,862
TOTAL INVESTMENT CONTRACT LIABILITIES	83,932	83,124	69,764	68,826

12.1 INVESTMENT CONTRACT LIABILITIES AT AMORTISED COST

The fair value estimated for Investment contract liabilities carried at amortised cost is based on the following methods:

- Deposit administration pension plans – approximated by the fair value of the investments supporting the liability.
- Self-funded group health policies – the carrying value approximates the fair value due to the short-term nature of these investment contract liabilities.

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

FOR THE YEARS ENDED MARCH 31	*Note*	2013	2012
Balance, beginning of year		66,902	187,224
Deposits		68,954	81,792
Withdrawals		(54,072)	(69,872)
Transfer to segregated funds	*26*	-	(136,889)
Other net transfers		-	4,123
Fees deducted		(4,165)	(4,540)
Interest		838	3,931
Other		2,688	1,133
BALANCE, END OF YEAR		81,145	66,902

For the year ended March 31, 2013, the net loss relating to investment contracts measured at amortised cost is $1.6 million (2012 – net gain of $637,000).

12.2 INVESTMENT CONTRACT LIABILITIES AT FVTPL

Fair value of the 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. These investment contract liabilities are classified as Level 2 instruments in the fair value hierarchy. See Note 3.2 for a description of the hierarchy for determining fair value of financial instruments.

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

FOR THE YEARS ENDED MARCH 31	2013	2012
Balance, beginning of year	2,862	4,835
Included in net income [1]	(82)	(184)
Deposits	2,695	2,786
Withdrawals	(2,688)	(4,575)
BALANCE, END OF YEAR	2,787	2,862

[1] Amount is recorded under Change in contract liabilities on the Consolidated Statement of Operations.

For the year ended March 31, 2013, the net gain relating to Investment contract liabilities at FVTPL is $82,000 (2012 – gain of $184,000) and is recorded in Gross change in contract liabilities on the Consolidated Statement of Operations.

13 RISK MANAGEMENT

13.1 GOVERNANCE FRAMEWORK

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

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

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

13.2 OPERATIONAL RISK AND CAPITAL MANAGEMENT

13.2.1 Operational Risk

The Group adopted the Basel II and the Bermuda Monetary Authority's definition of operational risk. It is the risk of loss resulting from inadequate or failed processes or systems, people (human factors) or external events. This definition includes human error, fraud, malice and problems related to personnel management, accidents, fires, floods, failures of information systems, outsourcing, distribution channels, business continuity, compliance and legal risk but excludes strategic and reputational risk.

13.2.2 Capital Management

The Group's capital base is structured to exceed regulatory targets and desired capital ratios, maintain satisfactory credit ratings, align the profile of assets and liabilities taking account of risks inherent in the businesses, provide flexibility to take advantage of growth opportunities and provide an adequate return to shareholders. Capital is managed on a consolidated basis under principles that consider all the risks associated with the businesses. It is also managed at the operating segment level under the principles appropriate to the jurisdiction in which it operates.

Management monitors the adequacy of the Group and its operating subsidiaries' capital from the perspective of

Bermuda, Gibraltar and Malta statutory requirements. The Group maintained levels above the minimum local regulatory requirements at March 31, 2013 and 2012 as further described below. The Group's capital base consists of Share capital, Contributed surplus, Retained earnings and Accumulated other comprehensive loss as disclosed on the Consolidated Balance Sheet.

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

The Bermuda Insurance Act 1978 and Related Regulations, the Gibraltar Insurance Companies Act 1987 and the Malta Insurance Intermediaries Act 2006 (the Acts) require the Group's insurance subsidiaries to meet minimum solvency margins.

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

MARCH 31, 2013	Bermuda	Europe	Total
Statutory capital and surplus	99,226	8,425	107,651
Minimum solvency margin	6,960	4,532	11,492

MARCH 31, 2012	Bermuda	Europe	Total
Statutory capital and surplus	105,259	14,524	119,783
Minimum solvency margin	24,481	5,606	30,087

In addition, minimum liquidity ratios must be maintained whereby relevant assets, as defined by the Acts, must exceed 75 percent of relevant liabilities. The Bermuda Insurance Act 1978 and Related Regulations limits the maximum amount of annual dividends and distributions that may be paid by the Group's insurance subsidiaries. Before reducing by 15 percent or more of its statutory capital, as set out in the prior year's financial statements, these insurance subsidiaries shall request the approval of the Bermuda Monetary Authority (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.

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

13.3 FINANCIAL INSTRUMENT RISK MANAGEMENT

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

- Investment portfolios are monitored and reviewed regularly for investment quality with the Board of Directors and the Risk Committee of the Board;
- Credit ratings as determined by recognised external credit rating agencies are regularly monitored to ensure these meet the Group's Investment guidelines;
- Investment guidelines specify collateral requirements and concentration limits; and
- Reinsurance is placed with counterparties that have a strong credit rating. Management regularly monitors and performs an assessment of creditworthiness of reinsurers.

13.3.1 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.

13.3.1 (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.

FOR THE YEARS ENDED MARCH 31	Note	2013	2012
Cash and short-term investments		30,326	46,127
Interest and dividends receivable		2,706	404
Bonds – at FVTPL and Held-to-maturity	3.1	156,485	86,020
Mortgages and loans	3.1	41,236	46,650
Receivables from reverse repurchase transactions	3.1	-	2,700
Policy loans	3.1	66	61
Derivative financial instruments	3.1	(22)	(137)
Other financial assets included in Other assets	7	6,043	4,743
Insurance balances receivable	5	18,469	22,164
Reinsurers' share of claims provisions	11	14,001	11,573
TOTAL CONSOLIDATED BALANCE SHEET MAXIMUM CREDIT EXPOSURE		269,310	220,305

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.

13.3.1 (b) Concentration of Credit Risk

Concentrations of credit risk arise from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics 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	2013	2012
Bonds issued or guaranteed by:		
Federal government	53,647	24,427
Banking and finance	32,051	13,064
Asset-backed securities	13,331	12,082
Communications	5,831	2,582
Oil and gas	5,353	3,094
Utilities and energy	4,820	4,302
Manufacturing	4,695	615
Pharmaceutical	3,429	1,294
Transportation	2,970	1,189
Mining	2,559	1,628
Insurance	1,862	3,521
Agency	1,525	-
Supra National	890	872
Other [1]	23,522	17,350
TOTAL BONDS	156,485	86,020
Derivative financial instruments issued or guaranteed by:		
Federal government	5	(45)
Other	(27)	(92)
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS	(22)	(137)

[1] Includes Investment in bond funds of $19.4 million (2012 - $2.4 million).

FOR THE YEARS ENDED MARCH 31	2013	2012
Geographical distribution of bonds is as follows:		
United States	108,026	72,411
United Kingdom	7,168	3,569
Australia	2,724	1,077
Bermuda	2,495	3,633
France	2,014	-
Netherlands	1,806	-
Luxembourg	1,760	872
Canada	1,703	557
Sweden	1,682	-
Brazil	1,307	-
Russia	1,163	-
Norway	1,137	-
Other [1]	23,500	3,901
TOTAL BONDS	156,485	86,020
Geographical distribution of derivative financial instruments is as follows:		
United States	(22)	(137)
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS	(22)	(137)

[1] Includes Investment in bond funds of $19.4 million (2012 - $2.4 million).

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

FOR THE YEARS ENDED MARCH 31	2013	2012
Residential	9,489	10,350
Non-residential	31,747	36,300
TOTAL MORTGAGES AND LOANS	41,236	46,650

13.3.1 (c) Asset Quality

13.3.1 (c)(i) Bonds and derivative financial instruments by credit rating

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

FOR THE YEARS ENDED MARCH 31	2013	2012
Bond portfolio quality:		
AAA	49,331	11,934
AA	24,664	38,744
A+	10,472	-
A	40,542	13,671
BBB	22,382	9,829
BB	5,804	5,487
B	556	1,276
Not rated	2,734	4,114
Cash	-	965
TOTAL BONDS	156,485	86,020
Derivative financial instruments quality:		
AAA	5	(45)
Not rated	(27)	(92)
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS	(22)	(137)

13.3.1(c)(ii) Allowance for credit losses on impaired investments

Mortgage and loans

Changes in the allowance for credit losses are as follows:

FOR THE YEARS ENDED MARCH 31	2013	2012
Balance, beginning of year	25,458	25,057
Net provision made in year – Mortgages	2,823	401
Write-off of unrecoverable provision	(24,907)	-
BALANCE, END OF YEAR	3,374	25,458

A write-off of the unrecoverable provision of $24.9 million was made during the year due to the absence of any realistic prospect of recovery.

Held-to-maturity bonds

During the year, the Group recognised $208,000 of recovery of previously recognised impairment loss (2012 – $310,000 of impairment loss) on a bond portfolio classified as held-to-maturity.

13.3.1(c)(iii) Age analysis of financial assets past due but not impaired and impaired

MARCH 31, 2013	Past due but not impaired				
	Less than 90 days	90 to 179 days	180 days or more	Total	Total impaired
Mortgage and loans	13	23	24	60	3,374
Other receivables included in Other assets	53	42	23	118	25
TOTAL	66	65	47	178	3,399

MARCH 31, 2012	Past due but not impaired				
	Less than 90 days	90 to 179 days	180 days or more	Total	Total impaired
Mortgage and loans	141	151	327	619	25,458
Other receivables included in Other assets	26	27	23	76	304
TOTAL	167	178	350	695	25,762

Past due financial assets of $178,000 at March 31, 2013, (2012 – $695,000) 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.

13.3.2 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, 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 with the Group. Longer duration cash flows are also backed by a broader range of asset classes including equity and other non-fixed income assets.

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

Liability maturity profile:

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

MARCH 31, 2013	Within 1 year	2-5 years	6-10 years	Over 10 years	Total
Life and annuity policy reserves					
– net of reinsurance	11,043	42,154	45,986	106,835	206,018[1]
Provision for unpaid and unreported claims					
– net of reinsurance	27,663	-	-	-	27,663
Insurance balances payable	10,772	-	-	-	10,772
Investment contract liabilities	4,105	15,120	9,516	55,318	84,059[1]
Tax payable	61	-	-	-	61
Accounts payable and accrued liabilities	16,580	-	-	-	16,580
Post-employment benefit liability	120	609	984	3,231	4,944[1]
TOTAL FROM GENERAL FUND LIABILITIES	70,344	57,883	56,486	165,384	350,097

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

MARCH 31, 2012	Within 1 year	2-5 years	6-10 years	Over 10 years	Total
Life and annuity policy reserves					
– net of reinsurance	10,727	41,246	45,574	111,696	209,243
Provision for unpaid and unreported claims					
– net of reinsurance	24,656	-	-	-	24,656
Insurance balances payable	12,751	-	-	-	12,751
Investment contract liabilities	3,448	10,199	8,022	48,161	69,830[1]
Tax payable	188	-	-	-	188
Accounts payable and accrued liabilities	14,730	-	-	-	14,730
Loan payable	6,000	1,843	-	-	7,843
Post-employment benefit liability	123	611	1,015	3,461	5,210[1]
TOTAL FROM GENERAL FUND LIABILITIES	72,623	53,899	54,611	163,318	344,451

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

13.3.3 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.

13.3.3(a) Currency Risk

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

- The Group regularly monitors the effect of currency translation fluctuations;
- Investments are normally made in the same currency as the liabilities supported by those investments;
- The majority of the Group's assets, liabilities and earnings are denominated in Bermuda or United States dollars; and
- The assets and liabilities of the foreign operations are held in the functional currency. The net currency exposure arising from the net equity within these operations amounts to £9.7 million and €1.2 million (2012 – £9.5 million and €933,000).

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

		MARCH 31 2013	MARCH 31 2012
Currency	Change in variables	Impact on equity	Impact on equity
UK Sterling	+/- 10%	+/- 969	+/- 950
Euro	+/- 10%	-/+ 116	+/- 93

13.3.3(b) Interest Rate Risk

Interest rate risk is the potential for financial loss arising from changes in interest rates. Changes in market interest rates can impact the reinvestment of matured investments, as the returns available on 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 liability product 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 unit-linked investment policies with and without a guarantee return in a number of its operations. For unit-linked policies without a guaranteed return under Segregated Funds, the policyholder bears the investment risk on the assets held in the unit-linked fund. The value of the policy benefits is directly linked to the value of the assets in the fund. The Group's exposure to market risk on this business is limited to the extent that income arising from asset management charges is based on the value of assets in the fund.

For unit-linked policies with a guaranteed return under the General Funds and Segregated Funds, the Group bears the investment risk to the extent that the actual rate of return of the unit-linked funds falls below the guaranteed rate of return. If the interest yield on the assets supporting the unit-linked funds with guaranteed return was one percent higher, profit would have been $6.3 million lower and if one percent lower, profit would have been $6.6 million higher. For these types of policies, the Group ensures that (i) the liabilities and asset cash flows are closely matched and (ii) the valuation of the liabilities and assets are monitored regularly.

13.3.3(c) Equity Risk

The majority of the equities are held to back long-term liabilities or those where it is expected that the liabilities will renew at maturity at then current market rates. 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 $5.1 million (2012 – $5.0 million); conversely the impact of a ten percent decrease would have an equal but opposite effect. The direct exposure to equity markets generally falls within the risk-taking philosophy of the Group's investment policy and is regularly monitored by management.

13.3.4 Limitations of sensitivity analysis

The sensitivity information given in Note 13.3 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 interest rates fall towards zero.

13.4 INSURANCE RISK MANAGEMENT

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

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

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

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

For details on insurance risk management policies of the Group's insurance operating segments, see Note 11.

14 POST-EMPLOYMENT BENEFIT LIABILITY

The movement in the defined benefit liability is as follows:

FOR THE YEARS ENDED MARCH 31	2013	2012
Balance, beginning of year	4,078	3,625
Movements during the year recognised in Operating expenses:		
Current service cost	126	111
Interest cost on benefit liability	159	179
Net actuarial loss	263	261
Benefits paid	(102)	(98)
BALANCE, END OF YEAR	4,524	4,078

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

(i) Current service cost represents benefits earned in the current year. These are determined with reference to the current workforce eligible for benefits and the amount of benefits to which they will be entitled upon retirement, based on the provisions of the Group's benefit plan.

(ii) Interest cost on the benefit liability represents the increase in the liability that results from the passage of time.

(iii) Each year the actuaries recalculate the benefit liability and compare it to that estimated as at the prior year end. Any differences resulting from changes in assumptions, or from plan experience being different from expectations of management at the previous year end, are considered actuarial gains or losses.

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

FOR THE YEARS ENDED MARCH 31	2013	2012
Discount rate	4%	5%
Healthcare cost trend rate	8%	8%

The discount rate assumption has a significant impact on the value of the obligation. A one percent increase in this rate would reduce the present value of the defined benefit obligation by $600,000 (2012 - $515,000).

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

FOR THE YEARS ENDED MARCH 31	2013		2012	
	Increase	Decrease	Increase	Decrease
Aggregate of current service cost and interest cost	23	(20)	21	(17)
Accrued benefit liability	693	(575)	599	(499)

15 INSURANCE BALANCES PAYABLE

Insurance balances payable is comprised of:

MARCH 31, 2013	Insured employee benefits	Life and pensions	Property and casualty	Total
Due to policyholders, agents and brokers	98	1,045	3,459	4,602
Due to reinsurers	758	1,172	1,805	3,735
Deferred commission income	-	-	2,435	2,435
TOTAL INSURANCE BALANCES PAYABLE	856	2,217	7,699	10,772

MARCH 31, 2012	Insured employee benefits	Life and pensions	Property and casualty	Total
Due to policyholders, agents and brokers	8	4,526	1,126	5,660
Due to reinsurers	801	1,076	2,742	4,619
Deferred commission income	-	-	2,472	2,472
TOTAL INSURANCE BALANCES PAYABLE	809	5,602	6,340	12,751

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

FOR THE YEARS ENDED MARCH 31	2013	2012
Balance, beginning of year	2,472	2,270
Deferral during the year	11,520	11,681
Income for the year	(11,531)	(11,478)
Foreign exchange rate movements	(26)	(1)
BALANCE, END OF YEAR	2,435	2,472

16 LOAN PAYABLE

FOR THE YEARS ENDED MARCH 31	2013	2012
Carrying value	-	7,843
Fair value	-	7,843

In April 2007, the Group obtained mortgage finance of $30 million from the Bank of N.T. Butterfield & Son Limited in order to finance the development of the new corporate headquarters. Draw downs on the facility ceased in April 2009, with the total loan principal of $27.8 million, including $2 million of accrued interest which had been capitalised. The loan was secured by real estate owned by the Group and co-collateralised by a guarantee from the Company and was repayable over five years at $500,000 per month plus interest, commencing on April 30, 2009. During the year ended March 31, 2013, this loan was repaid in full. Interest was charged at the bank's base rate plus one percent per annum. Interest expense on the mortgage for the year was $193,000 (2012 – $528,000).

17 EARNINGS PER SHARE

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

FOR THE YEARS ENDED MARCH 31	2013	2012
Net earnings for the year	12,576	1,696
Weighted average outstanding common shares	21,001	21,033
Common shares and common share equivalents	21,001	21,033

18 NET CHANGE IN UNEARNED PREMIUMS

FOR THE YEARS ENDED MARCH 31	2013	2012
Gross change in unearned premiums	1,868	(123)
Change in unearned premiums on premiums ceded	(658)	397
NET CHANGE IN UNEARNED PREMIUMS	1,210	274

19 REINSURANCE RECOVERIES

FOR THE YEARS ENDED MARCH 31	2013	2012
Claims and adjustment expenses recovered from reinsurers	4,487	6,513
Policy benefits recovered from reinsurers	1,403	4,613
TOTAL REINSURANCE RECOVERIES	5,890	11,126

20 NET CHANGE IN CONTRACT LIABILITIES

FOR THE YEARS ENDED MARCH 31	2013	2012
Gross change in contract liabilities:		
Insurance contracts	9,731	6,285
Investment contracts	1,324	16
	11,055	6,301
Change in reinsurers' share of claims provisions:		
Insurance contract liabilities	(2,595)	2,180
NET CHANGE IN CONTRACT LIABILITIES	8,460	8,481

21 COMMISSIONS, MANAGEMENT FEES AND OTHER

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

FOR THE YEARS ENDED MARCH 31	2013	2012
Policyholder administration	15,030	14,604
Investment management services	4,832	5,070
Reinsurance commission income	11,446	11,256
Other income	207	213
TOTAL COMMISSIONS, MANAGEMENT FEES AND OTHER	31,515	31,143

22 OPERATING EXPENSES

Operating expenses incurred during the year are as follows:

FOR THE YEARS ENDED MARCH 31	2013	2012
Employee benefits expense (see table below)	25,740	22,536
Professional fees	4,315	4,644
Marketing expenses	1,100	1,093
IT related expenses	2,812	2,122
Building related expenses	2,874	2,437
General and corporate expenses	3,364	2,419
Other expenses	3,787	3,756
TOTAL OPERATING EXPENSES	43,992	39,007

Employee benefits expense during the year is comprised of:

FOR THE YEARS ENDED MARCH 31	*Note*	2013	2012
Salaries and other short-term benefits		24,014	21,069
Pension costs [(1)]		1,236	906
Post-employment medical benefits	*14*	446	453
Stock-based compensation	*23*	44	108
TOTAL EMPLOYEE BENEFITS EXPENSE		25,740	22,536

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

23 STOCK-BASED COMPENSATION

As at March 31, 2013, the Group has two stock-based compensation plans, which are described below. The total compensation cost that has been charged against net earnings for these plans for the year ended March 31, 2013, was $44,000 (2012 – $108,000).

23.1 STOCK OPTION PLANS

Under the Group's 2004 Stock Option Plan, options were granted to key management employees at exercise prices not less than the fair market value of the Group's shares on the date the option was granted. Options become exercisable at the rate of 25 percent per year commencing one year after the date of grant and options not exercised lapse ten years after the date of grant. The consideration paid by employees on exercise of share options is credited to Share capital and Contributed surplus on the Consolidated Balance Sheet. Shares under option and option prices per share are adjusted for all stock dividends declared subsequent to the date of grant. The fair value of these awards is recognised over the applicable vesting period as Employee benefits expense and Contributed surplus. The fair value of options on the date of grant was determined using the Black-Scholes option pricing model.

At the Annual General Meeting of Shareholders held on July 26, 2007, the Directors were granted authority to cease issuing further stock options under the Group's 2004 Stock Option Plan and, in its stead, adopted the 2007 Restricted Stock Plan as described in Note 23.2 below. Stock options granted prior to this date remain valid and the terms and conditions of the 2004 Stock Option Plan continue to apply thereto until expiration. There have been no stock options granted since 2007.

The following table summarises the activity under the Group's stock option plan:

FOR THE YEARS ENDED MARCH 31	2013		2012	
	Total number of shares under option	Weighted average exercise price	Total number of shares under option	Weighted average exercise price
Outstanding, beginning of year	362,952	$8.90	362,952	$8.90
Changes during the year:				
Expired	(59,617)	$7.20	-	-
Forfeited	(57,408)	$12.06	-	-
OUTSTANDING, END OF YEAR	245,927	$9.28	362,952	$8.90
EXERCISABLE, END OF YEAR	245,927	$9.28	362,952	$8.90

The weighted average remaining contractual life of options outstanding is 1.9 years (2012 – 2.45 years). The range of fair values of options outstanding is $5.95 to $11.78. The Groups's stock options were fully vested on March 31, 2011.

The characteristics as at March 31, 2013, of options granted in earlier years are as follows:

Fiscal year	Exercise price	Number of Outstanding	Shares Exercisable
2004	$5.95	44,401	44,401
2005	$8.95	62,435	62,435
2006	$9.04	65,030	65,030
2007	$11.78	74,061	74,061
	$9.28	245,927	245,927

23.2 RESTRICTED STOCK PLAN

The 2007 Restricted Stock Plan expired in July 2012, and was replaced at the Annual General Meeting of Shareholders held on September 7, 2012, with the 2012 Restricted Stock Plan.

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

Shares are granted unvested and vest at the rate of 33 1/3 percent at the end of each year for three years after the date of grant. The fair value of each share granted is based upon the market price at the date of grant. In June 2012, 47,300 shares (2012 – nil) were granted with a fair value of $3.75 per share. There were 900 shares forfeited during the year. The total compensation cost recognised in the current year was $44,000 (2012 – $108,000) and has been included in Operating expenses on the Consolidated Statement of Operations.

The following table summarises information about the outstanding stock grants:

Restricted shares vesting	# of shares
March 2014	15,467
March 2015	15,467
March 2016	15,466
TOTAL	46,400

24 RELATED PARTY TRANSACTIONS

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

24.1 TRANSACTIONS WITH SIGNIFICANTLY INFLUENCED INVESTEES

24.1.1 The Group provided insurance-related products and services to various significantly influenced investees. The premiums and fees received from these transactions totalled $634,000 in the year and are shown as Gross premium written and Commission, management fees and other on the Consolidated Statement of Operations (2012 – $635,000).

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

FOR THE YEARS ENDED MARCH 31	2013	2012
Insurance balances receivable	31	28
Receivable from self-funded group health policies [1]	279	192
Accounts payable arising from administration of the defined benefit pension plans [2]	(5)	(472)

[1] Included in Other assets
[2] Included in Accounts payable and accrued liabilities

24.1.2 The Group rented office premises from a significantly influenced investee paying a total of $329,000 in rent and service charges in the year which are shown in Operating expenses in the Consolidated Statement of Operations (2012 – $454,000).

24.1.3 The Group received facilities management services from a significantly influenced investee for the consideration amount of $1.1 million which is shown net of Investment income on the Consolidated Statement of Operations (2012 – $1.1 million).

24.2 COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

FOR THE YEARS ENDED MARCH 31	2013	2012
Salaries and other short-term benefits	2,242	1,758
Post-employment benefits [1]	117	93
Stock-based compensation	6	11
TOTAL KEY MANAGEMENT PERSONNEL COMPENSATION	2,365	1,862

[1] Includes pension costs and post-employment medical benefits

24.3 DIRECTORS' AND OFFICERS' SHARE INTERESTS AND SERVICE CONTRACTS

The total interests of all Directors and Officers of the Company in the shares of the Company at March 31, 2013, was 364,019 shares.

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

25 INCOME TAXES

Bermuda
Group entities domiciled in Bermuda received an undertaking from the Bermuda government exempting these companies from all Bermuda local income, withholding and capital gains taxes until 2016. At the present time no such taxes are levied in Bermuda.

Europe
Subsidiaries domiciled in Gibraltar are subject to normal Gibraltar corporation tax at a rate of 10 percent on all taxable profits.

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

25.1 INCOME TAXES FOR THE YEAR

FOR THE YEARS ENDED MARCH 31	2013	2012
Income taxes for the year	8	105
Adjustments in respect of prior year income taxes	-	6
Total current income taxes	8	111
Deferred taxes	-	1
TOTAL INCOME TAXES	8	112

25.2 CURRENT INCOME TAXES RECONCILIATION

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

FOR THE YEARS ENDED MARCH 31	2013	2012
Earnings before income taxes	12,934	2,062
Less: Earnings not subject to taxes	15,862	1,127
(LOSS)/EARNINGS SUBJECT TO TAXES	(2,928)	935
Income taxes at the application rate	(342)	94
Tax effect of:		
Expenses not deductible for tax purposes	20	38
Difference between depreciation and capital allowances	30	22
Income not taxable	(140)	(48)
Effect of tax losses	371	-
Adjustments to tax charge in respect of previous period	-	5
Unrecognised temporary difference	69	-
TOTAL CURRENT INCOME TAXES	8	111

25.3 DEFERRED TAXES

	MARCH 31 2013	Deferred income tax (expense)/recovery	MARCH 31 2012
Deferred tax liability arising on Property and equipment [1]	(10)	1	(11)
NET DEFERRED TAXES	**(10)**	1	(11)

[1] Included in Tax payable

	March 31 2012	Deferred income tax (expense)/recovery	March 31 2011
Deferred tax asset arising on Property and equipment [1]	-	(1)	1
Deferred tax liability arising on Property and equipment [2]	(11)	-	(11)
NET DEFERRED TAXES	(11)	(1)	(10)

[1] Included in Other assets
[2] Included in Tax payable

25.4 UNRECOGNISED DEFERRED TAX ASSETS

Deferred tax assets/(liabilities) have not been recognised in respect of the following items:

FOR THE YEARS ENDED MARCH 31	2013	2012
Deductible temporary differences	(1)	(3)
Tax losses carried forward	43	-
Capital allowances carried forward	23	-
NET UNRECOGNISED DEFERRED TAX ASSETS/(LIABILITIES)	**65**	(3)

The deductible temporary differences, tax losses and capital allowances do not expire under the current Malta tax legislation.

26 SEGREGATED FUNDS AND SEPARATE ACCOUNTS

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

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

FOR THE YEARS ENDED MARCH 31	2013	2012
Additions to Segregated Funds		
Premiums, contributions and transfers	238,200	129,740
Net investment income	4,520	1,121
Net increase/(decrease) in fair value of investments	146,986	(5,858)
Segregated funds acquired	151	12,541
Transfer from the General Fund	-	136,889
	389,857	274,433
Deductions from Segregated Funds		
Withdrawals, benefit payments and transfers to the General Fund	234,276	90,603
Operating expenses	13,589	11,880
	247,865	102,483
Net additions to Segregated Funds for the year	141,992	171,950
Segregated Funds, beginning of year	1,334,693	1,162,743
SEGREGATED FUNDS, END OF YEAR	1,476,685	1,334,693
Consisting of:		
Segregated funds with a guaranteed return		
Bonds	140,575	122,494
Receivable from reverse repurchase transactions	-	8,700
Cash and short-term investments	-	5,695
TOTAL SEGREGATED FUNDS WITH A GUARANTEED RETURN	140,575	136,889
Segregated funds without a guaranteed return		
Bonds	22,114	33,964
Stocks and other investments	1,093,386	1,040,641
Policy loans	106,931	34,126
Cash and short-term investments	111,865	88,747
Other assets	1,814	326
TOTAL SEGREGATED FUNDS WITHOUT A GUARANTEED RETURN	1,336,110	1,197,804
TOTAL SEGREGATED FUNDS	1,476,685	1,334,693

Effective March 31, 2012, certain policies previously held under Deposit administration pension plans were amended such that the related assets and liabilities can be included in Segregated funds. The primary reason is to afford the policyholders certain protection from creditors of the Group. As a result of the transfer, the Group has two types of Segregated fund products: (1) Segregated funds with a guaranteed return and (2) Segregated funds without a guaranteed return.

26.1 FAIR VALUE HIERARCHY OF SEGREGATED FUNDS WITH A GUARANTEED RETURN

The assets under Segregated funds with a guaranteed return are carried at fair value except for Receivable from reverse repurchase transactions which are carried at amortised cost.

The Group follows the same basis of fair value and valuation techniques as disclosed in Note 3.2.

The following table shows an analysis of the Segregated funds with a guaranteed return that are carried at fair value by hierarchy level:

MARCH 31, 2013	Level 1	Level 2	Level 3	Total
Segregated funds with a guaranteed return:				
Bonds				
Corporate	-	73,655	-	73,655
Mortgage/asset-backed securities	-	19,000	-	19,000
US government and agency	4,432	36,468	-	40,900
Other government and agency	-	7,020	-	7,020
SEGREGATED FUNDS WITH A GUARANTEED RETURN	4,432	136,143	-	140,575

MARCH 31, 2012	Level 1	Level 2	Level 3	Total
Segregated funds with a guaranteed return:				
Bonds				
Corporate	-	64,242	-	64,242
Mortgage/asset-backed securities	-	36,864	-	36,864
US government and agency	18,660	231	-	18,891
Other government and agency	-	1,579	-	1,579
Other securitised assets	-	-	918	918
Cash and short-term investments	5,695	-	-	5,695
SEGREGATED FUNDS WITH A GUARANTEED RETURN	24,355	102,916	918	128,189

The following table shows a reconciliation of the beginning and ending balances for assets under the Segregated funds with a guaranteed return which are categorised at Level 3.

FOR THE YEARS ENDED MARCH 31	2013	2012
Balance, beginning of year	918	-
Transfer from the General Fund	-	918
Sales	(918)	-
BALANCE, END OF YEAR	-	918

27 OPERATING SEGMENTS

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

27.1 RESULTS BY SEGMENT

FOR THE YEARS ENDED MARCH 31		Insured employee benefits	Life and pensions	Property and casualty	All other [1]	Total
Segment revenues	2013	105,142	30,126	35,673	970	171,911
	2012	102,127	28,614	34,502	(10,456)	154,787
Investment income	2013	1,265	12,302	3,525	(1,293)	15,799
	2012	397	8,334	1,200	158	10,089
Amortisation, depreciation and impairment	2013	1,189	1,764	2,312	1,562	6,827
	2012	483	532	2,343	1,992	5,350
Income tax expense	2013	-	-	8	-	8
	2012	-	-	112	-	112
Reportable segment earnings/(loss) attributable to shareholders, after tax	2013	16,089	3,395	2,916	(9,824)	12,576
	2012	9,782	922	6,878	(15,886)	1,696

(1) Investment income and Reportable segment loss attributable to shareholders, after tax in 2012 are net of impairment losses arising from the Investment in NGH per Note 4.

GEOGRAPHIC INFORMATION ON SEGMENT REVENUES:

FOR THE YEARS ENDED MARCH 31		Bermuda	Europe	Total
Segment revenues	2013	154,766	17,145	171,911
	2012	138,401	16,386	154,787

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

27.2 ASSETS AND LIABILITIES BY SEGMENT:

	Insured employee benefits	Life and pensions	Property and casualty	All other	Total
MARCH 31, 2013:					
Total General Fund Assets	26,327	296,250	68,184	41,718	432,479[1]
Segregated Fund Assets	-	1,476,685	-	-	1,476,685
Total General Fund Liabilities	22,570	250,137	46,613	16,223	335,543[1]
Segregated Fund Liabilities	-	1,476,685	-	-	1,476,685
MARCH 31, 2012:					
Total General Fund Assets	17,501	263,744	63,789	41,389	386,423[1]
Segregated Fund Assets	-	1,334,693	-	-	1,334,693
Total General Fund Liabilities	19,580	224,515	42,586	13,605	300,286[1]
Segregated Fund Liabilities	-	1,334,693	-	-	1,334,693

(1) Excludes intercompany receivables/payables and investment in subsidiaries.

28 COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME

FOR THE YEARS ENDED MARCH 31	2013	2012
Available-for-sale investments	269	245
Translation of financial statements of foreign operations	(2,232)	(1,534)
TOTAL ACCUMULATED OTHER COMPREHENSIVE LOSS	(1,963)	(1,289)

29 COMMITMENTS AND CONTINGENCIES

29.1 OPERATING LEASES

29.1.1 Group as a lessor

The Group has entered into non-cancellable commercial property leases on several floors of the Group's office buildings. These leases have remaining terms of between one and 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, 2013, are as follows:

FOR THE YEARS ENDED MARCH 31	2013	2012
Within one year	1,660	1,408
After one year but not more than five years	2,019	811
More than five years	-	-

29.1.2 Group as a lessee

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

During the year ended March 31, 2013 and 2012, an amount of $1.1 million and $988,000 respectively, was recognised in Operating expenses on the Consolidated Statement of Operations for operating leases.

Future minimum rentals payable under non-cancellable operating leases as at March 31, 2013, are as follows:

FOR THE YEARS ENDED MARCH 31	2013	2012
Within one year	722	783
After one year but not more than five years	1,687	1,914
More than five years	709	1,426

29.2 CONTINGENCIES

(i) The Group has a 35 percent interest in a company that built an office building in Hamilton, Bermuda. The Group has issued a guarantee in respect of its proportionate share of a term bank loan facility totalling $8.4 million (2012 – $9.5 million) for this office building.

(ii) In May 2009, the Group, Bermuda Life Insurance Company Limited and Argus International Life Bermuda Limited (AILBL) filed with the Supreme Court of Bermuda a claim against Tremont Group Holdings Inc. (Tremont Group) and Tremont (Bermuda) Limited. The Group bought Tremont International Insurance Ltd (TIIL), from the Tremont Group in December 2006, and subsequently changed the company's name to AILBL. The Group continues to pursue a number of claims, amongst them a claim for damages for breach of warranties in the purchase agreement due to the overstatement by the Tremont Group of the assets of TIIL.

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

30 COMPARATIVE FIGURES

Certain of the 2012 comparative figures have been reclassified to conform to the presentation adopted for 2013.

31 SUBSEQUENT EVENTS

On June 21, 2013, the Group declared a dividend of six cents per share to be paid to shareholders of record on July 15, 2013. This represents an interim dividend based upon the audited financial results of the Group for the fiscal year ended March 31, 2013.

DIRECTORS OF PRINCIPAL OPERATING SUBSIDIARIES

ARGUS INSURANCE COMPANY LIMITED

Reginald S. Minors
Chairman

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Registered Office:
The Argus Building
14 Wesley Street
Hamilton HM 11
Bermuda

Tel: (441) 295-2021
Fax: (441) 292-6763

Mailing Address:
P.O. Box HM 1064
Hamilton HM EX
Bermuda

Customer Service Centre: (441) 298-0888
e-mail: insurance@argus.bm
www.argus.bm