ARGUS

Our Interest is You.

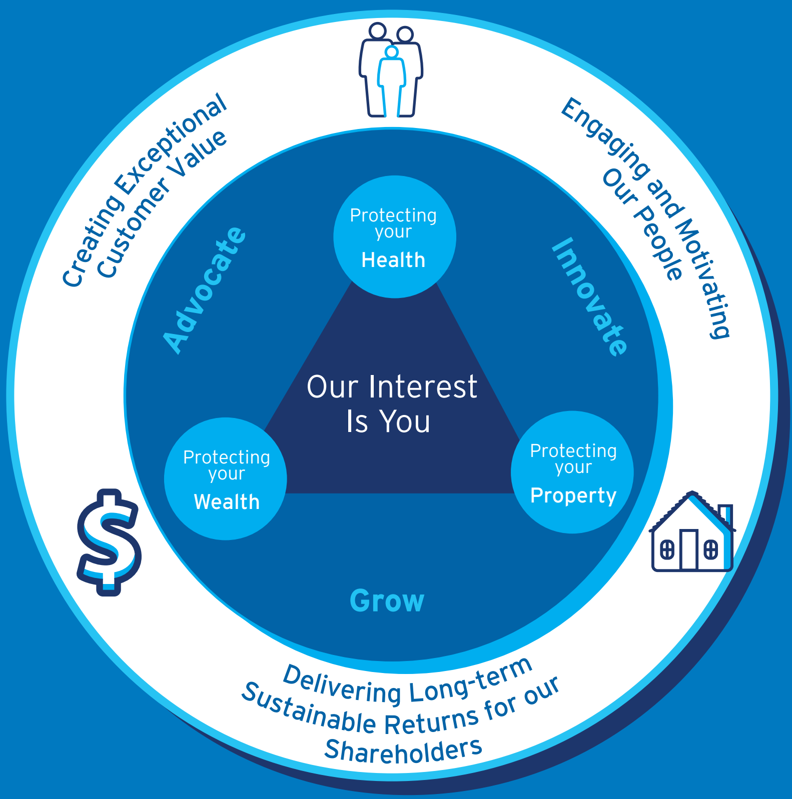
2017 Annual Report

Our Vision
To give more and more people the freedom to do what matters most.

Our Mission
To provide financial services which predict and protect for the future, always ensuring "Our Interest is You".

Our Purpose
At Argus, our purpose is to deliver long-term sustainable returns to our shareholders through exceptional customer service, delivered by engaging and motivating our staff. "Our Interest is You" spans across all stakeholders as we seek to provide exceptional value through the solutions and services that we offer.

Our Values
Integrity
Fairness
Excellence
Respect
Professionalism
Teamwork



Assisting our customers in achieving financial security, physical well-being and peace of mind empowers them to focus on what matters most to them. By building relationships with our customers and advocating on their behalf, we help them to be "leaders" of their commercial and personal lives.

Contents

Doing the right thing, the right way,

"We have always been known for our pioneering and innovative spirit. The 35th America's Cup has allowed Bermuda and Argus to shine on the international stage and showcase our ability to compete at the highest level. Nowhere is this more evident than our partnership with Softbank Team Japan. Our strong team, diversified business portfolio and stable balance sheets are just part of the equation. The legacy we build with our customers and the communities that we serve is the most important part."

Peter Dunkerley, CFO

for all, always.

Our Value

Customer Value

We focus on providing real benefit to our customers by delivering market-leading innovative solutions and high quality service of excellent value. Delivering on our brand promise "Our Interest is You" is core to our culture and central to our role as a trusted partner in navigating through everyday challenges and supporting long-term success.

Innovation

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

Advocacy

Our aim is to be the pioneer in effecting change and action to improve the lives of the residents in the communities we serve. We seek to act as an innovative advocate on community well-being and as a thought leader in the legislative reform of Employee Benefit services to the advantage of all stakeholder interests across our industry.

Growth

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

Shareholder Value

We seek to generate attractive long-term returns on shareholder's capital whilst managing short-term volatility. Delivering on our customer promise is fundamental to generating sustainable value: we never compromise on our ability to deliver on our commitments.

Earnings

Our business model is based on delivering earnings from both operational and investment performance. To build sustainable earnings we are broadening our business mix both geographically and by products while reducing the impact of investment volatility. Additionally, we are managing operational expenses by leveraging resources across the organisation through people, systems and business infrastructure.

Volatility

We recognise that our shareholders expect us to manage short-term volatility in our investment portfolio. Our goal is to minimise the short-term impact of the unrealised investment gains and losses due to market changes on the income statement whilst employing sound asset to liability matching principles to ensure the long-term financial health of the Company.

Capital

Our capital strategy balances meeting mandatory regulatory capital in each of our territories with the need to invest capital to support future strategic objectives such as innovation and overseas expansion while rewarding shareholders with dividends.

Sustainable Value

We are willing to constantly challenge our current thinking and evolve beyond today to meet our responsibilities to our customers, shareholders and the broader community. Our commitment in developing our team, learning more about our customers and building new business channels are key differentiators from our competitors and aid us in promoting long-term growth in our business.

Our culture is to do the right thing, the right way, for all always working on behalf of our people, our customers and our shareholders.

We believe by doing this we can create a virtuous circle of long-term sustainable value for all.

Our People

Through our culture of teamwork, mutual support and empowerment, we work to find the right options which yield the best results for our customers when addressing their specific needs. This builds staff advocacy which leads to superior client experiences and increasing customer loyalty.

Our Customers

Building customer loyalty means respecting the unique needs of our customer base. We understand that diverse customer needs require comprehensive solutions. This leads to better quality of service, value for money and high levels of client retention.

Our Shareholders

The investments we make in the short-term to create an exceptional client experience, and to engage and motivate our employees lead to long-term sustainable profitable growth for our shareholders.

Our Products & Services

Employee Benefits

Health, Life Insurance, Disability Income, Retirement Income and Pensions

Argus is the market leader in employee benefits, providing innovative and progressive products, tools and services to over 60% of the international business sector in Bermuda.

We partner with global experts like **Johns Hopkins Medicine International** and **AndCo Pensions Consulting** to help make it easier for employers to meet their legal obligations whilst providing highly competitive and integrated employee benefits that meet the evolving needs of their employees. We take care of our clients so that they can take care of their people by eliminating red tape and giving access to a range of solutions tailored to their specific needs. We have our finger on the pulse and are constantly changing and evolving to ensure we anticipate changes to the tax, regulatory and competitive environment to offer market-leading employee benefits that help our clients attract and retain talent.

We adopt an integrated, people-centric approach across our full range of services that support being proactive about maintaining health and wellness, managing down health costs and planning for an enriched and fulfilling retirement. Our well-being programme "**Thrive.**", provides comprehensive online health resources and community-based programmes that contribute to a healthier and happier community. Our tailored retirement planning services help prepare employees for a financially secure retirement. At Argus, we always seek to deliver more, because when our clients succeed, we succeed.

"We make it easier to protect your business and people."

Global Property & Casualty (P&C)

Commercial Property and Liability, Home, Motor, Marine, Travel

Our full range of insurance products and expert advice gives our clients the freedom to get on with life. Our multiple sales channels including direct business, brokerage and intermediaries allow all of our customers, be they commercial or individuals, an experience tailored to their needs. Argus offers market-leading cover and care that puts our customers first. We work to prevent risk for our clients, not just protect them from risk; and by offering a diverse range of products and value-added services, we are the "one stop shop" for all of their insurance needs. We provide peace of mind to make it easier for our customers to improve the quality of their lives.

"You're in good hands with Argus."

Wealth Management

Investment and Asset Management, Financial Planning, Private Placement Life Insurance

Delivered through AFL Investments, our broad range of wealth management solutions give our clients comfort and reassurance that they have made a safe investment and are dealing with the very best. We offer internationally competitive, personalised, innovative asset management and investment solutions and understand the complexity of offshore investments in different regulatory and tax regimes. We partner with global experts to deliver market-leading investment strategies, tailored to the specific needs of our highly diverse client base.

Our job is to protect our client's legacy. They demand the highest level of knowledge, security and performance, combined with a deep and lasting long-term relationship that provides gold-standard service and strong peace of mind.

"We'll take care of that for you."

Balanced Performance

Net Income
Measure of annual earnings

$12.0 million

2016: $7.3 m
2015: $16.0 m

Return on Average Equity
Net income as a percentage of shareholders' equity

9.5%

2016: 6.0 %
2015: 14.3 %

Combined Fee Income
Fees generated by our Employee Benefits, Wealth Management and Insurance Brokerage Business

$18.9 million

2016: $20.0 m
2015: $21.5 m

Combined Operating Ratio
Measure of underwriting profitability for our general, health insurance, group life and long-term disability business

83.3%

2016: 78.5 %
2015: 76.9 %

Employee Advocacy
Recommend Argus as a great place to work

88.0%

2016: 87.0 %
2015: 79.0 %

Operating Cash Flow
Cash generated by business operations

$14.8 million

2016: $38.6 m
2015: $46.6 m

This past year has been one of profound and unprecedented change. We have experienced significantly higher geopolitical risk, a shift in the monetary policies of major central banks and the roles that they play in shaping economic policy and ever-increasing technology-led market disruption. The unexpected referendum result by the UK people to exit the EU ("Brexit") and the surprise victory for Donald Trump in the US presidential election demonstrated how wrong 'conventional wisdom' could be. Despite some of the market turmoil that followed these events, we are delighted to report $12.0 million net earnings as a result of strong underlying business operations, with Return on Average Equity and Earnings per Share of 9.5% and $0.57, up from 6.0% and $0.34 last year.

The Argus Board is focused on the judicious allocation of capital across the range of financial service businesses within the Group, to optimise shareholder returns within the Group's risk appetite framework. We continue to look for opportunities to enhance shareholder value through our strategic themes of Growth, Advocacy and Innovation.

Over the past year there have been significant changes to the regulatory regimes in the jurisdictions in which we operate. This meant some significant changes to the way capital is assessed and the amount of capital we are required to hold to support our operating entities. In several instances this has merely aligned the regulatory capital requirement with our own internal assessment of capital needs. We are pleased that our diligent capital planning means that, despite this raising of the bar, the Group remains in a healthy capital position. We continue to hold conservative buffers over and above that required by our regulators, leaving sufficient surplus capital available to support strategic growth.

We recognise that the enhanced regulatory capital requirements increase pressure on the Group's return on equity. The management team is focused on actions that will generate superior long-term returns on shareholders equity.

The Argus Board continues to go from strength to strength. We have invested time in building our Director Skills and Capabilities matrix, Board Succession Planning framework and Board Engagement survey to support the selection and development of our Board. The Board's focus is to support delivery of our strategic objectives, management of risks in line with our Group Risk Appetite and allocation of capital in line with Group Capital and Surplus Strategy. We are confident that the Group is in a very healthy financial position and the Board looks forward with great confidence to delivering long-term sustainable shareholder value.

The strong financial position and underlying earnings strength of the Group has allowed the Board to grow the dividend over each of the past four years. We are pleased to continue this trend and declare an interim dividend of nine cents per share payable on August 23, 2017. This equates to annualised yield of 4.1% based on the current average share price.

I'd like to take this opportunity to thank the Argus management team for their continued dedication, my fellow Board members for their professionalism and dedication, and most of all, my sincere appreciation to each Argus shareholder for your loyalty and support.

Sheila E. Nicoll
Chairman

Dividend Yield

Based on dividends declared during the fiscal year and average share price

4.2%

2016: 4.1 %
2015: 3.5 %

Earnings Per Share

Net income per share

$0.57

2016: $ 0.34
2015: $ 0.76

Capital Strategy

We continue to maintain a strong balance sheet. These provide the financial flexibility to fund strategic investment in the business and acquisitions.

Surplus Capital	Capital available to support strategic objectives.	Available Surplus Capital
	Additional capital held in accordance with risk appetite.	Buffer Capital
	Minimum capital required to continue to operate.	Minimum Capital
Core Capital	Assets with appropriate quality, duration and yield to match the insurance liabilities of the Group.	Asset Liability Management

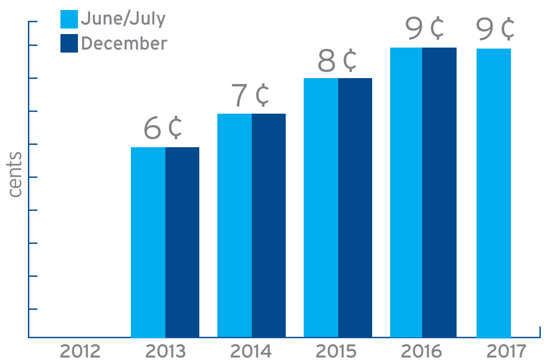
Risk Appetite

The risks taken by the Company are guided by the following principles:

- All risks undertaken must have an associated expected reward that is commensurate with the risk; the Company has no appetite for unrewarded risks.
- Risks are only accepted to the extent that they contribute to the achievement of the Company's mission and the execution of its strategy.
- Risks are only undertaken where the Company has the demonstrable expertise to manage them.
- Risk tolerances are set to manage the Company's aggregate exposure to risk in accordance with the Company's appetite.
- Actual levels of risk versus risk tolerances are monitored and business plans are adapted to the extent required.

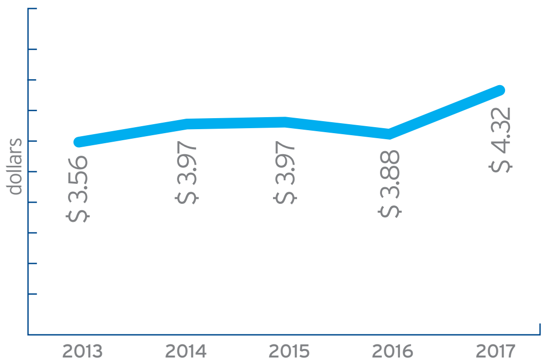
Dividends

Total dividends declared per share (cents)



Average Share Price

Share history for the year ended March 31



Innovative Spirit

"Working with Argus redefined what a sponsorship partner could be for us. I've worked with the best and Argus rewrote the rules. Sailing in the America's Cup is a high performance extreme sport and to succeed the whole team has to come together. Argus was not only a part of the team but became a part of the family" Dean Barker • Softbank Team Japan Skipper

The America's Cup has showcased Bermuda's unique qualities on the global stage. We extended a warm family welcome to thousands of international visitors. At Argus, our family are our people. Our people are our customers, shareholders, stakeholders, employees, colleagues and friends. It's that sense of collective responsibility borne from growing up in small communities that drives our curiosity, respect for and interest in others' life, health and wealth. And that extends through Argus's thirst for knowledge in our industry and markets, which is why our partnership with **Softbank Team Japan** was such a perfect fit.

We build strong and lasting relationships by taking time to understand the needs of our partners, we ask lots of questions and we genuinely listen to the answers. We believe in trying new things, standing up for what we believe in and changing things for the better. And we're brave enough to try because we truly care about our people. At Argus we believe that life is for leading, not just living.

Our Purpose

We know that it is our continued focus to deliver long-term sustainable shareholder value in a dynamic and rapidly evolving global marketplace that sets us apart from our competitors. Over the last year, delivering sustainable value has influenced how we allocated surplus capital, how we managed risks impacting our business, how we positioned ourselves in the markets within which we compete and how we conducted our daily business. We believe our role is one of careful stewardship of our shareholders' assets and long-term custodianship of our business for future generations.

Our Market

No one could predict the level of geopolitical change and economic challenge over the last 10 years. The Bermuda market has been impacted by the economic drag from continued consolidation in the local and international business sectors, offset by the uptick in construction and hospitality sectors driven by the highly successful 2017 America's Cup. This has produced modest economic growth in the short term. Bermuda's mid to longer term outlook will be influenced by its ability to kick-start economic growth in the coming months and the impact of U.S. tax reforms on the international business sector.

Meanwhile, the recent UK election results and Brexit negotiations are impacting our European based businesses. Malta's economy is benefiting from a dramatic increase in new licensed entities, as more UK-based businesses seek alternative 'passporting' rights into the EU via this attractive, economically stable, low-cost, well-regulated territory. The converse applies to Gibraltar where we are adopting a 'Brexit-neutral' strategy to capitalise on opportunities in the UK market as the Gibraltar economy begins to slow down in anticipation of the post-Brexit trade restrictions.

In all the territories in which we do business, we are experiencing ever-increasing levels of regulatory oversight and rigour that shape how we manage capital and mitigate risk. At Argus, we believe that operating to the highest standards of business conduct is a competitive advantage that supports the delivery of long-term sustainable value. Our challenge is to consistently meet these standards in a cost-efficient and effective manner.

Our Focus

To consistently deliver sustainable value, we know that our interest must go beyond the bottom line. Our commitment to doing the right thing and advocating on behalf of our clients means we anticipate their changing needs and proactively address their challenges. But what does this mean in practice?

- We were increasingly dissatisfied with the high level of investment management fees in our Pension fund portfolio so we transformed our pension offering last year to put more savings back into our member's pension plans, reducing the fees by more than half. Investing in proactively doing the right thing in the short term resulted in us winning $70.0 million of new pension assets during the year.
- We are deeply concerned about the unsustainable cost of our healthcare system in Bermuda and are proactively investing in a number of ground-breaking health management initiatives in the short term, because we know that they will help to 'bend the trend' of escalating health costs and deliver long-term sustainable value to our health clients. During the year we've invested in the innovative Diabetes Reversal programme, which is aimed at reducing the prevalence of Type 2 diabetes in Bermuda, and the new Argus Health Benefit Portal, which gives our clients the ability to better manage their employee benefits through 24/7 access to reports and benefit plans.

Our Environment

A key and critical part of remaining at the top of our game is that we expect the very best from our colleagues and understand that we need to create the very best environment in which our people can thrive. We care deeply about developing, engaging, recognising, rewarding and appreciating our people for the difference that they make. Argus has very low staff attrition rates, consistently high employee engagement scores and have been voted within the Top 5 best employers in Bermuda for four consecutive years. We know that it is our people that win and retain clients through building deep and lasting relationships, which is why we always make them one of our highest priorities.

But this commitment extends beyond our Argus Family into our wider communities, where we use our innovative and creative thinking to inspire and bring our community together. Our interactive Argus 360 Virtual Reality App and VR goggles helped our community capture the truly immersive experience of being an active part of the Softbank Team Japan America's Cup Challenger crew.

Our aim is to be a local leader and global fast-follower in technology so we're delighted to welcome our new Executive Vice President of Innovation and Technology, Nik Smale, to lead our strategic focus on innovation across all of our business lines and territories. We also welcome Sarah Ruberry, Global Property and Casualty Controller, who will help lead our strategic focus on growth and diversification.

"We know that when we do the right thing for our clients, we in turn generate value for our shareholders."

Alison Hill, CEO

Innovative Approach

"…most importantly, I learned to look within and to look at youth performances from their viewpoint."

Calven Blankendal • The North Village Community Club and Bermuda's Brazilian Football School
Participant of Dr. Alred Coaching Session

"What you say is just as important as how you say it."

Michael Ward • Flanagan's Onions Football Club, Participant of Dr. Alred Coaching Session

Argus is a leader, not a follower. We lead policy, thought leadership and behaviour change. Argus and its stakeholders are intimately and intrinsically linked. Our business is their business; their success is our success. We care for their future because it's our future too. And so they are at the heart of everything we do. We are curious about our stakeholders business. We treat everyone like an individual, talking their language and taking a personal interest in their needs. We work together to help our stakeholders be successful.

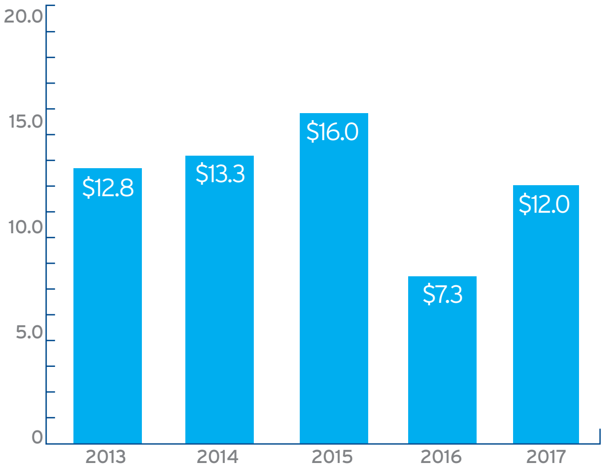
We're proud to be a catalyst, changing the conversation and driving forward thinking for ourselves and our industry.

For our community, Argus partnered with **SoftBank Team Japan** to bring the innovative and internationally recognised elite performance coach, Dr. David Alred to Bermuda. Dr. Alred has helped local sports coaches enhance how they communicate by giving them the tools to influence, empower and motivate our kids to embrace active and healthy lifestyles.

For our health insureds, Argus has adopted an innovative approach to combating diabetes with our **Diabetes Reversal Programme**. Working in partnership with renowned diabetes specialist Dr. David Cavan, we are actively helping to reduce the prevalence of Type 2 diabetes in Bermuda.

Net Earnings

($ Millions)



"Our strategy to diversify our sources of earnings combined with the diversification of our investment portfolio has stimulated growth while creating greater stability in the face of increased global uncertainty."

Peter Dunkerley, CFO

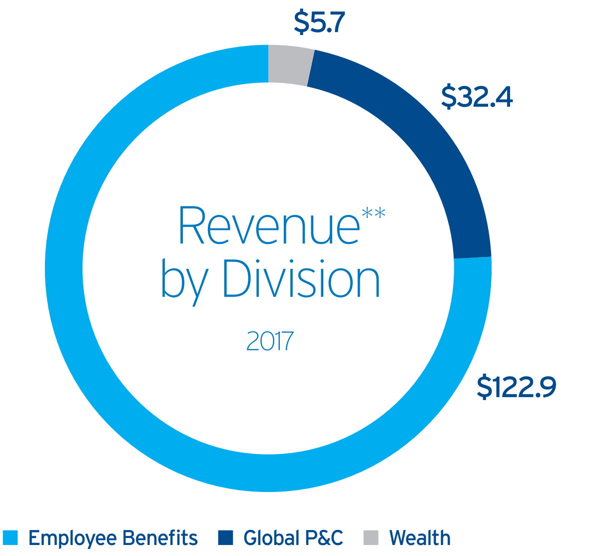
Our Performance

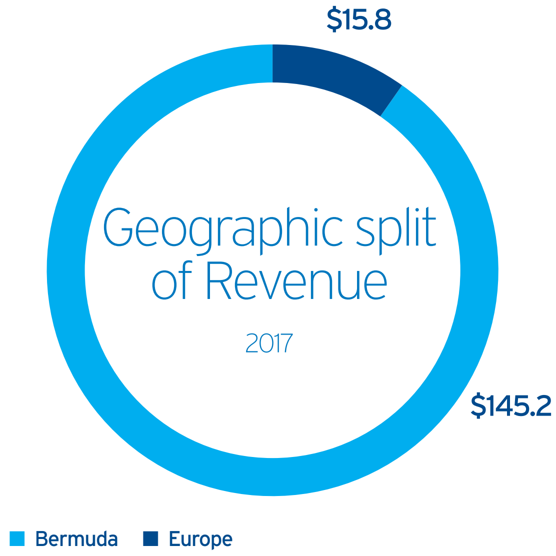
Our net earnings for the year ended March 31, 2017 of $12.0 million has increased over the prior year's earnings of $7.3 million. Return on average shareholders' equity was 9.5%; an uplift from the prior year return of 6.0%. This solid result is underpinned by strong investment performance and one-off gains from Bermuda equities. The financial results within our three divisions of Employee Benefits, Global Property and Casualty and Wealth Management are underpinned by disciplined, long-term underwriting strategies.

Diversifying Earnings

We are pleased with our continued progress to diversify the Group's sources of earnings across products and geographies. In 2016 we welcomed Island Insurance Brokers into the group to further diversify our sources of revenue geographically and by product. This acquisition has provided the Group with a springboard for further growth and expansion in the Malta market. European net earnings for the upcoming year is expected to grow to approximately one fifth of Group net earnings.

Substantial progress has also been made to further diversify our investment portfolio and we were able to substantially reduce the Group's concentration in certain equity holdings this year. These changes,





* All figures in millions.
** Based on the operating revenue (Total revenue less investment income and share of earnings of associates) from the following operating segments: Employee benefits, Global Property and Casualty (P&C) and Wealth.

together with the changes we've made to our investment portfolio, as discussed in last year's report, have created greater stability to our investment returns. Management remain focused on reducing the Group's remaining asset concentrations and removing potential volatility from non-core activities.

Competitive Forces

We operate in a highly competitive environment where profit margins remain under pressure from competitors and from clients who are looking to drive ever greater value from their service providers. In this context we are pleased to have successfully held rates firm across most lines of business with modest overall rate increases for our health business.

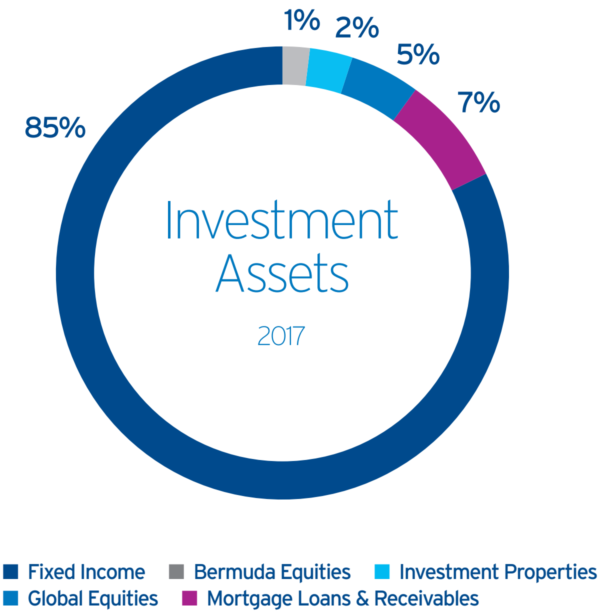
Despite these competitive and environmental headwinds, we remain optimistic about the future. The Group's three strategic priorities are positioning the group to thrive in uncertain times and to be resilient to whatever global forces push our way. Our advocacy and innovation strategies are creating the value our clients are looking for, which helps support long-term margin squeeze. Our growth strategy will diversify the Group's sources of revenue and bring economies of scale. And underpinning these strategies is our highly engaged team and our culture of doing the right thing.

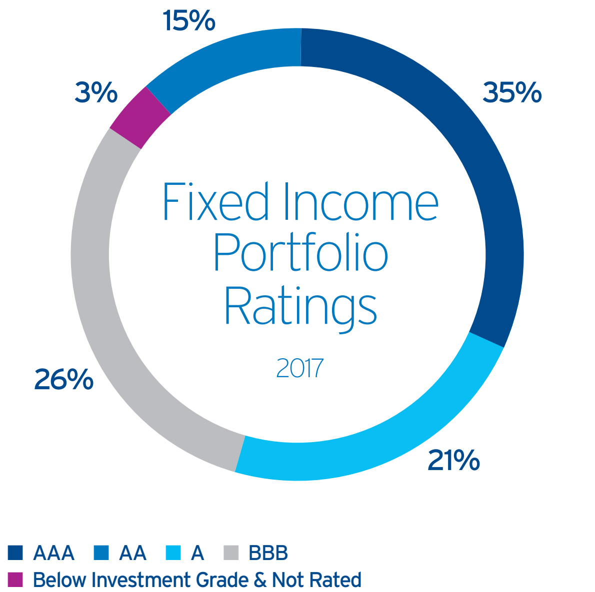
Our Underwriting Performance

We use a combined operating ratio to track the overall performance of our underwriting operations, which compares premium income to the cost of claims and operating expenses. For the year ended March 31, 2017, the combined operating ratio for the insurance businesses within the Group remains healthy at 83.3% compared with 78.5% in the prior year. The increase in the combined ratio compared to the prior year is driven by lower profits from our health business as a result of pricing actions taken in the short term to secure future long-term sustainability of this important business to the Group. Additionally, health claims have returned to a more normal level after the unusually low claims in the previous two years. While the Group has seen growth in the insured population, we've also experienced an increase in claims costs as more insureds have used preventative and diagnostic benefits. While this is causing short-term spikes in claims, we see this as a positive trend that will increase early detection of serious illness and support our long-term goal to manage health cost inflation down.

The Group continues to make significant investment in providing sustainable solutions to aid in managing the rising cost of healthcare to our clients and the community. These initiatives come at a short-term cost

Financial Review





but will produce long-term economic benefits for the Group.

Our Global Property and Casualty Division performed well overall, despite the impact of hurricane Nicole in Bermuda and the emergence of some old liability claims in Europe. Once again, we are pleased that the financial impact to the Group of significant events has been mitigated through the performance of the Group's comprehensive reinsurance arrangements.

In our health division, new premium was $6.0 million, much of it driven by incredibly positive word-of-mouth testimony to our consistently high levels of customer service. Global property and casualty new premium of $7.0 million was predominantly from our European business.

Our Fee Income

The combined fee income of $18.9 million comprises fees for service generated by our pensions, insurance brokerage, health administration and wealth management businesses. The decline in the combined fee income compared to prior year of $20.0 million is mostly attributable to fee reductions within our pension business that were delivered to our pension members as part of the successful fund transformation initiative. We expect that the drop in pension fee income will be short term and that the Group will reap the benefits through enhanced long-term profitability. With the new fund offering, the Group has retained and won new business within a competitive market and in the midst of market consolidation within the international business sectors.

We are delighted to report that we have attracted new business whilst maintaining very high retention rates of existing loyal and valued clients. We are particularly pleased to attract new clients with pension assets totalling $70.0 million, which is tangible validation of the fund transformation we undertook in early 2016.

Fee income from other parts of the business has remained stable and insurance brokerage fees have been significantly boosted by the addition of Island Insurance Brokers Limited.

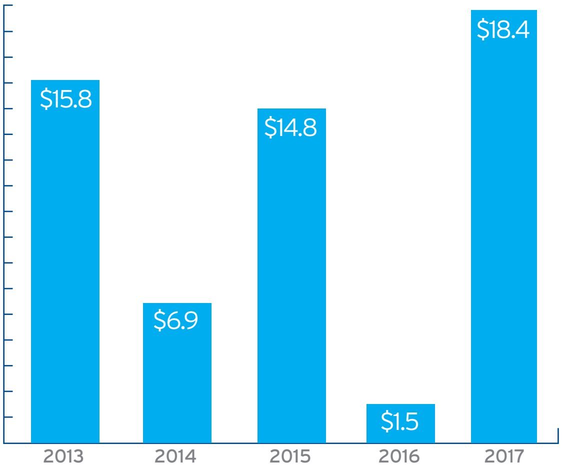
Our Investment Performance

The Group's investment portfolio is designed to ensure funds are readily available to satisfy our promises to policyholders and to enhance shareholder value by generating appropriate long-term risk-adjusted yields.

The Group seeks to earn a reasonable long-term return whilst: (1) Being well-diversified and maintaining excellent credit quality; (2) Being sufficiently liquid to pay claims and other contractual liabilities promptly; (3) Asset-Liability Matching – investing in assets with similar characteristics to the liabilities they support.

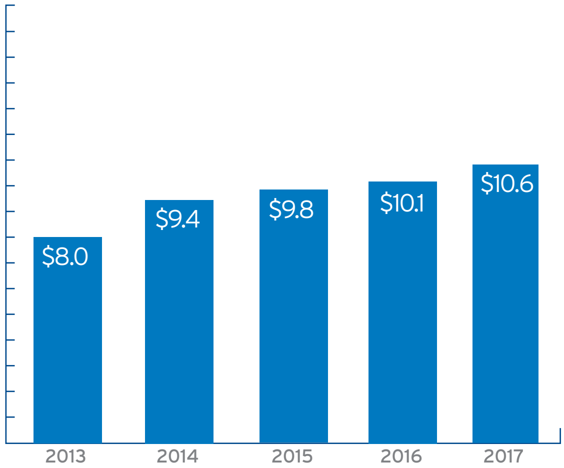
Reported Investment Income

($ Millions)



Core Investment Income

($ Millions)



As can be seen above, 85% of the Group's investments are fixed income bonds of which 97% are investment grade. The 3% below investment grade and unrated fixed income assets are diversified and considered "money good" by their respective managers.

The past year has seen some big geopolitical events, such as the unexpected referendum result by the UK people to exit the EU ("Brexit") and the surprise victory for Donald Trump in the U.S. presidential election. Throughout the market turmoil that followed these events, the Group's portfolio continued to generate pleasing results.

The Group reported investment income of $18.4 million, compared with $1.5 million in the previous year. The robust results reflected strong performance from our selected investment managers, with all but one manager outperforming their target returns. The investment income benefitted from one-time realised gains of $4.9 million from the sale of certain Bermuda equities. This reduced the Group's exposure to Bermuda equities to less than 2% of investment assets.

Last year's Annual Report discussed that while some investment income volatility is inherent, including all unrealised gains and losses within our reported investment income takes focus away from the fundamental objectives and results of the investment portfolio. Accordingly, the Group made changes to enhance the reporting of investment income. As a result unrealised market movements on a large part of the Group's investment portfolio are reported as Other Comprehensive Income within the Consolidated Statements of Comprehensive Income, but not included within the reported Net Income figure in the Consolidated Statements of Operations. These assets continue to be reported at fair market value on the Consolidated Balance Sheets.

The total return on the investment portfolio was $19.3 million, including $0.9 million of unrealised gains now recorded in Other Comprehensive Income.

The chart for Reported Investment Income above illustrates the impact of investment noise. From 2013 to 2016 the results included significant unrealised gains and losses. In 2017, the impact of unrealised gains and losses has been greatly reduced, as discussed above, although there were one-time realised gains from the sale of Bermuda equities. In contrast, the Core Investment Income chart above (which excludes the volatility of unrealised and realised movements and one-off impairment charges), shows a much more stable picture over the same period. The investment portfolio is stronger than ever. It continues to ensure the Group will meet policyholder commitments and deliver appropriate long-term yields.

Innovative Technologies

"The school has benefitted a great deal from our connection with SoftBank Team Japan and Argus. Virtual reality is an exciting new technology that is being used more and more in the modern-day classroom. The Argus virtual reality videos and goggles will help to remind our students of our amazing America's Cup experiences and our partnership with Argus. Thank you, Argus!"

Chris Naylor, Head of Design & Technology, Sandys Secondary Middle School

"I want to have self-service, in most instances, I just pick up the phone and call my RM. It is great to know I will be able to get answers to easy questions online and at my convenience."

Employer User

Our innovative spirit and innovative approach shapes how we harness and utilise technology. By having a deep understanding of our clients' needs, we can ensure technological change is relevant and delivers real value to our customers to meet the expectations of their complex and evolving lives.

Our new "**Argus Health Benefit Portal**" gives our clients the ability to better manage their employee benefits by having 24/7 access to online Reports and Benefits plans and, transact in a safe and secure manner.

We use our innovative and creative thinking to inspire and bring our community closer together. Our interactive **Argus 360 Virtual Reality App** helped capture the truly immersive experience of being an active part of the **SoftBank Team Japan** family.

Looking Forward

Geopolitical

The rise of populist and protectionist policies will cause uncertainty and change the economics of doing business on a global scale. Volatility in global governance and the domination of nationalistic economic policies means that an open environment for trade will be difficult to navigate. Given this reality, the expectation is that further tariffs and restrictions to open trading will continue.

An agile and flexible approach will be necessary to adapt, respond and take advantage of this reality. A diversified approach, along with limited risk and multiple options, will be essential to manage these policies.

Cyber Security

The virtual nature of data management strategies and increasingly adaptive threats, combined with transactional demands, will mean the only constant in security is change. The subsequent rise in protective regulatory restrictions will further control the ability of companies to manage data. Responding to this will require complex, adaptive and globally structured security protocols that are organic. Our customers will expect that their data is protected seamlessly, but the increasingly complex and evolving threats mean they cannot understand what that means. Nor do they want to. Data is the new frontier and the combination of universal access, data mining and individual control is a perfect storm.

While the reasons for cyber criminals are as old as time, the approach to cyber-security must change to meet our future needs. Our expanding digital channel will require a parallel and robust strategy that meets the requirements of the global digital environment. Our investment in forward-thinking security strategies and management of our data assets is the first step.

"Diabetes is a chronic issue in Bermuda and we are serious about reversing this trend. This is a high priority for our wellness and prevention strategy. We aim to be a pioneer in affecting change to improve the lives of residents of Bermuda."

Alison Hill, CEO

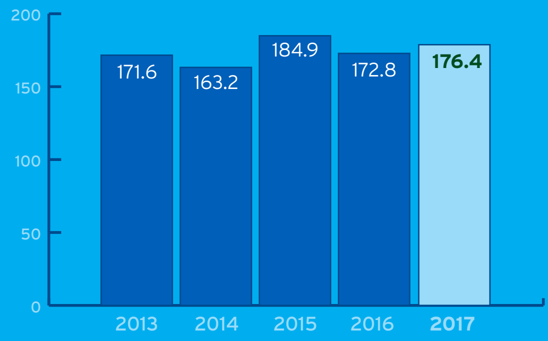
Healthcare costs

Responding to rising healthcare costs, while implementing a sustainable long-term framework for healthcare, will continue to be the critical factor. Demographic impacts such as an aging and working population put tremendous pressure on utilisation and health-cost inflation. Likewise, increasing trends of wasteful procedures and tests, along with increasing prescription drug costs, will compound the problem. The double-edged sword of advances in technology, coupled with the costs of that technology and the appetite for it, negate the relative savings to be found from those advances.

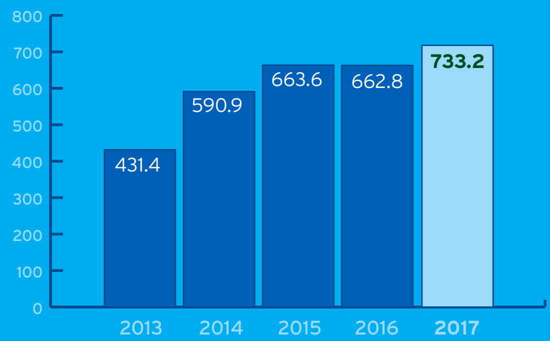
Much of the downside to rising healthcare costs can be mitigated with education, preventative measures and health strategies. The popular rise and acceptance of these strategies will continue to present opportunities for us to advocate on behalf of our clients. Steps taken in support of these strategies are critical to long-term financial sustainability.

Five-Year Summary

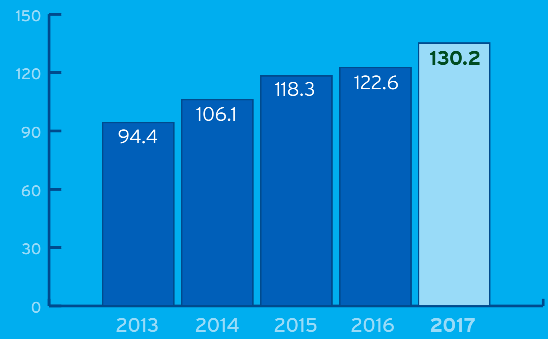
Total Revenue
For the Year (in millions of dollars)



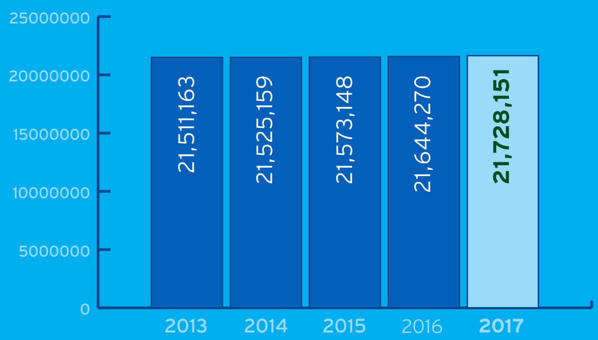
Total General Fund Assets
At Year End (in millions of dollars)



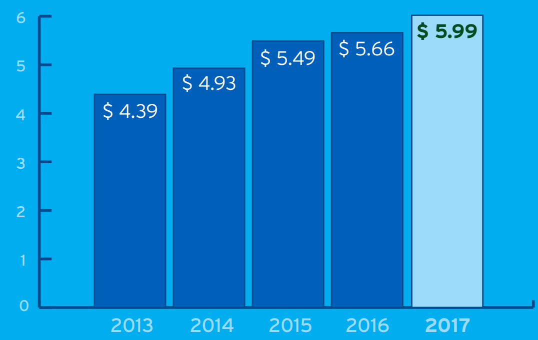
Shareholders' Equity
At Year End (in millions of dollars)



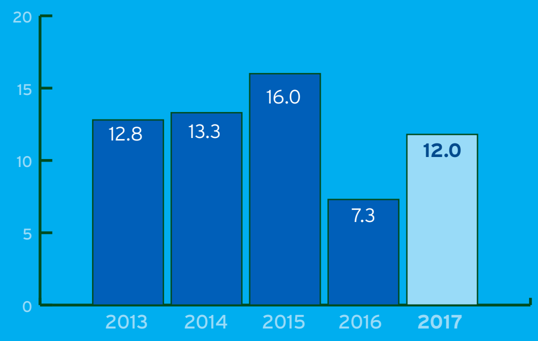
Shares In Issue
Shareholder Data



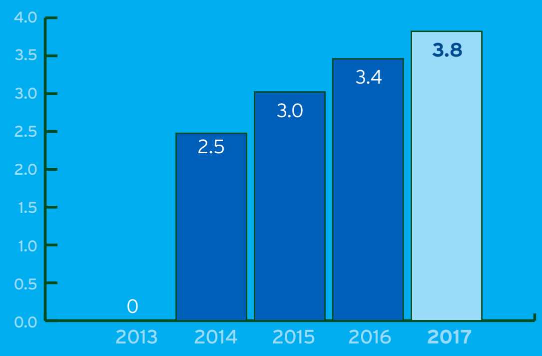
Book Value Per Share
Shareholder Data



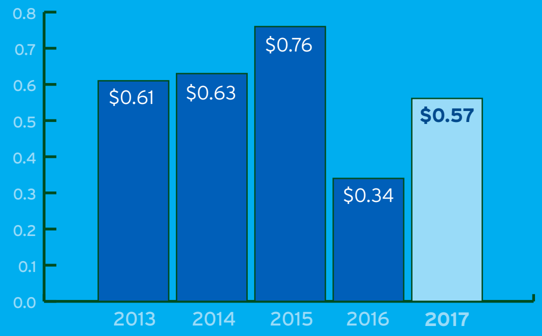
Earnings Attributable to Shareholders
For the Year (in millions of dollars)



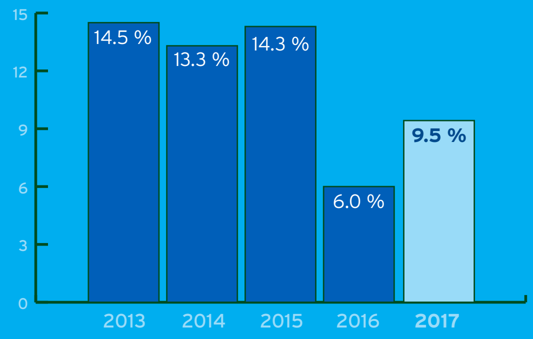
Cash Dividends
For the Year (in millions of dollars)



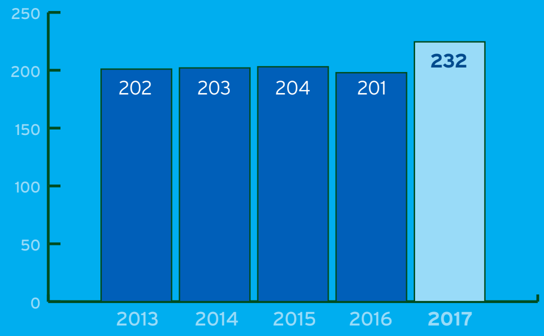
Earnings Per Share - Fully Diluted
Financial Ratio



Return on Average Shareholders' Equity
Financial Ratio



Employees
Number of Employees



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 fulfil this responsibility, the Group maintains policies, procedures and systems of internal control to ensure that its reporting practices, and accounting and administrative procedures are appropriate, such that relevant and reliable financial information is produced and assets are safeguarded. These controls include the careful selection and training of employees, the establishment of well-defined areas of responsibility and accountability for performance, and the communication of policies and a code of conduct throughout the Group. In addition, the Group maintains an Internal Audit Department that conducts periodic audits of all aspects of the Group's operations. The Internal Audit Department reports directly to the Audit Committee.

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

KPMG Audit Limited, the independent chartered professional accountants appointed by the shareholders, have audited the consolidated financial statements set out on pages 28 through 86 in accordance with auditing standards generally accepted in the United States of America to enable them to express to the shareholders their opinion on the consolidated financial statements. Their report is shown opposite.

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

These consolidated financial statements were authorised for issue by the Board of Directors on July 28, 2017.

Alison S. Hill
Chief Executive Officer

Peter J. Dunkerley
Chief Financial Officer

July 28, 2017

Independent **Auditor's Report**

To the shareholders of
Argus Group Holdings Limited and its subsidiaries

We have audited the accompanying consolidated financial statements of Argus Group Holdings Limited and its subsidiaries, which comprise the consolidated balance sheets as of March 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of Argus Group Holdings Limited and its subsidiaries as of March 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda

July 28, 2017

Consolidated **Balance Sheets**

(In $ thousands)	Note	MARCH 31 2017	MARCH 31 2016
ASSETS			
Cash and short-term investments	4	55,778	34,106
Interest and dividends receivable		2,452	2,826
Investments	5,6	521,599	482,287
Receivable for investments sold		19,156	6,703
Insurance balances receivable	7	14,426	12,796
Reinsurers' share of:			
Claims provisions	14	14,167	24,035
Unearned premiums	14	8,871	9,572
Other assets	8	7,989	6,300
Deferred policy acquisition costs	9	964	1,098
Investment properties	10	12,225	10,448
Investment in associates	11	11,581	11,644
Property and equipment	12	58,020	58,531
Intangible assets	13	5,924	2,435
TOTAL GENERAL FUND ASSETS		733,152	662,781
TOTAL SEGREGATED FUND ASSETS	31	1,505,928	1,398,933
TOTAL ASSETS		2,239,080	2,061,714
LIABILITIES			
Insurance contract liabilities	14	223,597	231,836
Insurance balances payable	15	13,706	18,402
Payables arising from investment transactions	16	99,303	33,937
Investment contract liabilities	17	242,271	233,985
Taxes payable		56	67
Accounts payable and accrued liabilities		19,235	16,392
Post-employment benefit liabilities	18	3,414	4,135
TOTAL GENERAL FUND LIABILITIES		601,582	538,754
TOTAL SEGREGATED FUND LIABILITIES	31	1,505,928	1,398,933
TOTAL LIABILITIES		2,107,510	1,937,687
EQUITY			
Attributable to shareholders of the Company			
Share capital		16,944	17,861
Contributed surplus		53,183	52,891
Retained earnings		63,688	55,742
Accumulated other comprehensive loss	22	(3,589)	(3,937)
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY		130,226	122,557
Attributable to non-controlling interests		1,344	1,470
TOTAL EQUITY		131,570	124,027
TOTAL EQUITY AND LIABILITIES		2,239,080	2,061,714

The accompanying notes form part of these consolidated financial statements.

Consolidated **Statements of Operations**

For the years ended March 31 (In $ thousands, except per share data)	Note	2017	2016
REVENUE			
Gross premiums written		165,149	176,378
Reinsurance ceded		(36,307)	(36,581)
Net premiums written		128,842	139,797
Net change in unearned premiums	14.3	(22)	(646)
Net premiums earned		128,820	139,151
Investment income	5	18,431	1,499
Share of earnings of associates		212	138
Commissions, management fees and other	24	28,960	32,061
		176,423	172,849
EXPENSES			
Policy benefits		17,672	13,251
Claims and adjustment expenses		102,916	96,405
Reinsurance recoveries	25	(18,118)	(13,594)
Gross change in contract liabilities	26	(5,751)	3,734
Change in reinsurers' share of claims provisions	26	9,009	9,805
NET BENEFITS AND CLAIMS		105,728	109,601
Commission expenses		4,745	5,101
Operating expenses	27	49,725	46,042
Amortisation, depreciation and impairment	12,13	4,169	4,125
		164,367	164,869
EARNINGS BEFORE INCOME TAXES		12,056	7,980
Income tax expense	30	228	119
NET EARNINGS FOR THE YEAR		11,828	7,861
Attributable to:			
Shareholders of the Company		11,954	7,280
Non-controlling interests		(126)	581
		11,828	7,861
Earnings per share:	23		
Basic		*0.57*	*0.34*
Fully diluted		*0.57*	*0.34*

The accompanying notes form part of these consolidated financial statements.

Consolidated **Statements of Comprehensive Income**

For the years ended March 31 (In $ thousands)	Note	**2017**	2016
NET EARNINGS FOR THE YEAR		11,828	7,861
OTHER COMPREHENSIVE INCOME/(LOSS)			
Items that will not be reclassified to net earnings:			
Post-employment medical benefit obligation remeasurement	18	816	22
Items that are or may subsequently be reclassified to net earnings:			
Change in unrealised gains/(losses) on available-for-sale investments		859	(24)
Change in unrealised losses on translating financial statements of foreign operations		(1,327)	(42)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		348	(44)
COMPREHENSIVE INCOME FOR THE YEAR		12,176	7,817
OTHER COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO:			
Shareholders of the Company		348	(44)
Non-controlling interests		-	-
		348	(44)
COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO:			
Shareholders of the Company		12,302	7,236
Non-controlling interests		(126)	581
		12,176	7,817

The accompanying notes form part of these consolidated financial statements.

Consolidated **Statements of Changes in Equity**

For the years ended March 31 (In $ thousands except the number of shares)	Note	**2017**	2016
SHARE CAPITAL			
Authorised:			
25,000,000 common shares of $1.00 each (2016 – 25,000,000)		25,000	25,000
Issued and fully paid, beginning of year 21,644,270 shares (2016 – 21,573,148 shares)		21,644	21,573
Add: Shares issued under the dividend reinvestment plan 83,881 shares (2016 – 71,122 shares)	21	84	71
Deduct: Shares held in Treasury, at cost 715,762 shares (2016 – 407,931 shares)		(4,784)	(3,783)
BALANCE, NET OF SHARES HELD IN TREASURY, END OF YEAR		16,944	17,861
CONTRIBUTED SURPLUS			
Balance, beginning of year		52,891	52,698
Stock-based compensation expense		178	165
Treasury shares granted to employees		(177)	(175)
Shares issued under the dividend reinvestment plan	21	291	203
BALANCE, END OF YEAR		53,183	52,891
RETAINED EARNINGS			
Balance, beginning of year		55,742	52,141
Net earnings for the year		11,954	7,280
Dividends		(3,800)	(3,388)
Loss on treasury shares granted to employees		(208)	(291)
BALANCE, END OF YEAR		63,688	55,742
ACCUMULATED OTHER COMPREHENSIVE LOSS			
Balance, beginning of year		(3,937)	(3,893)
Other comprehensive income/(loss)		348	(44)
BALANCE, END OF YEAR		(3,589)	(3,937)
TOTAL ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY		130,226	122,557
ATTRIBUTABLE TO NON-CONTROLLING INTERESTS			
Balance, beginning of year		1,470	1,489
Net (loss)/earnings for the year		(126)	581
Distributions to non-controlling interests		-	(600)
TOTAL EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		1,344	1,470
TOTAL EQUITY		131,570	124,027

The accompanying notes form part of these consolidated financial statements.

Consolidated **Statements of Cash Flows**

For the years ended March 31 (In $ thousands)	2017	2016
OPERATING ACTIVITIES		
Earnings before income taxes	12,056	7,980
Adjustments to reconcile net earnings to cash basis (Footnote (i) below)	(13,358)	3,750
Change in operating balances (Footnote (ii) below)	4,681	15,380
Interest income received	10,713	10,767
Dividend income received	1,092	737
Income tax paid	(390)	(12)
CASH GENERATED FROM OPERATING ACTIVITIES	14,794	38,602
INVESTING ACTIVITIES		
Purchase of investments	(1,186,708)	(1,404,918)
Sale and maturity and paydown of investments	1,203,839	1,374,190
Purchase of subsidiary, net of cash acquired	(2,030)	-
Purchase of property and equipment	(2,520)	(2,421)
Purchase of intangibles	-	(572)
CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES	12,581	(33,721)
FINANCING ACTIVITIES		
Dividends paid to shareholders	(3,528)	(3,181)
Acquisition of shares held in Treasury	(1,292)	-
Distributions to non-controlling interests	-	(600)
CASH USED IN FINANCING ACTIVITIES	(4,820)	(3,781)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND SHORT-TERM INVESTMENTS	(883)	(89)
NET INCREASE IN CASH AND SHORT-TERM INVESTMENTS	21,672	1,011
CASH AND SHORT-TERM INVESTMENTS, BEGINNING OF YEAR	34,106	33,095
CASH AND SHORT-TERM INVESTMENTS, END OF YEAR	55,778	34,106

Footnotes

	2017	2016
(i) Interest income	(12,619)	(12,005)
Dividend income	(929)	(843)
Investment income related to Deposit administration pension plans	2,104	2,152
Net realised and unrealised (gains)/losses on investments	(7,495)	6,577
Amortisation of net premium of bonds	1,723	1,670
Net impairment losses on investments	1,000	2,047
Share of earnings of associates	(212)	(138)
Change in fair value of investment property	(1,277)	-
Amortisation, depreciation and impairment	4,169	4,125
Expense of vesting of stock-based compensation	178	165
	(13,358)	3,750
(ii) Insurance balances receivable	1,149	(1,978)
Reinsurers' share of:		
Claims provisions	9,197	9,823
Unearned premiums	405	(385)
Other assets	(1,567)	542
Deferred policy acquisition costs	167	411
Insurance contract liabilities	(5,640)	4,738
Insurance balances payable	(9,533)	7,107
Investment contract liabilities	8,286	(4,588)
Accounts payable and accrued liabilities	2,122	(405)
Post employment benefit liability	95	115
	4,681	15,380

The accompanying notes form part of these consolidated financial statements.

Contents Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

March 31, 2017

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

1 Operations

Argus Group Holdings Limited (the Company) was incorporated in Bermuda with limited liability on May 26, 2005, as a holding company and has its registered office at the Argus Building, 14 Wesley Street, Hamilton HM 11, Bermuda. The Company's shares are traded on the Bermuda Stock Exchange. At March 31, 2017, it has 1,372 shareholders; 86.8 percent of whom are Bermudian, holding 89.5 percent of the issued shares.

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

2 Significant Accounting Policies

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

2.1 STATEMENT OF COMPLIANCE

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

2.2 BASIS OF PRESENTATION

2.2.1 Basis of measurement

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

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

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

2.2.2 Presentation currency

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

2.2.3 Use of 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 may differ from those estimates.

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

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:
Note 2.9 – Insurance, investment and service contracts;
Note 10 – Investment Properties; and
Note 11 – Investment in Associates;

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:
Note 2.7 – Impairment of assets;
Note 5 and Note 17 – Investments and Investment Contract Liabilities; and
Note 14 – Insurance Contract Liabilities.

2.3 BASIS OF CONSOLIDATION

2.3.1 Business combinations

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

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

Amalgamation transactions

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

2.3.2 Subsidiaries

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

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

2.3.3 Non-controlling interests

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

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

2.3.4 Investment in associates

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

Investment in associates is initially recognised at cost, which includes transaction costs. Thereafter, these investments are measured using the equity method. Under the equity method, the Group records its proportionate share of income and loss from such investments on the Consolidated Statements of Operations and its proportionate share of Other Comprehensive Income on the Consolidated Statements of Comprehensive Income. 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 Remeasurement of transactions in foreign currencies

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

2.4.2 Translation to the presentation currency

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

2.5 CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments include cash balances, cash equivalents 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.

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 of financial assets at initial recognition.

(i) Financial assets at FVTPL

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

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

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

(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 less any impairment losses. Interest income from Loans and receivables is recognised in Investment income on the Consolidated Statements of Operations using the effective interest method.

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

(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 Statements of Comprehensive Income. When an investment is derecognised, the cumulative gain or loss in Other comprehensive income is transferred to the Consolidated Statements of Operations. Dividends earned on equities are recorded in Investment income on the Consolidated Statements 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 Sheets 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 Sheets when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.6.2 Financial Liabilities

2.6.2(a) Classification and recognition of financial liabilities

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

(i) Financial liabilities at FVTPL

The Group's financial liabilities at FVTPL relate to deposit accounted annuity policies shown under Investment contract liabilities on the Consolidated Balance Sheets. Contracts recorded at FVTPL are measured at fair value at inception and each subsequent reporting period. Changes in fair value of investment contract liabilities are recorded in Gross change in contract liabilities on the Consolidated Statements of 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), Payables arising from investment transactions and Accounts payable and accrued liabilities. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

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

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

2.6.2(b) Derecognition

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

2.6.3 Derivative financial assets

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

2.6.4 Investment income

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

2.7 IMPAIRMENT OF ASSETS

2.7.1 Impairment of financial assets

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

- negative rating agency announcements in respect of investment issuers and debtors;
- significant reported financial difficulties of investment issuers and debtors;
- actual breaches of credit terms such as persistent late payments or actual default;
- the disintegration of the active market(s) in which a particular asset is traded or deployed;

- adverse economic or regulatory conditions that may restrict future cash flows and asset recoverability;
- the withdrawal of any guarantee from statutory funds or sovereign agencies implicitly supporting the asset; and
- significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

2.7.1(a) Held-to-maturity financial assets and Loans and receivables

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

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

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

2.7.1(b) Available-for-sale financial assets

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

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

2.7.2 Impairment of non-financial assets

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

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

If objective evidence of impairment exists, then the asset's recoverable amount is estimated. An impairment loss is recognised in Amortisation, depreciation and impairment on the Consolidated Statements of Operations if the carrying amount of an asset exceeds its estimated recoverable amount. The recoverable amount of an asset is the greater of its value-in-use and its fair value less costs to sell. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Assets 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 (Note 2.10). Expenditures related to ongoing maintenance of properties subsequent to acquisition are expensed as incurred. Investment properties are initially recognised at the transaction price including acquisition costs on the Consolidated Balance Sheets. These properties are subsequently measured at fair value with changes in values recorded in Investment income on the Consolidated Statements of Operations.

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

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

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

2.9.1(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 of Insurance balances receivable is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in Operating expenses on the Consolidated Statements of Operations.

Insurance balances receivable and Insurance balances payable are derecognised when the derecognition criteria for financial assets and financial liabilities, as described in Note 2.6 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 Reinsurers' share of unearned premiums represents that part of reinsurance premiums ceded which are estimated to be earned in future financial periods. Unearned reinsurance commissions are recognised as a liability using the same principles and are shown under Insurance balances payable on the Consolidated Balance Sheets. The Reinsurers' share of claims provisions is estimated using the same methodology as the underlying losses. These represent the benefit derived from reinsurance agreements in force at the date of the Consolidated Balance Sheets. Amounts due to or from reinsurers with respect to premiums or claims are included in Insurance balances payable or Insurance balances receivable on the Consolidated Balance Sheets.

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

2.9.1(d) Insurance contract liabilities

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

(i) Life and annuity policy reserves

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

(ii) Provision for unpaid and unreported claims

Provision for unpaid and unreported claims represents the best estimate of the ultimate costs of claims in the course of settlement and claims incurred but not yet reported. The provision is continually reviewed and updated by management and the Group's actuaries. Any adjustments resulting from the review process, as well as differences between estimates and ultimate payments, are reflected in Claims and adjustment expenses and Gross change in contract liabilities on the Consolidated Statements of 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 Statements 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 do transfer financial risk from the policyholders and are measured at FVTPL.

2.9.3 Other service contracts

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

2.10 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 incurred in Operating expenses on the Consolidated Statements of Operations.

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

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

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

2.11 INTANGIBLE ASSETS

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

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

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

2.12 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 policyholder has no direct access to the specific assets, the contractual arrangements are such that the segregated fund policyholder bears the risks and rewards of the fund's investment performance.

Segregated funds are carried at fair value. 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 and assets. The Group derives only fee income which is included within Commissions, management fees and other on the Consolidated Statements of Operations. Deposits to segregated funds are reported as increases in Segregated funds liabilities and are not reported on the Consolidated Statements of Operations.

2.13 EMPLOYEE BENEFITS

Post-employment benefits

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

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

Pensions

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

Stock-based compensation

The 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. There have been no stock options granted since 2007.

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

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

2.14 TAXATION

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

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

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

2.15 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 Statements 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 Statements 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 Statements of Operations.

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

2.17 EARNINGS PER SHARE

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

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

2.18 SEGMENT REPORTING

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

The Group's reportable segments are as follows:

- (i) Employee benefits – comprised of health insurance, pensions, annuities, local life and long-term disability insurance;
- (ii) Wealth management – including investment and asset management, financial planning and private placement life insurance;
- (iii) Global property and casualty insurance (P&C) – including fire and windstorm (home and commercial property), all risks, liability, marine, motor coverage and employer's indemnity coverage in Bermuda, Gibraltar and Malta; and
- (iv) All other – representing the combined operations of the remaining components of the Group comprising management companies and a holding company.

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

2.19 APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS

2.19.1 New and revised standards effective April 1, 2016

The Group has applied the following new and revised standards issued by the International Accounting Standards Board (IASB) that are mandatorily effective for the accounting period beginning April 1, 2016.

- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*
- Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*
- Annual Improvements 2012-2014 Cycle

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

2.19.2 Changes in Accounting Policy

2.19.2(a) Investment classification

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

To the extent possible, Management intends to hold the investments for an indefinite period of time, taking into consideration the use of the assets for tactical asset/liability management. These investments are not held for the purpose of being sold or repurchased in the near term, with the intention of profiting from short-term price changes. Management believes that the users of the financial statements will be better served by redesignating these investments to available-for-sale.

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

The carrying value of the redesignated investments still held at March 31, 2017 is $204.2 million.

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

	Consolidated Statements of Operations	Other Comprehensive Income
Investment Income	7,930	-
Net unrealised gains on investments	-	845
	7,930	845

If the investments had not been redesignated, $0.8 million would have been recognised in Investment income on the Consolidated Statements of Operations, in addition to the amounts disclosed in the above table.

The effective interest rates on investments redesignated as available-for-sale investments at April 1, 2016 and still held at the reporting date ranged from 3.2 percent to 5.0 percent, with expected estimated recoverable cashflows of $260.4 million.

2.19.2(b) Operating segments

Effective April 1, 2016, the Group amended the structure of the reportable segments to reflect the change in the management structure and internal financial reporting of the Group.

The Group's new reportable segments are discussed in Note 2.18.

2.20 FUTURE ACCOUNTING AND REPORTING CHANGES

There are a number of accounting and reporting changes issued under IFRS. A summary of the recently issued new accounting standards that will impact the Group in 2018 and beyond is as follows:

TOPIC	EFFECTIVE DATE FOR THE COMPANY	EXPECTED IMPACT
Disclosure Initiative (Amendments to IAS 7)	April 1, 2017	No significant impact
Amendments to IAS 40 *Transfers of Investment Property*	April 1, 2018	No significant impact
IFRS 15 *Revenue from Contracts with Customers*	April 1, 2018	Impact assessment in progress
IFRS 16 *Leases*	April 1, 2019	Impact assessment in progress
IFRS 9 *Financial Instruments*	April 1, 2018*	Impact assessment in progress
Amendments to IFRS 4 *Insurance Contracts*	April 1, 2018	Impact assessment in progress
IFRS 17 *Insurance Contracts*	April 1, 2021	Impact assessment in progress

*Adoption can be deferred to 2021 if certain conditions are met as discussed in 2.20.6

2.20.1 Proposed Amendments to IAS 7 *Statement of Cash Flows*

In January 2016, the IASB issued Disclosure Initiative (Amendments to IAS 7), which amends IAS 7 *Statement of Cash Flows*. The amendments, which are to be applied prospectively, require entities to provide disclosure that enables users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Adoption of these amendments is not expected to have a significant impact on the consolidated financial statements.

2.20.2 Proposed Amendments to IAS 40 *Investment Property*

In December 2016, the IASB issued Transfers of Investment Property (Amendments to IAS 40). The amendments to IAS 40 *Investment Property* clarify that an entity shall transfer property to, or from, investment property when, and only when, there is evidence of a change in use. Adoption of these amendments is not expected to have a significant impact on the consolidated financial statements.

2.20.3 IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 *Revenue from Contracts with Customers* was issued in May 2014 and should be applied retrospectively or on a modified retrospective basis. IFRS 15 clarifies revenue recognition principles, provides a robust framework for recognising revenue and cash flows arising from contracts with customers and enhances qualitative and quantitative disclosure requirements. IFRS 15 does not apply to insurance contracts, financial instruments and lease contracts. Management is assessing the impact of this standard.

2.20.4 IFRS 16 *Leases*

IFRS 16 was issued in January 2016 which will be applied retrospectively or on a modified retrospective basis. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, the customer (lessee) and the supplier (lessor). The standard brings most leases on-balance sheet for lessees under a single model, eliminating the previous classifications of operating and finance leases. The only exemption to this treatment is for lease contracts with a duration of less than one year. The on-balance sheet treatment will result in the grossing up of the balance sheet due to a right-of-use asset being recognised with an offsetting liability. Lessor accounting under the standard remains largely unchanged with previous classifications of operating and finance leases being maintained. Management is assessing the impact of this standard on the consolidated financial statements.

2.20.5 IFRS 9 *Financial Instruments*

In July 2014, the final version of IFRS 9 was issued, which replaces IAS 39 *Financial Instruments*: *Recognition and Measurement* and will be applied retrospectively or on a modified retrospective basis. The project has been divided into three phases: classification and measurement, impairment of financial assets, and hedge accounting. IFRS 9 provides that financial assets are classified and measured on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. IFRS 9 also introduces an impairment model for financial instruments not measured at fair value through profit or loss that requires recognition of expected losses at initial recognition of a financial instrument and the recognition of full lifetime expected losses if certain criteria are met. A new model for hedge accounting aligns hedge accounting with risk management activities. Revisions issued in July 2014 replace the existing incurred loss model used for measuring the allowance for credit losses with an expected loss model. Management is assessing the impact of these amendments, including the new insurance standard IFRS 17 *Insurance Contracts* outlined below, on the consolidated financial statements.

2.20.6 Amendments to IFRS 4 *Insurance Contracts* IFRS 17 *Insurance Contracts*

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

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

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

A joint IFRS 17 and IFRS 9 Group Implementation Programme is being set up, sponsored by the Group Chief Financial Officer, and involving members of the Finance, Risk, Investment Management and business unit teams. For the upcoming year, the focus of the Programme will be on staff training and preliminary impact analysis for significant operating subsidiaries.

3 Acquisition

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

The purchase consideration is subject to certain adjustments dependent on the persistency of the book of business. €3.9 million was settled as at March 31, 2017, while the remaining balance is payable over the next year. The fair value of the contingent consideration as of March 31, 2017 is €0.6 million, which is secured by a letter of credit of €0.5 million. The contingent consideration is based on the achievement of performance-related milestones and the range of undiscounted payment outcomes is between zero and €0.6 million.

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

MARCH 31, 2017	In €000's	In $000's
ASSETS		
Cash and cash equivalents	2,060	2,322
Insurance balances receivable	2,873	3,239
Property and equipment	27	30
Customer's list	4,144	4,671
Other assets	13	14
TOTAL ASSETS	**9,117**	**10,276**
LIABILITIES		
Insurance balances payable	4,523	5,099
Accounts payable and accrued liabilities	254	286
TOTAL LIABILITIES	**4,777**	**5,385**
NET ASSETS ACQUIRED	**4,340**	**4,891**

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

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

IIBL contributed revenue of €1.1 million ($1.2 million) since July 1, 2016, as shown in the Consolidated Statements of Operations. IIBL also contributed net earnings of €0.1 million ($0.1 million) over the same period.

4 Cash and Short-term Investments

AS AT MARCH 31	2017	2016
Cash at bank and in hand	17,988	8,065
Short-term investments	37,790	26,041
	55,778	34,106

Included in Cash at bank and in hand is restricted cash of €2.5 million, or $2.6 million (2016 – €0.1 million, or $0.1 million). Certain subsidiaries have arrangements in place on behalf of clients in order to comply with regulatory requirements in Malta.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of Cash at bank and in hand. As of March 31, 2017, the Group's bank overdraft position is $1.8 million (2016 – $3.0 million).

$20.3 million of short-term investments are used as collateral for the Group's reverse sale and repurchase agreements (Note 5.3).

5 Investments

5.1 CARRYING VALUES AND ESTIMATED FAIR VALUES OF INVESTMENTS

	MARCH 31, 2017		MARCH 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Available-for-sale				
Bonds (1)	432,183	432,183	-	-
Equities	22,803	22,803	2,383	2,383
	454,986	454,986	2,383	2,383
Investments at FVTPL (2)				
Bonds (1)	22,220	22,220	398,594	398,594
Equities	7,930	7,930	39,813	39,813
	30,150	30,150	438,407	434,407
Held-to-maturity				
Bonds	625	687	3,754	3,869
	625	687	3,754	3,869
Loans and receivables				
Mortgages and loans	35,411	37,155	37,517	39,778
Policy loans	81	81	81	81
	35,492	37,236	37,598	39,859
Derivatives				
Other (3)	283	283	42	42
Foreign currency forward contracts	63	63	103	103
	346	346	145	145
TOTAL INVESTMENTS	521,599	523,405	482,287	484,663

(1) Certain fixed income assets were redesignated from FVTPL to AFS. Refer to Note 2.19.2(a).
(2) Fair value through profit or loss (FVTPL)
(3) Other consists of interest rate swaps, credit default swaps and futures

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

Included in Bonds are investments of $159.0 million (2016 – $146.8 million), which are maintained under the Interest Accumulator Separate Account. The separate account is set up to provide policyholders certain protection from creditors of the Group. These investments are included in the assets supporting the Group's deposit administration pension.

5.2 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

AS AT MARCH 31	2017	2016
Derivative assets	346	145
Derivative liabilities	(376)	(480)
Collateral (1)	743	299

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

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

AS AT MARCH 31	2017	2016
Derivative financial instruments		
Foreign currency forward receivable	(5)	(147)
Other derivatives (1)	448	77
TOTAL NET EARNINGS/(LOSSES) FROM DERIVATIVE FINANCIAL INSTRUMENTS	443	(70)

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

5.2.1 Futures

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

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

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

At March 31, 2017, the Group has outstanding futures with long positions of $5.5 million and short positions of $8.0 million based on notional values (2016 – long positions of $1.3 million and short position of $nil).

5.2.2 Options

The Group's investment guidelines permit the use of exchange-traded options on U.S. treasury futures and Eurodollar futures, which are used to manage exposure to interest rate risk and also to hedge duration. Exchange-traded options are held on a similar basis to futures and are subject to similar safeguards. Options are contractual arrangements that give the purchaser the right, but not the obligation, to either buy or sell an instrument at a specific set price at a predetermined future date. The Group may enter into option contracts that are secured by holdings in the underlying securities or by other means which permit immediate satisfaction of the Group's obligations. At March 31, 2017, the Group does not hold any outstanding options (2016 – long position of $56.7 million and short position of $3.8 million).

5.2.3 Interest Rate Swaps

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

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

At March 31, 2017, the Group has open interest rate swaps with long positions of $0.8 million and short positions of $5.3 million based on notional values (2016 – long positions of $0.9 million and short positions of $nil).

5.2.4 Credit Default Swaps

Credit default swaps (CDS) are used to manage exposure to the market or certain sectors of the market. CDS contract provides protection against the decline in the value of the underlying assets as a result of specified credit events such as default or bankruptcy. CDS requires the purchaser to pay a premium to the seller of the CDS contract in return for payment contingent on the occurrence of a credit event. The protection purchaser has recourse to the protection seller for the difference between the face value of the CDS contract and the fair value of the underlying asset at the time of the settlement. Neither the purchaser nor the seller under the CDS contract has recourse to the entity that issued the reference assets. At March 31, 2017, the Group has open CDS contracts with long positions of $5.8 million and short positions of $1.9 million based on notional values (2016 – long position of $5.5 million and short positions of $5.7 million).

5.2.5 Swaptions

The Group has the ability to use swaptions, options on interest rate swaps, to manage interest rate risk exposure and portfolio and yield curve duration. The Group, as the purchaser of a swaption, is subject to the credit risk of the counter-party but is only subject to market risk to the extent of the premium paid. As a swaption writer, the Group is not subject to credit risk but is subject to market risk, due to its obligation to make payments under the terms of the contract. At March 31, 2017 and 2016, the Group does not hold any outstanding swaptions.

5.2.6 Foreign Currency Forwards

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

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

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

AS AT MARCH 31	2017		2016	
	Notional Short	Notional Long	Notional Short	Notional Long
Australian Dollar	-	-	3,618	1,809
Euro	4,836	2,536	4,032	2,481
Japanese Yen	-	-	69,020	34,510
Mexican Peso	-	13,940	-	-
Sterling	1,013	-	622	-

At March 31, 2017, the U.S. dollar equivalent and notional value of outstanding foreign currency forward contracts with long positions and short positions amounted to $3.5 million and $6.4 million respectively (2016 – $10.2 million and $4.4 million).

The Group also held foreign currency forward contracts denominated in other Far East Asian currencies as of March 31, 2016. The U.S. dollar equivalent for the positions held of these forward contracts with long positions and short positions amounted to $1.6 million and short positions of $nil.

5.3 REVERSE SALE AND REPURCHASE AGREEMENTS

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

The table below shows the balance arising from these agreements and collateral as of March 31, 2017.

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

(1) Securities pledged at fair value.

As of March 31, 2016, the Group did not hold any outstanding balances arising from reverse repos.

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

5.4 INVESTMENT INCOME

AS AT MARCH 31	2017	2016
Interest income		
Bonds – available-for-sale	11,241	-
Bonds – at FVTPL	303	10,685
Bonds – held-to-maturity	106	266
Mortgages and loans	727	956
Cash and other	242	98
	12,619	12,005
Dividend income		
Equities – at FVTPL	717	583
Equities – available-for-sale	212	260
	929	843
Net realised and unrealised (losses)/gains on investments		
Bonds – available-for-sale	365	-
Bonds – at FVTPL	268	(3,437)
Bonds – held-to-maturity	49	-
Equities – at FVTPL	6,076	(3,193)
Equities – available-for-sale	294	123
Derivative financial instruments	443	(70)
Investment properties	1,277	-
	8,772	(6,577)
Other		
Amortisation of premium on bonds	(1,723)	(1,670)
Rental income and other	938	1,097
Impairment charges		
Mortgages and loans	(1,000)	(2,047)
	(1,785)	(2,620)
INVESTMENT INCOME BEFORE DEDUCTIONS	20,535	3,651
Deductions		
Investment income relating to Deposit administration pension plans	(2,104)	(2,152)
INVESTMENT INCOME	18,431	1,499

6 Fair Value Measurement

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

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

The Group categorises its fair value measurements according to a three-level hierarchy. The hierarchy prioritises the inputs by the Group's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined as follows:

Level 1 – Fair value is based on unadjusted quoted prices in active markets for identical assets or liabilities. An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Fair value is based on inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly or indirectly. These include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in inactive markets, inputs that are observable that are not prices such as interest rates and credit risks.

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 market participants in pricing the assets and liabilities.

When available, quoted market prices are used to determine fair value for bonds, equities and derivatives. If quoted market prices are not available, fair value is typically based upon alternative valuation techniques such as matrix pricing, net asset valuation and discounted cash flow modelling. Broker quotes are used only when external public vendor prices are not available.

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

6.1 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

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

MARCH 31, 2017	Level 1	Level 2	Level 3	Total Fair Value
Available-for-sale				
Bonds				
U.S. government	79,721	11,627	-	91,348
U.S. and local corporates	-	146,680	-	146,680
Municipal, other government and agency	-	48,485	-	48,485
Foreign bonds	-	52,676	-	52,676
Mortgage/asset-backed securities	-	52,621	3,199	55,820
Other (1)	-	37,174	-	37,174
	79,721	349,263	3,199	432,183
Equities				
Global listed equities	696	-	-	696
Investment in hedge funds and mutual funds	-	19,817	-	19,817
Private equity funds and unquoted equities	-	-	2,290	2,290
	696	19,817	2,290	22,803
TOTAL AVAILABLE-FOR-SALE INVESTMENTS	80,417	369,080	5,489	454,986
Investments at FVTPL				
Bonds				
U.S. government	18,099	-	-	18,099
Other (1)	-	4,121	-	4,121
	18,099	4,121	-	22,220
Equities				
Bermuda listed equities	3,746	-	-	3,746
Global listed equities	4,033	-	-	4,033
Private equity funds and unquoted equities	-	-	151	151
	7,779	-	151	7,930
TOTAL INVESTMENTS AT FVTPL	25,878	4,121	151	30,150
Derivatives	-	346	-	346
Investment properties	-	12,225	-	12,225
TOTAL ASSETS AT FAIR VALUE	106,295	385,772	5,640	497,707
LIABILITIES				
Investment contract liabilities	-	2,384	-	2,384
Payables arising from investment transactions	-	99,303	-	99,303
TOTAL LIABILITIES AT FAIR VALUE	-	101,687	-	101,687

(1) Investment in bond funds.

MARCH 31, 2016	Level 1	Level 2	Level 3	Total Fair Value
Available-for-sale				
Equities				
Private equity funds and unquoted equities	-	-	2,383	2,383
TOTAL AVAILABLE-FOR-SALE INVESTMENTS	-	-	2,383	2,383
Investments at FVTPL				
Bonds				
U.S. government and short-term investments (1)	48,332	21,298	-	69,630
U.S. and local corporates	-	149,853	-	149,853
Municipal, other government and agency	-	24,149	-	24,149
Foreign bonds	-	69,881	-	69,881
Mortgage/asset-backed securities	-	53,623	1,551	55,174
Other (2)	-	29,907	-	29,907
	48,332	348,711	1,551	398,594
Equities				
Bermuda listed equities	13,532	-	-	13,532
Non-Bermuda listed equities	5,058	162	-	5,220
Investment in hedge funds and mutual funds	-	20,777	-	20,777
Private equity funds and unquoted equities	-	-	284	284
	18,590	20,939	284	39,813
TOTAL INVESTMENTS AT FVTPL	66,922	369,650	1,835	438,407
Derivatives	-	145	-	145
Investment properties	-	10,448	-	10,448
	-	10,593	-	10,593
TOTAL ASSETS AT FAIR VALUE	66,922	380,243	4,218	451,383
LIABILITIES				
Investment contract liabilities	-	2,719	-	2,719
Payables arising from investment transactions	-	33,937	-	33,937
TOTAL LIABILITIES AT FAIR VALUE	-	36,656	-	36,656

(1) Includes investment in money market funds and other short-term investments held by investment managers.
(2) Investment in bond funds.

Valuation techniques used to measure fair value of the financial assets and liabilities on a recurring basis are:

- Bonds – These are generally valued by third party independent pricing sources using pricing models. The significant inputs include, but are not limited to, yield curves, credit risks and spreads and measures of volatility. The Group considers these Level 2 inputs as they are corroborated with other externally obtained information. Bonds are classified under Level 2 except U.S. treasuries and exchange-traded money market funds which are classified as Level 1. Less liquid securities, such as structured mortgage/asset-backed securities, are classified as Level 3. The Group uses prices provided by investment managers and brokers for all securities which do not have pricing available from independent pricing services. In general, broker-dealers and investment managers value securities through their trading desks based on observable inputs. The methodologies include mapping securities based on trade data, bids or offers, observed spreads, and performance on newly issued securities. Broker-dealers and investment managers also determine valuations by observing secondary trading of similar securities.
- Equities – These consist of listed equities, unquoted equities and investments in mutual funds, hedge funds and private equity funds.

  Fair values of listed equities are based on quoted prices from the exchange where it is principally traded. These are classified under Level 1. Certain equities are unquoted and are classified as Level 3, as valuation is based on cost which approximates fair value.

  Investments in mutual funds and hedge funds are valued using published net asset values provided by third parties such as investment managers and administrators. The Group can redeem a portion of these investments on a regular basis and is not subject to lock-up provisions. Accordingly, these investments are classified under Level 2.

Investments in private equity funds are valued using net asset values obtained from investment managers and general partners. These investments may be subject to certain lock-up provisions. The type of underlying investments held by the investee, which form the basis of the net asset valuation, include assets such as private business ventures, to which the Group does not have access. The Group considers net asset values as a reasonable approximation of fair values. Accordingly, these investments are classified under Level 3.

- Included within Bonds "Other" and Equities – Investment in Argus Investment Strategies Fund Ltd., as discussed in Note 19.3, totalled $1.0 million (2016 – $32.2 million). For reporting purposes, these investments have been categorised as bonds and equities based on the underlying securities held. Net asset valuations for all the funds – along with client redemptions – are performed on a weekly basis. If the redemption request is greater than 10 percent of the fund's net asset value, the amount of the redemption can be adjusted at the fund manager's discretion. These investments are classified as Level 2.
- Derivatives – Valuation is derived from the underlying instrument. Derivatives are subject to the same risks as that underlying instrument including liquidity, credit and market risk. Fair values are based on exchange or broker-dealer quotations, where available, or discounted cash flows, which incorporate the pricing of the underlying instrument, yield curves and other factors. These investments are classified as Level 2.
- Investment properties – The fair value of investment properties was determined by external independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Group's investment properties annually. Fair value is based on market data from recent comparable transactions.
- Investment contract liabilities – 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.

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

	INVESTMENTS				
MARCH 31, 2017	At FVTPL Bonds	At FVTPL Equities	Available-for-sale Bonds	Available-for-sale Equities	Total
Balance, beginning of year	1,551	284	-	2,383	4,218
Included in Investment income	-	-	-	(3)	(3)
Included in Other comprehensive income	-	-	-	(79)	(79)
Purchases	-	-	2,444	38	2,482
Transfer to Level 2	-	-	(650)	-	(650)
Re-designation of investments	(1,551)	-	1,551	-	-
Sales/Write Off	-	(133)	(146)	(49)	(328)
	-	151	3,199	2,290	5,640

	INVESTMENTS			
MARCH 31, 2016	At FVTPL Bonds	At FVTPL Equities	Available-for-sale Equities	Total
Balance, beginning of year	1,057	313	2,663	4,033
Included in Investment income	(5)	(154)	-	(159)
Included in Other comprehensive income	-	-	(24)	(24)
Purchases	1,100	126	-	1,226
Transfer to Level 1	-	(1)	-	(1)
Sales/Write Off	(601)	-	(256)	(857)
	1,551	284	2,383	4,218

6.2 ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE

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

MARCH 31, 2017	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value
ASSETS					
Held-to-maturity bonds (1)	-	687	-	687	625
Mortgages and loans (2)	-	37,155	-	37,155	35,411
Policy loans	-	81	-	81	81
TOTAL ASSETS DISCLOSED AT FAIR VALUE	-	37,923	-	37,923	36,117
LIABILITIES					
Investment contract liabilities (3)	-	233,223	-	233,223	239,887
TOTAL LIABILITIES DISCLOSED AT FAIR VALUE	-	233,223	-	233,223	239,887

MARCH 31, 2016	Level 1	Level 2	Level 3	Total Fair value	Carrying value
ASSETS					
Held-to-maturity bonds (1)	-	3,869	-	3,869	3,754
Mortgages and loans (2)	-	39,778	-	39,778	37,517
Policy loans	-	81	-	81	81
TOTAL ASSETS DISCLOSED AT FAIR VALUE	-	43,728	-	43,728	41,352
LIABILITIES					
Investment contract liabilities (3)	-	227,542	-	227,542	231,266
TOTAL LIABILITIES DISCLOSED AT FAIR VALUE	-	227,542	-	227,542	231,266

(1) Fair value of bonds – see Note 6.1 for valuation techniques used to measure fair value.
(2) Fair value of mortgages and loans is determined by discounting expected future cash flows using current market rates.
(3) Fair value of Investment contract liabilities is based on the following methods:
- Deposit administration pension plans – based on a discounted cash flow method. Factors considered in the valuation include current yield curve, plus appropriate spreads which have market observable inputs; and
- Self-funded group health policies – the carrying value approximates the fair value due to the short-term nature of these investment contract liabilities.

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

- Cash and short-term investments;
- Interest and dividends receivable;
- Receivable for investments sold;
- Other financial assets under Other assets;
- Payables arising from investment transactions; and
- Accounts payable and accrued liabilities.

6.3 TRANSFERS OF ASSETS AND LIABILITIES WITHIN THE FAIR VALUE HIERARCHY

The Group's policy is to record transfers of assets and liabilities between levels at their fair values as at the end of each reporting period, consistent with the date of determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. There were no transfers between Levels 1 and 2 during the year ended March 31, 2017 and 2016.

Transfers out of Level 3 of $0.7 million (2016 – $nil), as shown on the previous page, relate to certain investments, which were transferred to Level 2 as observable inputs became available.

7 Insurance Balances Receivable

Insurance balances receivable is comprised of:

MARCH 31, 2017	Employee Benefits	Wealth Management	Global Property and Casualty	Total
Due from policyholders, agents and brokers	1,972	373	8,836	11,181
Due from reinsurers	3,007	-	238	3,245
TOTAL INSURANCE BALANCES RECEIVABLE	4,979	373	9,074	14,426

MARCH 31, 2016	Employee Benefits	Wealth Management	Global Property and Casualty	Total
Due from policyholders, agents and brokers	2,535	363	7,019	9,917
Due from reinsurers	2,879	-	-	2,879
TOTAL INSURANCE BALANCES RECEIVABLE	5,414	363	7,019	12,796

8 Other Assets

AS AT MARCH 31	2017	2016
Other financial assets		
Fees receivable	596	1,311
Receivable from self-funded group health policies	2,711	-
Notes and other receivables	1,669	2,496
TOTAL OTHER FINANCIAL ASSETS	4,976	3,807
Income taxes receivable	196	161
Prepaid expenses	2,817	2,332
TOTAL OTHER ASSETS	7,989	6,300

9 Deferred Policy Acquisition Costs

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

AS AT MARCH 31	2017	2016
Balance, beginning of year	1,098	1,317
Deferral during the year	3,165	3,417
Expense for the year	(3,333)	(3,828)
Foreign exchange rate movements	34	192
BALANCE, END OF YEAR	964	1,098

10 Investment Properties

	Fair Value
Balance, April 1, 2015	10,488
Additions	-
Unrealised gains and losses from change in fair value	-
Balance, March 31, 2016	10,448
Additions	500
Unrealised gains and losses from change in fair value	1,277
BALANCE, MARCH 31, 2017	**12,225**

Included in the Group's Investment properties are condominium units, fractional apartment units and a residential property. During the year, the Group acquired the ownership rights to a residential property used as collateral for a mortgage loan. The property was recorded at fair value at the acquisition date. Investment properties are held primarily for resale and for rental income under operating lease agreements. All investment properties are stated at fair value.

The Group has entered into operating leases for certain investment properties. The rental income arising during the year amounted to $0.7 million (2016 – $0.8 million), which is included in Investment income on the Consolidated Statements of Operations. Direct operating expenses included within Investment income arising in respect of such properties during the year were $0.7 million (2016 – $0.9 million).

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

11 Investment in Associates

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

One of the Group's associates is a well-diversified public company engaged in various activities including distribution of automotive parts and provision of automotive services; provision of facilities management services; and the provision of cabling, networking and telephony installation and maintenance services. As at March 31, 2017, the carrying value of this investment is $7.6 million (2016 – $7.1 million) which represents a 28.0 percent interest in the company (2016 – 28.0 percent). The Group received dividends of $0.3 million from this investment during the year (2016 – $0.3 million).

11.1 CONTINGENCIES AND RESTRICTIONS

Included in Investment in associates is a 35.5 percent interest (2016 – 35.3 percent) in a private company domiciled in Bermuda. The carrying value of this investment as at March 31, 2017 is $3.9 million (2016 – $4.4 million). The Group has issued a guarantee in respect of its proportionate share of a term bank loan facility totalling $6.1 million (2016 – $6.8 million) for this office building.

The associate also secured a letter of credit in order to finance the purchase of another property. Under the terms of the letter of credit, an amount of $0.2 million (2016 – $0.2 million), which is equivalent to one annual installment payment, is required to be held in escrow until the final payment has been made. The final payment is scheduled on January 31, 2018.

11.2 OTHER

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

12 Property and Equipment

	Note	Land and buildings	Computer equipment	Furniture and other equipment	Total
Gross carrying amount					
Balance, March 31, 2015		77,750	30,285	6,960	114,995
Additions		297	2,067	57	2,421
Foreign exchange rate movements		(22)	14	(8)	(16)
Balance, March 31, 2016		78,025	32,366	7,009	117,400
Additions		399	2,103	18	2,520
Acquisition of Subsidiary	3	-	-	195	195
Retirements (1)		-	(308)	(377)	(685)
Foreign exchange rate movements		(87)	(22)	(56)	(165)
BALANCE, MARCH 31, 2017		78,337	34,139	6,789	119,265
Accumulated depreciation					
Balance, March 31, 2015		23,755	25,465	6,078	55,298
Depreciation charge for the year		2,329	1,092	157	3,578
Foreign exchange rate movements		(11)	12	(8)	(7)
Balance, March 31, 2016		26,073	26,569	6,227	58,869
Depreciation charge for the year		2,270	609	124	3,003
Acquisition of Subsidiary	3	-	-	165	165
Retirements (1)		-	(308)	(377)	(685)
Foreign exchange rate movements		(42)	(19)	(46)	(107)
BALANCE, MARCH 31, 2017		28,301	26,851	6,093	61,245
Net carrying amount:					
As at March 31, 2016		51,952	5,797	782	58,531
AS AT MARCH 31, 2017		50,036	7,288	696	58,020

(1) In the current year, certain computer, furniture and other equipment under the Global P&C operating segment were retired. These assets were fully depreciated and were no longer used by the Group.

13 Intangible Assets

	Note	Total
Gross carrying amount		
Balance, March 31, 2015		23,475
Additions [1]		572
Foreign exchange adjustments		28
Balance, March 31, 2016		24,075
Additions	3	4,671
Foreign exchange adjustments		(40)
BALANCE, MARCH 31, 2017		**28,706**
Accumulated amortisation and impairment losses		
Balance, March 31, 2015		21,092
Amortisation charge for the year		547
Impairment loss		-
Foreign exchange adjustments		1
Balance, March 31, 2016		21,640
Amortisation charge for the year		1,011
Impairment loss		155
Foreign exchange adjustments		(24)
BALANCE, MARCH 31, 2017		**22,782**
Net carrying amount:		
As at March 31, 2016		2,435
AS AT MARCH 31, 2017		**5,924**

(1) During the year ended March 31, 2016, a company within the Global P&C operating segment acquired a client portfolio from a Bermuda-based insurance agency.

During the year, the Group recorded an impairment charge in the amount of $0.2 million (2016 – $nil), which represents a full write down of the carrying value of a customer list in the Wealth Management operating segment. The impairment is a result of the reassessment of the customer list's inherent value as at year-end.

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

14 Insurance Contract Liabilities

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

MARCH 31, 2017	Note	Gross	Ceded	Net
Life and annuity policy reserves	14.1	178,362	6,882	171,480
Provision for unpaid and unreported claims	14.2	28,960	7,285	21,675
		207,322	14,167	193,155
Unearned premiums	14.3	16,275	8,871	7,404
TOTAL INSURANCE CONTRACT LIABILITIES		223,597	23,038	200,559

MARCH 31, 2016	Note	Gross	Ceded	Net
Life and annuity policy reserves	14.1	174,894	7,429	167,465
Provision for unpaid and unreported claims	14.2	39,344	16,606	22,738
		214,238	24,035	190,203
Unearned premiums	14.3	17,598	9,572	8,026
TOTAL INSURANCE CONTRACT LIABILITIES		231,836	33,607	198,229

14.1 LIFE AND ANNUITY POLICY RESERVES

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

MARCH 31, 2017	Group Insurance	Life and pensions	Total
Annuities	155,086	-	155,086
Long-term disability	6,130	-	6,130
Life	2,317	14,829	17,146
Life and annuity policy reserves	163,533	14,829	178,362
Reinsurers' share of claims provisions	(4,573)	(2,309)	(6,882)
LIFE AND ANNUITY POLICY RESERVES, NET OF REINSURANCE	158,960	12,520	171,480

MARCH 31, 2016	Group Insurance	Life and pensions	Total
Annuities	150,590	-	150,590
Long-term disability	6,588	-	6,588
Life	1,975	15,741	17,716
Life and annuity policy reserves	159,153	15,741	174,894
Reinsurers' share of claims provisions	(4,967)	(2,462)	(7,429)
LIFE AND ANNUITY POLICY RESERVES, NET OF REINSURANCE	154,186	13,279	167,465

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, 2017	Cash	Bonds	Mortgage and loans	Equities	Land and buildings	Total
Annuities	6,603	116,110	9,059	7,315	16,000	155,087
Long-term disability	100	946	-	274	-	1,320
Life	754	9,959	1,885	2,475	-	15,073
LIFE AND ANNUITY POLICY RESERVES, NET OF REINSURANCE	7,457	127,015	10,944	10,064	16,000	171,480

MARCH 31, 2016	Cash (1)	Bonds	Mortgage and loans	Equities	Land and buildings	Total
Annuities	11,299	108,021	5,845	8,349	17,078	150,592
Long-term disability	-	-	1,448	-	-	1,448
Life	631	6,750	4,819	3,225	-	15,425
LIFE AND ANNUITY POLICY RESERVES, NET OF REINSURANCE	11,930	114,771	12,112	11,574	17,078	167,465

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

The Group examines the assumptions used in determining the Life and annuity policy reserves on an ongoing basis to ensure they appropriately reflect emerging experience and changes in risk profile. Annually the Group conducts a comprehensive review of all actuarial methods and assumptions. Changes to actuarial methods and assumptions used in determining Insurance contract liabilities will result in a change to the projected value of policy cash flows and therefore, to the Life and annuity policy reserves. The net impact of changes in actuarial methods and assumptions was a decrease in reserves backing policyholder liabilities of $2.4 million (2016 – decrease of $0.7 million). These amounts are net of the impact of the reinsurance assets on policyholder liabilities of $6.9 million (2016 – $7.4 million).

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

AS AT MARCH 31	2017	2016
Balance, beginning of year	167,465	150,963
Changes due to:		
Issuance of new policies	9,085	21,666
Normal in-force movement	(7,449)	(4,468)
Mortality/morbidity assumptions	1,961	660
Interest rate assumptions	2,205	(2,412)
Expense assumptions	(1,787)	(582)
Other (1)	-	1,638
BALANCE, END OF YEAR	171,480	167,465

(1) For the year ended March 31, 2016, Other changes comprise of enhancements in the modelling of assets under CALM.

14.1.1 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 at the conservative end of the ranges suggested by the CIA.	In conjunction with prudent business practices to manage both business and investment risks, the selection and monitoring of appropriate assumptions are designed to minimise the Group's exposure to measurement uncertainty.
(a) Mortality and morbidity risk Mortality refers to the likelihood of death. The mortality assumption is based on industry standard life insurance and standard annuity past and emerging experience. The volume of the Group's life insurance and annuity business is not sufficient to use company specific mortality tables. A five percentage basis decrease in the best estimate assumption for annuitant mortality is estimated to increase the policy reserves by \$3.6 million, 2.2 percent (2016 – \$3.3 million, 2.1 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 to reinsurers. Mortality and morbidity are monitored regularly.
(b) Investment returns and interest rate risk Assets are allocated to the different operating segments. For each significant operating segment, CALM is used to project the cash flows from the supporting assets and the cash flows from the liabilities. The projected asset cash flows are combined with the projected cash flows from future asset sales and purchases to determine the expected investment returns for all future years. The CIA prescribes several representative reinvestment scenarios for use in CALM to determine the sensitivity of the Group's business to possible reinvestment risk. These represent a wide variety of interest rate scenarios. To provide a representative example, a 100 basis points increase in the best estimate investment return assumption decreases the total Life and annuity policy reserves by \$13.8 million (2016 – \$13.3 million). A 100 basis points decrease in the best estimate assumption increases the total Life and annuity policy reserves by \$16.2 million (2016 – \$15.6 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.

ASSUMPTION, METHODOLOGY AND SENSITIVITIES	RISK MANAGEMENT
(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 \$1.1 million (2016 – \$1.4 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 is estimated to increase the policy reserves by approximately \$0.7 million (2016 – \$0.8 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.

14.2 PROVISION FOR UNPAID AND UNREPORTED CLAIMS

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

MARCH 31, 2017	Employee Benefits	Global Property and Casualty	Total
Healthcare	9,882	2,045	11,927
Property	-	2,257	2,257
Motor	-	9,680	9,680
Accident and liability	-	4,808	4,808
Marine	-	288	288
Provision for unpaid and unreported claims, gross	9,882	19,078	28,960
Reinsurers' share of claims provisions	(20)	(7,265)	(7,285)
PROVISION FOR UNPAID AND UNREPORTED CLAIMS, NET OF REINSURANCE	9,862	11,813	21,675

MARCH 31, 2016	Employee Benefits	Global Property and Casualty	Total
Healthcare	10,064	3,694	13,758
Property	-	10,656	10,656
Motor	-	11,114	11,114
Accident and liability	-	3,526	3,526
Marine	-	290	290
Provision for unpaid and unreported claims, gross	10,064	29,280	39,344
Reinsurers' share of claims provisions	(20)	(16,586)	(16,606)
PROVISION FOR UNPAID AND UNREPORTED CLAIMS, NET OF REINSURANCE	10,044	12,694	22,738

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

AS AT MARCH 31		2017			2016	
	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	39,344	16,606	22,738	51,966	26,309	25,657
Claims and adjustment expenses incurred						
Current year	91,104	8,518	82,586	89,323	5,713	83,610
Prior years	4,524	(483)	5,007	(5,517)	(2,091)	(3,426)
Foreign exchange adjustments	(1,687)	(671)	(1,016)	(106)	(43)	(63)
Total Claims and adjustment expenses incurred	93,941	7,364	86,577	83,700	3,579	80,121
Claims and adjustment expenses paid						
Current year	(74,205)	(6,241)	(67,964)	(71,484)	(3,573)	(67,911)
Prior years	(30,120)	(10,444)	(19,676)	(24,838)	(9,709)	(15,129)
Total Claims and adjustment expenses paid	(104,325)	(16,685)	(87,640)	(96,322)	(13,282)	(83,040)
BALANCE, END OF YEAR	28,960	7,285	21,675	39,344	16,606	22,738

14.2.1 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, flood damage and pandemics). The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the Group's risk appetite as determined by management. Estimates of losses are continually reviewed and modified to reflect current conditions. Although management believes, based on the recommendations of the Group's actuaries, that the Provision for unpaid and unreported claims will be adequate to cover the ultimate cost of losses to the balance sheet date, the provision is necessarily an estimate and claims may ultimately be settled for greater or lesser amounts. It is reasonably possible that management will revise this estimate significantly in the near term. Any subsequent differences are recorded in the Gross change in contract liabilities on the Consolidated Statements of Operations in the period in which they are determined.

14.2.2 Claims Development Table

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

Gross claims:

Accident year	2008 & Prior	2009	2010	2011	2012	2013	2014	2015	2016	2017	**Total**
Estimate of ultimate liability (1)											
as at end of accident year	137,197	76,980	81,453	88,059	88,544	91,510	93,499	123,574	88,052	91,104	
one year later	139,570	77,611	78,547	84,494	83,881	81,536	87,592	120,075	90,513	-	
two years later	139,139	78,740	77,816	83,320	82,331	80,811	87,345	119,738	-	-	
three years later	139,999	78,395	77,810	83,214	82,246	80,916	86,499	-	-	-	
four years later	140,372	78,163	77,996	83,208	82,503	80,950	-	-	-	-	
five years later	140,787	78,774	78,527	83,072	82,409	-	-	-	-	-	
six years later	140,729	78,733	78,582	83,113	-	-	-	-	-	-	
seven years later	144,312	78,404	78,641	-	-	-	-	-	-	-	
eight years later	144,044	78,440	-	-	-	-	-	-	-	-	
nine years later	147,216	-	-	-	-	-	-	-	-	-	
Current estimate of cumulative liability	147,216	78,440	78,641	83,113	82,409	80,950	86,499	119,738	90,513	91,104	938,623
Cumulative payments to date	(144,351)	(78,371)	(78,336)	(82,662)	(81,515)	(79,425)	(85,197)	(117,753)	(87,848)	(74,205)	(909,663)
Total gross liability	2,865	69	305	451	894	1,525	1,302	1,985	2,665	16,899	28,960

Net claims:

Accident year	2008 & Prior	2009	2010	2011	2012	2013	2014	2015	2016	2017	**Total**
Estimate of net ultimate liability (1)											
as at end of accident year	102,948	72,597	76,971	82,392	83,516	85,770	85,360	83,149	82,657	82,586	
one year later	106,245	73,354	74,009	78,981	78,731	76,013	79,008	80,486	85,940	-	
two years later	105,885	72,927	72,969	77,921	77,142	75,107	79,095	80,393	-	-	
three years later	106,206	72,818	72,959	77,795	77,080	75,239	78,928	-	-	-	
four years later	106,300	72,843	73,145	77,524	76,922	75,242	-	-	-	-	
five years later	106,628	72,896	73,141	77,839	76,872	-	-	-	-	-	
six years later	106,582	72,838	73,051	77,790	-	-	-	-	-	-	
seven years later	106,879	72,800	73,057	-	-	-	-	-	-	-	
eight years later	107,159	72,768	-	-	-	-	-	-	-	-	
nine years later	109,270	-	-	-	-	-	-	-	-	-	
Current estimate of net cumulative liability	109,270	72,768	73,057	77,790	76,872	75,242	78,928	80,393	85,940	82,586	812,846
Cumulative payments to date	(108,502)	(72,735)	(72,839)	(77,519)	(76,330)	(74,299)	(78,039)	(79,067)	(83,877)	(67,964)	(791,171)
Total gross liability	768	33	218	271	542	943	889	1,326	2,063	14,622	21,675

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

14.3 UNEARNED PREMIUMS

AS AT MARCH 31	2017 Unearned premiums	2017 Reinsurer's share of Unearned premiums	2017 Net	2016 Unearned premiums	2016 Reinsurer's share of Unearned premiums	2016 Net
Balance, beginning of year	17,598	9,572	8,026	16,646	9,199	7,447
Premiums written during the year	165,149	36,307	128,842	176,378	36,581	139,797
Net premiums earned	(166,472)	(37,008)	(129,464)	(175,426)	(36,208)	(139,218)
Net movement during the year (1)	(1,323)	(701)	(622)	952	373	579
BALANCE, END OF YEAR	16,275	8,871	7,404	17,598	9,572	8,026
(1) Net movement during the year is comprised of:						
Change in unearned premiums	(171)	(194)	23	892	246	646
Foreign exchange movement	(1,152)	(507)	(645)	60	127	(67)
	(1,323)	(701)	(622)	952	373	579

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

The Group is exposed to a pricing risk to the extent that unearned premiums are insufficient to meet the related future policy cost. Evaluations are performed regularly to estimate future claim costs, related expenses, and expected profit in relation to unearned premiums. There was no premium deficiency at March 31, 2017 or 2016.

15 Insurance Balances Payable

Insurance balances payable is comprised of:

MARCH 31, 2017	Employee Benefits	Wealth Management	Property and casualty	Total
Due to policyholders, agents and brokers	1,620	261	5,867	7,748
Due to reinsurers	121	1,232	1,216	2,569
Deferred commission income	-	-	3,389	3,389
TOTAL INSURANCE BALANCES PAYABLE	1,741	1,493	10,472	13,706

MARCH 31, 2016	Employee Benefits	Wealth Management	Property and casualty	Total
Due to policyholders, agents and brokers	4,675	487	1,785	6,947
Due to reinsurers	1,309	1,383	2,026	4,718
Deferred commission income	-	-	3,273	3,273
Funds received in advance	-	-	3,464	3,464
TOTAL INSURANCE BALANCES PAYABLE	5,984	1,870	10,548	18,402

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

AS AT MARCH 31	2017	2016
Balance, beginning of year	3,273	2,686
Deferral during the year	11,471	9,773
Income for the year	(11,274)	(9,147)
Foreign exchange rate movements	(81)	(39)
BALANCE, END OF YEAR	3,389	3,273

16 Payables Arising from Investment Transactions

AS AT MARCH 31	Note	2017	2016
Payable arising from reverse repos	5.3	20,096	-
Derivatives	5.2	376	480
Investment trades awaiting settlement		78,831	33,457
		99,303	33,937

17 Investment Contract Liabilities

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

AS AT MARCH 31	2017		2016	
	Carrying value	Fair value	Carrying value	Fair value
At amortised cost:				
Deposit administration pension plans	231,223	224,559	217,886	214,162
Self-funded group health policies	8,664	8,664	13,380	13,380
	239,887	233,223	231,266	227,542
At FVTPL:				
Deposit accounted annuity policies	2,384	2,384	2,719	2,719
TOTAL INVESTMENT CONTRACT LIABILITIES	242,271	235,607	233,985	230,261

17.1 INVESTMENT CONTRACT LIABILITIES AT AMORTISED COST

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

AS AT MARCH 31	2017	2016
Balance, beginning of year	231,266	235,559
Deposits	101,562	81,318
Withdrawals	(91,707)	(82,707)
Fees deducted	(3,992)	(4,253)
Interest	1,898	2,215
Other	860	(866)
BALANCE, END OF YEAR	239,887	231,266

For the year ended March 31, 2017, the net gain relating to investment contracts measured at amortised cost is $2.6 million (2016 – net gain of $2.7 million).

17.2 INVESTMENT CONTRACT LIABILITIES AT FVTPL

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

AS AT MARCH 31	2017	2016
Balance, beginning of year	2,719	3,014
Included in net earnings (1)	(245)	95
Deposits	2,769	2,429
Withdrawals	(2,859)	(2,819)
BALANCE, END OF YEAR	2,384	2,719

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

18 Post-Employment Benefit Liability

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

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

The movement in the defined benefit liability is as follows:

AS AT MARCH 31	2017	2016
Balance, beginning of year	4,135	4,042
Movements during the year recognised in Operating expense:		
Current service cost	67	94
Interest cost on benefit liability	141	127
	208	221
Remeasurement during the year included in Other comprehensive income:		
Actuarial gain arising from experience adjustment	(816)	(22)
Benefit payments	(113)	(106)
BALANCE, END OF YEAR	3,414	4,135

As at March 31, 2017, the present value of the defined benefit obligation was comprised of $1.4 million (2016 – $2.0 million) relating to active employees and $2.0 million (2016 – $2.1 million) relating to members in retirement.

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

(i) Current service cost represents benefits earned in the current year. These are determined with reference to the current 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 quarter the actuaries recalculate the benefit liability and compare it to that estimated as at the prior period end. Any differences resulting from changes in assumptions, or from plan experience being different from expectations of management at the previous year end, are considered actuarial gains or losses.

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

AS AT MARCH 31	2017	2016
Discount rate	3.5%	3.2%
Healthcare cost trend rate	5.5%	6.5%

The discount rate assumption has a significant impact on the value of the obligation. A one percent increase in this rate would reduce the present value of the defined benefit obligation by $0.4 million (2016 – $0.5 million).

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

AS AT MARCH 31	2017		2016	
	Increase	Decrease	Increase	Decrease
Aggregate of current service cost and interest cost	11	(9)	16	(13)
Accrued benefit liability	450	(379)	592	(495)

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

19 Group Composition

19.1 LIST OF SIGNIFICANT SUBSIDIARIES

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

Name	Country of incorporation and place of business	Nature of business	% of ownership interest held	% of ownership interest held by non-controlling interests
			2017 & 2016	2017 & 2016
AFL Investments Limited	Bermuda	Investment management services	60%	40%
Argus Insurance Agencies Limited	Malta	Insurance agency	100%	-
Argus Insurance Company Limited	Bermuda	Property and casualty insurance: Home and commercial property, contractors' all risks, liability, marine, motor and employer's indemnity	100%	-
Argus Insurance Company (Europe) Limited	Gibraltar	Property and casualty insurance: Home and commercial property, contractors' all risks, liability, marine and motor	100%	-
Argus International Life Bermuda Limited (1)	Bermuda	Individual life and annuities	100%	-
Argus International Life Insurance Limited (1)	Bermuda	Individual life and annuities	74%	26%
Argus Investment Nominees Limited	Bermuda	Nominee company	60%	40%
Argus Management Services Limited	Bermuda	Financial and general management services	100%	-
Bermuda Life Insurance Company Limited	Bermuda	Pensions, group life and long-term disability insurance, individual life and annuities, group and individual health insurance	100%	-
Bermuda Life Worldwide Limited	Bermuda	Individual life and annuities	100%	-
Centurion Insurance Services Limited	Bermuda	Insurance agent and licensed broker	100%	-
NBHH (Keepsake) Limited	Bermuda	Property holding company	100%	-
Island Insurance Brokers Limited	Malta	Insurance broker	100%	-
Trott Property Limited	Bermuda	Property holding company	100%	-
Westmed Insurance Services Limited	Gibraltar	Insurance agent and licensed broker	100%	-

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

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

19.2 SIGNIFICANT RESTRICTIONS

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

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

AS AT MARCH 31	2017	2016
General fund assets	710,209	652,313
General fund liabilities	589,482	523,664

19.3 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

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

In its capacity as investment manager to AISFL, the Group earned $nil of investment management fees income during the year (2016 – $4.2 million). AISFL and the Group also share common directors and officers. Although the Group has power to govern AISFL's financial and operating policies by virtue of the investment management contract, it does not have significant variable returns from AISFL. Accordingly, AISFL was not consolidated as part of the Group.

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

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

MARCH 31, 2016	Assets	Liabilities	Equity	Argus investments (1) & (3)	Maximum exposure to loss (2)
Investment fund	554,978	1,592	553,386	32,203	32,203

(1) These investments are classified under Level 2 in the fair value hierarchy as disclosed in Note 6.1.
(2) The Group's maximum exposure to loss is limited to amounts invested in AISFL. The maximum loss is expected to occur only upon bankruptcy of AISFL.
(3) The following amounts are excluded from the above table as the Group does not bear the risks and rewards from these funds:

- Segregated Funds – $601.7 million (2016 – $496.4 million)
  The contractual arrangements under Segregated Funds are such that the Segregated Fund policyholder bears the risk and rewards of the Fund's investment performance. Refer to Note 31 for Segregated Funds disclosures.
- Funds held by third parties – $15.7 million (2016 – $24.8 million)

20 Risk Management

20.1 GOVERNANCE FRAMEWORK

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

The Group has an established risk management function with clear terms of reference from the Board of Directors, its committees and the associated executive management committees. This is supplemented by a clear organisational structure with documented delegated authorities and responsibilities from the Board of Directors to executive management committees and vice presidents. In addition, a Group policy framework 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, to ensure the appropriate quality and diversification of assets, and alignment of underwriting and reinsurance strategy to the corporate goals.

20.2 OPERATIONAL RISK AND CAPITAL MANAGEMENT

20.2.1 Operational Risk

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

- **People:** Human errors, internal or external fraud, breaches of employment law, unauthorised activity, loss or lack of key personnel, inadequate training, inadequate supervision;

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

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

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

20.2.2 Capital Management

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

The Bermuda Monetary Authority (BMA) is the regulator of the Group. The laws and regulations of Bermuda require that the Group maintain a minimum amount of statutory capital and surplus based on the enhanced capital requirement. As of March 31, 2017 and 2016, the amount of group statutory capital and surplus exceeds this regulatory requirement.

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

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

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

MARCH 31, 2017	Bermuda	Europe	Total
Statutory capital and surplus	111,177	8,196	119,373
Minimum solvency margin	26,631	3,958	30,589

MARCH 31, 2016	Bermuda	Europe	Total
Statutory capital and surplus	115,899	20,827	136,726
Minimum solvency margin	31,972	3,945	35,917

The Bermuda Solvency Capital Requirement (BSCR) is the prescribed form of capital and solvency return in Bermuda, which was revised under new legislation enacted in 2008. The BSCR includes a standardised model used to measure the risk associated with an insurance subsidiary's assets, liabilities and premiums, and a formula to take account of catastrophe risk exposure. The BMA requires all insurers to maintain their statutory capital and surplus at a target level which is 120 percent of the amount calculated in accordance with the BSCR. As of March 31, 2017 and 2016, the statutory capital and surplus of the insurance subsidiaries exceeded this regulatory requirement.

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

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

The BMA has been declared by the European Commission to be fully equivalent to Solvency II. Consequently, Bermuda shall be considered by all European Member States as applying an equivalent statutory insurance regime in accordance with the requirements of Solvency II. The FSC in Gibraltar has confirmed that it recognises the BMA as the Group's Supervisor and the FSC will focus its supervision on AICEL as a solo entity.

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

20.3 FINANCIAL INSTRUMENT RISK MANAGEMENT

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

- Investment portfolios are monitored and reviewed regularly for investment quality by 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 Policy;
- Collateral requirements and concentration limits are specified in the Group's Investment Policy; and
- Reinsurance is placed with counterparties that have a strong credit rating. Management regularly monitors and performs an assessment of creditworthiness of reinsurers.

20.3.1 Credit Risk

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

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

20.3.1(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.

AS AT MARCH 31	Note	2017	2016
Cash and short-term investment		55,778	34,106
Interest and dividends receivable		2,452	2,826
Bonds – at Available-for-Sale, FVTPL and Held-to-maturity	5.1	455,028	402,348
Mortgages and loans	5.1	35,411	37,517
Policy loans	5.1	81	81
Derivative financial instruments	5.1	346	145
Receivable for investments sold		19,156	6,703
Insurance balances receivable	7	14,426	12,796
Other financial assets included in Other assets	8	4,976	3,807
Reinsurers' share of claims provisions	14	14,167	24,035
TOTAL CONSOLIDATED BALANCE SHEET MAXIMUM CREDIT EXPOSURE		601,821	524,364

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

20.3.1(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 such as operating 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.

AS AT MARCH 31	2017	2016
Bonds issued or guaranteed by:		
Government and agency	138,823	91,959
Banking and finance	88,892	94,327
Asset-backed securities	76,651	54,691
Communications and technology	25,508	23,466
Oil and Gas	20,191	10,439
Manufacturing	11,828	13,592
Utilities and energy	10,013	9,406
Transportation	9,472	11,255
Pharmaceutical	9,325	14,130
Insurance	6,342	10,395
Mining	3,271	10,156
Supranational	2,070	1,719
Other (1)	52,642	56,813
TOTAL BONDS	455,028	402,348
Derivative financial instruments issued or guaranteed by:		
Other	346	145
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS	346	145

(1) Includes Investment in bond funds of $41.3 million (2016 – $29.9 million).

AS AT MARCH 31	2017	2016
Geographical distribution of bonds is as follows:		
United States of America	338,805	271,412
United Kingdom	10,696	13,033
Netherlands	10,539	11,585
France	5,484	7,670
Cayman Islands	4,735	15,751
Japan	4,265	4,106
Switzerland	4,200	5,676
Ireland	4,067	-
Canada	4,066	7,828
Mexico	3,646	-
Germany	2,631	-
Australia	2,231	3,919
Supranational	2,071	3,223
Spain	1,436	2,188
Luxembourg	1,776	2,168
Chile	1,481	2,021
Other (1)	52,899	51,768
TOTAL BONDS	455,028	402,348
Geographical distribution of derivative financial instruments is as follows:		
United States of America	346	145
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS	346	145

(1) Includes Investment in bond funds of $41.3 million (2016 – $29.9 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.

AS AT MARCH 31	2017	2016
Residential	14,151	16,257
Non-residential	21,260	21,260
TOTAL MORTGAGES AND LOANS	35,411	37,517

20.3.1(c) Asset Quality

20.3.1(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.

AS AT MARCH 31	2017	2016
Bond portfolio quality:		
AAA	158,551	47,875
AA	66,835	107,214
A	97,477	108,071
BBB	119,459	122,066
BB or lower	12,047	16,219
Not rated	659	903
TOTAL BONDS	455,028	402,348
Derivative financial instruments quality:		
Not rated	346	145
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS	346	145

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

Mortgage and loans

Changes in the allowance for credit losses are as follows:

AS AT MARCH 31	2017	2016
Balance, beginning of year	1,624	3,465
Net provision made in year – Mortgage and loans	1,000	206
Provision written off during the year	(113)	(2,047)
BALANCE, END OF YEAR	2,511	1,624

20.3.1(c)(iii) Age analysis of financial assets past due

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

MARCH 31, 2016	Past due but not impaired				
	Less than 90 days	90 to 179 days	180 days or more	Total	Total impaired
Mortgage and loans	2	16	21,650	21,668	1,841
Other receivables included in Other assets	1,303	10	156	1,469	-
BALANCE, END OF YEAR	1,305	26	21,806	23,137	1,841

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

20.3.2 Liquidity risk

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

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

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

Liability maturity profile:

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

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

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

MARCH 31, 2016	Within 1 year	2-5 years	6-10 years	Over 10 years	Total
Life and annuity policy reserves					
– net of reinsurance	14,620	53,531	57,000	130,981	256,132[1]
Provision for unpaid and unreported claims					
– net of reinsurance	15,770	5,825	1,056	87	22,738
Insurance balances payable	18,402	-	-	-	18,402
Payables arising from investment transactions	33,937	-	-	-	33,937
Investment contract liabilities	37,562	45,572	39,517	111,502	234,153[1]
Tax payable	67	-	-	-	67
Accounts payable and accrued liabilities	16,392	-	-	-	16,392
Post-employment benefit liability	137	637	897	2,355	4,026[1]
TOTAL FROM GENERAL FUND LIABILITIES	136,887	105,565	98,470	244,925	585,847

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

20.3.3 Market Risk

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

20.3.3(a) Currency Risk

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

- The Group regularly monitors the effect of currency translation fluctuations;
- Investments are normally made in the same currency as the liabilities supported by those investments;
- The majority of the Group's assets, liabilities and earnings are denominated in Bermuda or U.S. dollars; and
- The assets and liabilities of the foreign operations are held in their appropriate functional currency. The net currency exposure arising from the net equity within these operations amounts to £8.9 million and €2.9 million (2016 – £11.8 million and €0.6 million).

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

AS AT MARCH 31	Change in variables	2017 Impact on equity	2016 Impact on equity
Currency:			
Sterling	+/- 10%	+/- 886	+/- 1,177
Euro	+/- 10%	+/- 288	+/- 63

20.3.3(b) Interest Rate Risk

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

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

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

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

The sensitivity of net earnings and other comprehensive income attributable to shareholders to changes in interest rates is shown below.

AS AT MARCH 31	2017		2016	
Change in interest rate assumptions	Impact on net earnings	Impact on other comprehensive income	Impact on net earnings	Impact on other comprehensive income
100 basis points increase	-	(6,275)	(5,630)	-
100 basis points decrease	-	6,434	5,853	-

20.3.3(c) Equity Risk

Equity investments are held in accordance with the Group's investment policy as part of the well-diversified asset portfolio that are appropriate for the operating segment. Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. If actual returns are lower than the expected returns, the Group's Life and annuity policy reserves will increase and will reduce the Group's net earnings. Overall, it is expected that the impact of an immediate ten percent increase in value across all equity markets would be an increase in Net Earnings and Other comprehensive income of $0.8 million and $2.3 million respectively (2016 – $4.0 million and $0.2 million respectively); conversely the impact of a ten percent decrease would have an equal but opposite effect. The direct exposure to equity markets generally falls within the risk-taking philosophy of the Group's Investment Policy and is regularly monitored by management.

20.3.4 Limitations of sensitivity analysis

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

20.4 INSURANCE RISK MANAGEMENT

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

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

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

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

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

21 Dividends

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

AS AT MARCH 31	2016			
	Per share amount	Amount of dividends	Record date	Payment date
Interim dividend	0.08	1,726	July 10, 2015	July 24, 2015
Final dividend	0.08	1,729	January 22, 2016	February 5, 2016
	0.16	3,455		

As a result of the Dividend Reinvestment Plan, the Company issued 83,881 (2016 – 71,122) shares during the year. The cash value of residual fractional amounts not reinvested is negligible (2016 – negligible) and is shown under Accounts payable and accrued liabilities. This amount will be carried forward and combined with subsequent dividend payments.

22 Components of Accumulated Other Comprehensive Loss

AS AT MARCH 31	2017	2016
Remeasurement of post-employment medical benefit obligation	(745)	(1,561)
Available-for-sale investments	1,059	200
Investment in associates	12	12
Translation of financial statements of foreign operations	(3,915)	(2,588)
NET ACCUMULATED OTHER COMPREHENSIVE LOSS	(3,589)	(3,937)

23 Earnings Per Share

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

AS AT MARCH 31	2017	2016
Net earnings for the year (in $000's)	11,954	7,280
Weighted average outstanding common shares	20,964,125	21,193,904
Common shares and common share equivalents	21,012,389	21,236,339

24 Commissions, Management Fees and Other

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

AS AT MARCH 31	2017	2016
Policyholder administration	17,113	15,054
Investment management services	2,067	5,227
Reinsurance commission income	9,740	9,742
Other income	40	2,038
TOTAL COMMISSIONS, MANAGEMENT FEES AND OTHER	28,960	32,061

25 Reinsurance Recoveries

AS AT MARCH 31	2017	2016
Claims and adjustment expenses recovered from reinsurers	(15,824)	(13,226)
Policy benefits recovered from reinsurers	(2,294)	(368)
TOTAL REINSURANCE RECOVERIES	(18,118)	(13,594)

26 Net Change in Contract Liabilities

AS AT MARCH 31	2017	2016
Gross change in contract liabilities:		
Insurance contracts	(5,507)	3,639
Investment contracts	(244)	95
	(5,751)	3,734
Change in reinsurers' share of claims provisions:		
Insurance contract liabilities	9,009	9,805
NET CHANGE IN CONTRACT LIABILITIES	3,258	13,539

27 Operating Expenses

Operating expenses incurred during the year are as follows:

AS AT MARCH 31	2017	2016
Employee benefits expense (see table below)	29,429	28,201
Professional fees	6,585	4,918
IT related expense	3,035	3,063
General and corporate expenses	3,035	2,844
Building related expenses	2,787	2,629
Marketing expenses	1,639	1,967
Other expenses	3,215	2,420
TOTAL OPERATING EXPENSES	49,725	46,042

Employee benefits expense during the year is comprised of:

AS AT MARCH 31	Note	2017	2016
Salaries and other short-term benefits		27,964	26,753
Pension costs (1)		1,192	1,168
Post-employment medical benefits	18	95	115
Stock-based compensation	28	178	165
TOTAL EMPLOYEE BENEFITS EXPENSE		29,429	28,201

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

28 Stock-based Compensation

The Group has two stock-based compensation plans, which are described below.

28.1 STOCK OPTION PLAN

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 Sheets. 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 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 28.2 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 in 2017. There have been no stock options granted since 2007.

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

AS AT MARCH 31	2017		2016	
	Total number of shares under option	Weighted average exercise price	Total number of shares under option	Weighted average exercise price
Outstanding, beginning of year	74,061	$11.78	139,091	$10.50
Changes during the year:				
Expired	(74,061)	$11.78	(65,030)	$9.04
OUTSTANDING AND EXERCISABLE, END OF YEAR	-	-	74,061	$11.78

The weighted average remaining contractual life of options outstanding is nil years (2016 – 0.2 years).

The fair value of options outstanding is $nil (2016 – $2.70). The stock options were fully vested on March 31, 2011.

28.2 RESTRICTED STOCK PLAN

The Restricted Stock Plan was approved at the Annual General Meeting of shareholders held on September 7, 2012.

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

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

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

AS AT MARCH 31	2017	2016
Number of shares granted	48,120	56,720
Fair value per share	$4.00	$3.80
Number of shares forfeited	4,820	12,280

The following table summarises information about the outstanding stock grants:

RESTRICTED SHARES VESTING	Number of shares
July 2017	16,460
August 2017	34,887
August 2018	34,887
August 2019	15,980
TOTAL	102,214

29 Related Party Transactions

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

29.1 TRANSACTIONS WITH SIGNIFICANTLY INFLUENCED INVESTEES

29.1.1 The Group provided insurance-related products and services to various significantly influenced investees. The premiums and fees received from these transactions totalled $0.6 million in the year and are shown as Gross premium written and Commission, management fees and other on the Consolidated Statements of Operations (2016 – $0.7 million).

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

AS AT MARCH 31	2017	2016
Payable to self-funded group health policies (1)	461	631
Accounts payable arising from administration of defined benefit pension plans (2)	-	99

(1) Included in Investment contract liabilities
(2) Included in Accounts payable and accrued liabilities

29.1.2 The Group rented office premises from a significantly influenced investee paying a total of $0.3 million in rent and service charges in the year which are shown in Operating expenses in the Consolidated Statements of Operations (2016 – $0.3 million).

29.1.3 The Group received facilities management services from a significantly influenced investee for the consideration amount of $1.3 million which is shown net of Investment income on the Consolidated Statements of Operations (2016 – $1.4 million).

29.2 COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

AS AT MARCH 31	2017	2016
Salaries and other short-term benefits	2,346	2,382
Post-employment benefits (1)	101	136
Stock-based compensation	28	23
TOTAL KEY MANAGEMENT PERSONNEL COMPENSATION	2,475	2,541

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

29.3 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, 2017, was 292,532 shares.

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

30 Income Tax Expense

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

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

U.S.
Argus International Life Insurance Limited (AILIL), a Bermuda domiciled subsidiary, has elected under section 953(d) of the U.S. Internal Revenue Code (IRC) to be taxed as a U.S. domestic corporation. AILIL is subject to the U.S. marginal corporate income tax rate of 34 percent.

30.1 INCOME TAXES FOR THE YEAR

AS AT MARCH 31	2017	2016
Income taxes for the year	228	119
Adjustments in respect of prior year income taxes	-	-
Total current income taxes	228	119
Deferred taxes	-	-
TOTAL INCOME TAX EXPENSE	228	119

30.2 CURRENT INCOME TAXES RECONCILIATION

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

AS AT MARCH 31	2017	2016
Earnings before income taxes	12,056	7,980
Less: Earnings not subject to taxes	10,170	6,598
EARNINGS SUBJECT TO TAXES	1,886	1,382
Income taxes at the application rate	329	281
Tax effect of:		
Income attributable to overseas branch	(67)	61
Expenses not deductible for tax purposes	2	124
Difference between depreciation and capital allowances	10	13
Income not taxable	(5)	(144)
Effect of tax losses	20	-
Adjustments to tax charge in respect of previous period	-	(1)
Unrecognised temporary difference	(61)	(215)
TOTAL CURRENT INCOME TAXES	228	119

30.3 UNRECOGNISED DEFERRED TAX ASSETS

As at March 31, 2017, the Group has net operating loss carryforwards of $1.9 million originating in 2007 through 2016 (2016 – $2.6 million originating in 2007 through 2015). Of the total net operating loss carryforwards of the Group, $0.6 million (2016 – $0.7 million) is subject to limitations under IRC section 382.

$1.8 million of the Group's net operating loss carryforwards will expire in 2027 through 2036 under the current U.S. tax legislation (2016 – $1.5 million which will expire in 2027 through 2032). The remaining net operating loss carryforwards of $0.1 million (2016 – $0.3 million) do not expire under the current Malta tax legislation.

The unrecognised benefit related to the net operating loss carryforwards, capital allowances carried forward and deductible temporary differences are included in the table below.

AS AT MARCH 31	2017	2016
Tax losses carried forward	632	884
Capital allowances carried forward	391	639
Deductible temporary differences	99	(38)
NET UNRECOGNISED DEFERRED TAX ASSETS	1,122	1,485

31 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:

AS AT MARCH 31	2017	2016
Additions to Segregated Funds		
Premiums, contributions and transfers	185,773	146,795
Net investment income	1,067	305
Net increase/(decrease) in fair value of investments	109,740	(81,894)
Transfer from general funds	-	683
	296,580	65,889
Deductions from Segregated Funds		
Withdrawals, benefit payments and transfers to the General Fund	172,258	210,815
Operating expenses	17,327	13,352
	189,585	224,167
Net additions/(deductions) to Segregated Funds for the year	106,995	(158,278)
Segregated Funds, beginning of year	1,398,933	1,557,211
SEGREGATED FUNDS, END OF YEAR	1,505,928	1,398,933

32 Operating Segments

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

32.1 RESULTS BY SEGMENT

AS AT MARCH 31		Employee Benefits	Wealth Management	Global Property and Casualty	All other	Elimination	Total
Segment revenues	2017	122,925	5,723	32,371	39	(3,278)	157,780
	2016	134,903	8,039	30,671	2,038	(4,439)	171,212
Investment income	2017	17,418	443	1,344	1,357	(2,131)	18,431
	2016	4,982	1,024	(73)	(5,261)	827	1,499
Share of earnings of associates	2017	-	753	(559)	18	-	212
	2016	-	104	55	(21)	-	138
TOTAL SEGMENT REVENUES	2017	140,343	6,919	33,156	1,414	(5,409)	176,423
	2016	139,885	9,167	30,653	(3,244)	(3,612)	172,849
Amortisation, depreciation and impairment	2017	1,530	411	1,327	551	350	4,169
	2016	1,750	349	1,325	701	-	4,125
Income tax expense	2017	-	-	228	-	-	228
	2016	-	(14)	133	-	-	119
Segment earnings/(loss) attributable to shareholders	2017	11,890	(2,001)	4,169	(1,691)	(413)	11,954
	2016	8,872	1,417	2,746	(8,371)	2,616	7,280

GEOGRAPHIC INFORMATION ON SEGMENT REVENUES:

AS AT MARCH 31		Bermuda	Europe	Total
Segment revenues	**2017**	**159,559**	**16,864**	**176,423**
	2016	158,092	14,757	172,849

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

32.2 ASSETS AND LIABILITIES BY SEGMENT:

	Employee Benefits	Wealth Management	Global Property and Casualty	All other	Elimination	Total
MARCH 31, 2017:						
Total General Fund Assets	**596,032**	**31,140**	**86,973**	**170,821**	**(151,814)**	**733,152**
Segregated Fund Assets	**819,192**	**686,736**	**-**	**-**	**-**	**1,505,928**
Total General Fund Liabilities	**524,131**	**18,184**	**47,496**	**19,547**	**(7,776)**	**601,582**
Segregated Fund Liabilities	**819,192**	**686,736**	**-**	**-**	**-**	**1,505,928**
MARCH 31, 2016:						
Total General Fund Assets	520,189	34,004	102,363	159,372	(153,147)	662,781
Segregated Fund Assets	709,518	689,415	-	-	-	1,398,933
Total General Fund Liabilities	447,004	19,030	58,385	21,474	(7,139)	538,754
Segregated Fund Liabilities	709,518	689,415	-	-	-	1,398,933

33 Commitments and Contingencies

33.1 OPERATING LEASES

33.1.1 Group as a lessor

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

Future annual minimum lease rentals receivable under non-cancellable operating leases as at March 31, 2017, are as follows:

AS AT MARCH 31	2017	2016
Within one year	**1,563**	1,563
After one year but not more than five years	**1,419**	2,958

33.1.2 Group as a lessee

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

During the years ended March 31, 2017 and 2016, an amount of $1.1 million and $1.0 million respectively, was recognised in Operating expenses on the Consolidated Statements of Operations for operating leases.

Future annual minimum rentals payable under non-cancellable operating leases as at March 31, 2017, are as follows:

AS AT MARCH 31	2017	2016
Within one year	741	849
After one year but not more than five years	1,289	1,446
More than five years	323	699

33.2 CONTINGENCIES

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

34 Comparative Figures

Certain of the 2016 comparative figures have been reclassified to conform to the presentation adopted for 2017.

35 Subsequent Events

Based upon the audited financial results of the Group for the year ended March 31, 2017, the Directors have declared an interim dividend of nine cents per share (2016 – nine cents per share) payable on August 23, 2017 for shareholders of record on July 25, 2017.

Board of Directors

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Chairman

Alan R. Thomson
Deputy Chairman

Wendell S. F. Brown

Peter R. Burnim, MBA

Timothy C. Faries, B.A., LL.B, LL.M

Alison S. Hill, FCMA, CGMA
Chief Executive Officer

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

Marcia B. Scheiner, MBA

Robert D. Steinhoff, FCA, JP

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

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OF ARGUS GROUP HOLDINGS LIMITED

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Chairman

Alan R. Thomson
Deputy Chairman

Alison S. Hill, FCMA, CGMA
Chief Executive Officer

Peter J. Dunkerley, FCA
Chief Financial Officer

George N.H. Jones, MBA, LLB
Group General Counsel & Company Secretary

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- RISK
- COMPENSATION
- NOMINATION & GOVERNANCE
- BOARD SUCCESSION PLANNING COMMITTEE
- CEO SUCCESSION PLANNING COMMITTEE

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Life & Pensions

Andrew H. Bickham, ACII
Executive Vice President
Broking

Dr. Vanessa O. Borg, DBA, MPHIL, MBA, B.COM
Chlef Executive
Argus Insurance Agencies 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

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Managing Director
Island Insurance Brokers Limited

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President & Chief Executive Officer
AFL Investments Limited

Sen. Lynne A. Woolridge, FLMI, FALU, HIA
Head of International Life

Support Unit Heads

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Executive Vice President
Strategic Development

Simon Giffen, CFA, TEP
Group Investment Manager

Onesimus Nzabalinda, MBA, MSc, CISA, CFE, CRISC
Head of Risk & Compliance

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Executive Vice President
Client solutions, Sales and Marketing

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Executive Vice President
Innovation and Technology

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Vice President
Financial Reporting

Kellianne M. Smith, BA
Head of Global Human Resources
and Organisational Development

Directors of Principal Operating Subsidiaries

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Our Interest is You.

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:
Tel: (441) 298-0888   e-mail: insurance@argus.bm   www.argus.bm