2016 Annual Report

ARGUS
Our Interest is You.

Our Vision

Our vision is to be the first choice for insurance, retirement and financial services in our target markets. We want to be a model of integrity and excellence, benchmarked to global best practices, for all of our stakeholders.

Our Mission

We are committed to being a leader and to enlighten and accelerate our stakeholders on the path to well-being in the communities that we operate. We are committed to being a true partner in providing our clients with financial security and peace of mind through innovative solutions that provide excellent value.

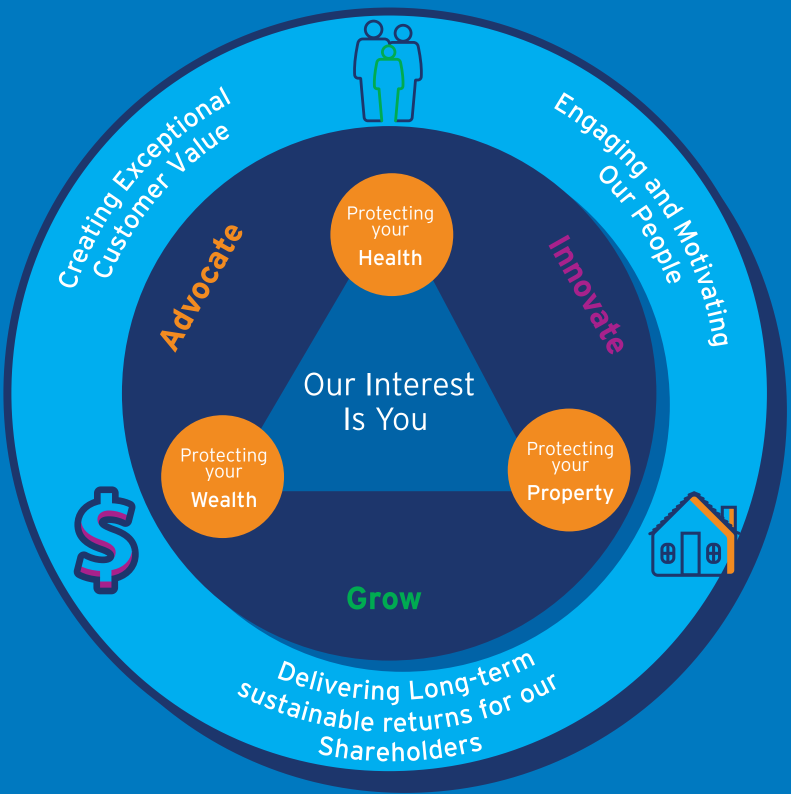
Today. Tomorrow. Always.

Our Values

Integrity
Fairness
Excellence
Respect
Professionalism
Teamwork

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.



Contents

Our Value....2
Our Promise....3
Products & Services....4
Key Performance Highlights....5
Chairman's Report....6
Chief Executive Officer's Report....8
Financial Review....12
Outlook....18
Five Year Summary....22
Financial Statements....24

"We are fortunate to have many loyal and valued clients and it is these long-term partnerships that allow us to deliver the value our clients need whilst generating sustainable income for our shareholders. Our customer-centric approach to doing business has won us several new valuable clients for our employee benefits business and secured long-term relationships for many more."

Peter Dunkerley, CFO

Our Value

Customer Value

We focus on providing real benefit to our customers by delivering market-leading flexible 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.

Advocacy

Our aim is to be the pioneer in affecting change and action to improve the lives of the residents in Bermuda, Gibraltar and Malta where we operate. 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.

Innovation

We are dedicated to promoting collaboration and innovation throughout the company. Our focus is to deliver exceptional service for 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.

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 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 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

Promoting and supporting **prevention-focused strategies** is our way of assisting our commercial and personal customers in achieving the financial security, physical wellbeing and peace of mind that they are seeking.

Employee Benefits

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

As the market leader for employee benefits in Bermuda, our customers have access to comprehensive plans, tools and resources tailored to the needs of both employers and employees.

Argus Health offers our **Thrive.** Programme which is a comprehensive "Well Being" strategy designed to empower customers to better self-manage their health and proactively focus on new ways to live a healthier life. The **Thrive.** Population Health Management approach was developed in collaboration with Johns Hopkins Medicine International who has a proven track record of success in managing down overall healthcare costs and improving health well-being for their own employees and customers.

Argus Pensions has a simple and convenient investment fund structure, with excellent portfolio diversification appropriate for anyone regardless of their level of investment knowledge or long-term financial goals. Through our educational workshops, online tools and personalised advice, employees receive the help they need to plan for their retirement, or to just start savings for an important milestone such as funding their children's education.

Global Property & Casualty (P&C)

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

Whether a business or individual, we ensure our customers have the right coverage and first-class service through a broad range of insurance coverage offered in Bermuda, Gibraltar and Malta.

Our services are offered either directly or through independent insurance intermediaries depending on the needs of our customers within the respective territories. Our recent acquisition of Island Insurance Brokers Limited, an independent insurance brokerage firm in Malta, is just another example of our strategy to strengthen our international presence and grow our existing portfolio through additional distribution channels and complementary lines of business.

Wealth Management

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

Our goal is to deliver excellent asset protection and investment solutions that are tailored to meet the various needs of our customers; whether that's capital growth, securing a steady income or meeting future liabilities.

Through AFL Investments Limited, we provide a range of investment offerings including discretionary management, custody and investment advisory services. By collaborating with international independent experts we can offer market leading investment strategies, supported by globally recognised benchmarks.

For customers who are interested in investment opportunities that may not ordinarily be available onshore, we provide a wide array of policy structures designed to comply with the regulatory codes of several jurisdictions, allowing for greater protection, peace of mind and convenience.

Balanced Performance

Net income
Measure of annual earnings

$7.3 million

2015: $16.0 m
2014: $13.3 m

Adjusted net income
Annual earnings before unrealised investment gains/losses

$15.3 million

2015: $15.2 m
2014: $17.5 m

Return on average equity
Net income as a percentage of shareholders' equity

6.0%

2015: 14.3 %
2014: 13.3 %

Adjusted return on equity
Annual earnings before unrealised investment gains/losses as a percentage of shareholders' equity

12.3%

2015: 13.3 %
2014: 17.7 %

Combined fee income
Fees generated by our Employee Benefits and Wealth Management business

$19.1 million

2015: $20.4 m
2014: $19.3 m

Combined operating ratio
Measure of underwriting profitability for our general and health insurance business

85.3%

2015: 82.7 %
2014: 83.0 %

Employee advocacy
Recommend Argus as a great place to work

87%

2015: 79 %
2014: 88 %

Operating cash flow
Cash generated by business operations

$38.6 million

2015: $46.6 m
2014: $38.2 m

Chairman's report

"We seek to generate attractive long-term returns on shareholders' capital whilst minimizing short-term volatility."

Sheila E. Nicoll

Performance and dividend

The Group generated strong underlying earnings from business operations this year. The modest Return on Equity and Earnings Per Share figures of 6% and $0.34 were impacted by unrealised investment losses that are not reflective of longer-term expectations for investment returns. Underlying returns from business operations remain strong, with Return on Equity and Earnings per Share of 12.3% and $0.72 before unrealised investment losses.

The Board remain confident of the Group's future. The strong financial position and underlying earnings strength has enabled the Board to increase the dividend again this year. We are pleased to declare an interim dividend of 9 cents per share payable on August 4, 2016. This results in an average dividend yield of 4.2% based on dividends declared during the year.

Strategy

The Board continues to work with Management to develop the Group's strategy and to regularly monitor the performance against the agreed objectives. The Management team have made significant progress within our three strategic pillars of Growth, Advocacy and Innovation, with notable successes in each area. We are confident that the Group is executing well on its strategy and that we are in a good position to continue to deliver long-term sustainable shareholder value.

I am particularly pleased to welcome the Island Insurance Brokers Limited (Island) team into the Group. Island is a highly respected brokerage company in Malta and they have a great cultural alignment with Argus.

Board Governance

We were pleased to welcome Bernhard Schluep and Marcia Scheiner to the Board in December. Bernhard and Marcia are experienced insurance executives who add further depth and diversity to our Board. The Board continues to monitor its composition and evaluate its performance to ensure that we have the right combination of skills, experience and diversity to support the successful execution of the Group's strategy.

Our People

Argus is operating in a challenging environment. Our success this year is due to the dedication, passion and hard work of our people. I would like to thank the entire Argus team; management, employees and my fellow directors for their contributions. Thank you too to our shareholders for your continued loyalty and support.

Sheila E. Nicoll
Chairman

Dividend Yield

Based on dividends declared during the fiscal year

4.2%

2015: 3.4 %
2014: 3.1 %

Earnings Per Share

Net income per share

$0.34

2015: $ 0.76
2014: $ 0.63

Adjusted net income per share

$0.72

2015: $ 0.72
2014: $ 0.83

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
Surplus Capital	Additional capital held in accordance with risk appetite.	Buffer Capital
Surplus 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 Manage-ment

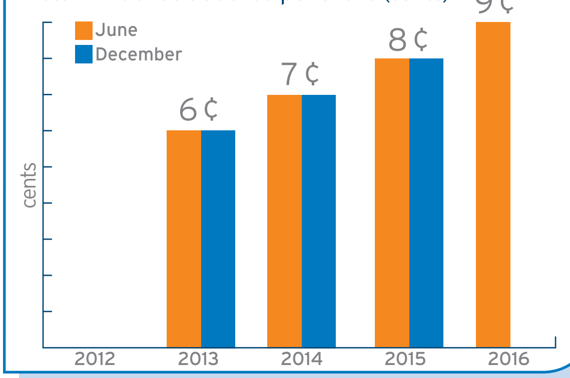
Risk Appetite

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.

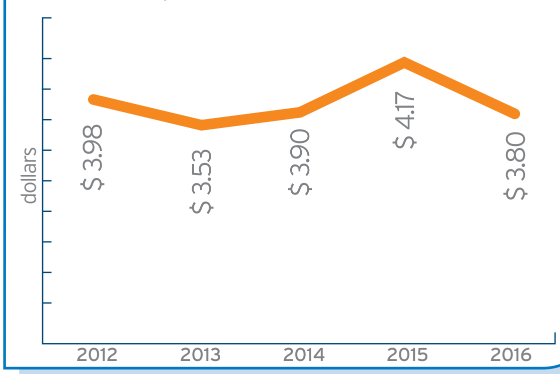
Dividends

Total Dividends declared per share (cents)



Average Share Price

Share History 2012-16



Our Focus

Growth

"Leadership is about impact, influence and inspiration. Impact focuses on getting results. Influence is creating the right culture and environment for success. Inspiration is instilling the passion, motivation and drive to deliver exceptional things."

Alison Hill

Our goal is to deliver long-term sustainable shareholder value in a dynamic and rapidly evolving global market place. The Bermuda economy was heavily impacted by the 2008 global financial crisis. The economic drag from continued consolidation in the local and international business sectors, combined with an uptick in construction and hospitality sectors driven by the 2017 America's Cup, suggests modest economic growth in the short- to mid-term in our Bermuda market. We remain committed to our long-term strategic focus of growing and expanding our business in Europe. We have gained considerable momentum with the successful integration of the Millennium Insurance Agency business and the recently announced acquisition of Island Insurance Brokers Limited in Malta. The recent Brexit vote and resignation of the UK Prime Minister has not changed our European focus. We are closely following the situation as it evolves to assess the potential impact on our businesses. But we do know that with significant change comes great opportunity and we are taking time and talking to global industry experts and European-based government representatives to better explore how we might capitalise on those new opportunities in Europe as they emerge.

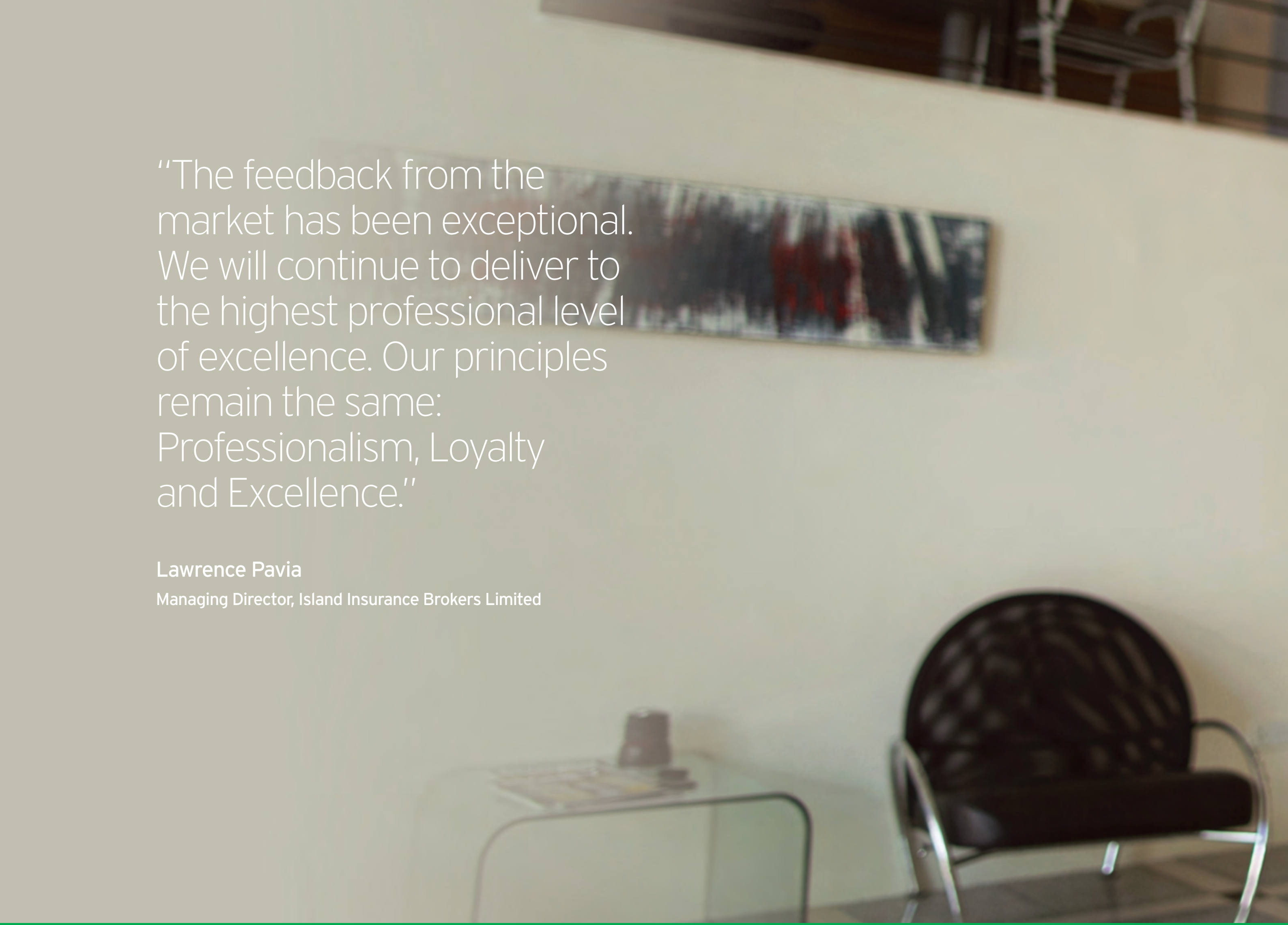
Advocacy

Our approach to advocacy is to do the right thing on behalf of our customers, our staff and business partners. It is taking time to gain a deep understanding of the evolving needs of our clients and then giving them a voice and an ally when influencing reform in our broader business communities. Taking care of the wellness of our people and our environment builds deep and trusting partnerships that lead to long-term sustainable shareholder value. We are proud of our proven track record in advocating for Employee Benefit service improvements and legislative reform. Taking action to achieve a sustainable healthcare system in Bermuda through our Population Health and **Thrive.** initiatives whilst transforming our pension fund proposition to reduce fees, improve performance and enhance pension member savings, have been two critical areas of focus for us. Demographic trends see us living longer. Health cost inflation and an increase in costly chronic disease is increasing our post-employment costs. Our holistic approach to meeting evolving client needs means that we can advocate on their behalf.

Innovate

At Argus we use our deep client knowledge to transform our processes, systems and skills to efficiently improve our customer experience in a way that enhances value. Our business is based on trust and delivering on our promises. We always seek to find the right balance between technology and a face to face, personal experience, particularly when dealing with unforeseen medical emergencies, accidents or damage. We understand that our clients want easy and efficient ways of interacting with us, but also wish to deal with a knowledgeable person either over the phone or face to face. We keep pace with global best practice to innovate and evolve our products, processes, systems and skills. We are making great strides in building out our global digital channel capability, ensuring that we work with partners who can innovate whilst maintaining to the highest standards of service delivery and cyber security.

Alison S. Hill
Chief Executive Officer



"The feedback from the market has been exceptional. We will continue to deliver to the highest professional level of excellence. Our principles remain the same: Professionalism, Loyalty and Excellence."

Lawrence Pavia
Managing Director, Island Insurance Brokers Limited

Growth

Malta • Island Insurance Brokers Limited

Island Insurance Brokers Limited is considered to be the leading insurance broker in the markets that they operate in. Therefore it was only natural for Argus to partner with the "best in class" insurance broker in Malta. The relationship with Island Insurance Brokers Limited serves as an excellent springboard for the further growth and expansion of the Argus Group in Europe.

The Argus Group brings global expertise in human resource management, risk and compliance, and systems analysis and infrastructure to the relationship whilst Island Insurance Brokers Limited brings a deep and intimate knowledge of the Malta insurance market. We can leverage the high level of technical and professional expertise available to existing customers to significantly grow our market share in Malta.

This acquisition is a clear indication that Argus is serious about the exciting opportunities in the Malta market and our appetite for growth in Europe. Expanding the Group's presence outside of Bermuda by leveraging our global experience combined with our local market knowledge, is a winning strategy for successful and value driven growth.

"Our ability to retain and acquire new clients in a competitive and complex regulatory market is a testament to the strength of our people and our operations.

Our people keep proving that they are by far our greatest asset."

Peter Dunkerley

Our Financial Strength

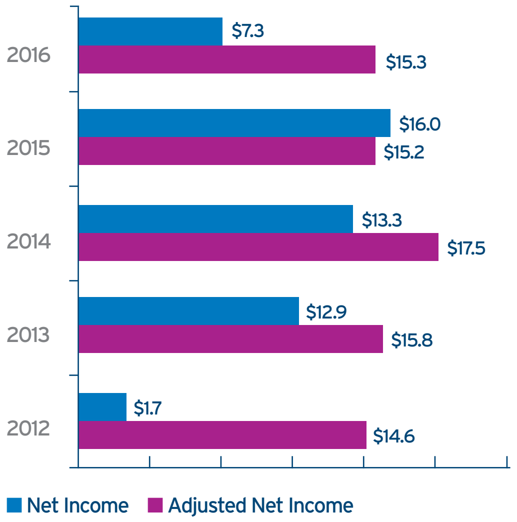
2015/16 has been a year of significant achievement and strong underlying financial performance.

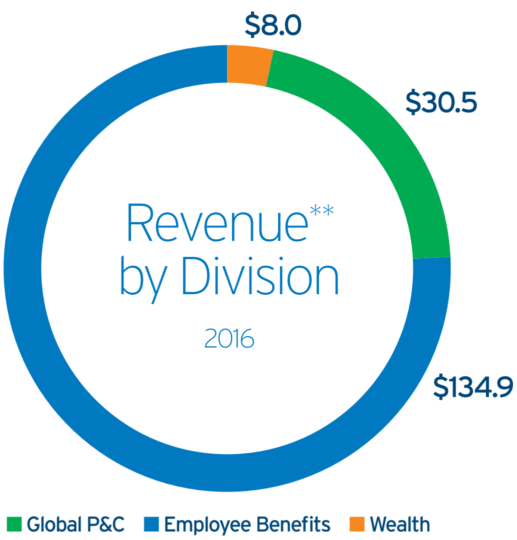
The financial strength of our operations is underpinned by our three strategic pillars of Growth, Advocacy and Innovation. We've cemented our position as leading advocates for health through the continued roll-out of our wellness programme: **Thrive.** We've rolled out an exciting new platform of pension fund options, which has served to meet the needs of our clients and give us a competitive edge within the market place. We successfully integrated the Millennium Insurance Agency business and have now completed the recently announced acquisition of Island Insurance Brokers Limited in Malta. We believe that these investments are core to generating long-term sustainable shareholder value.

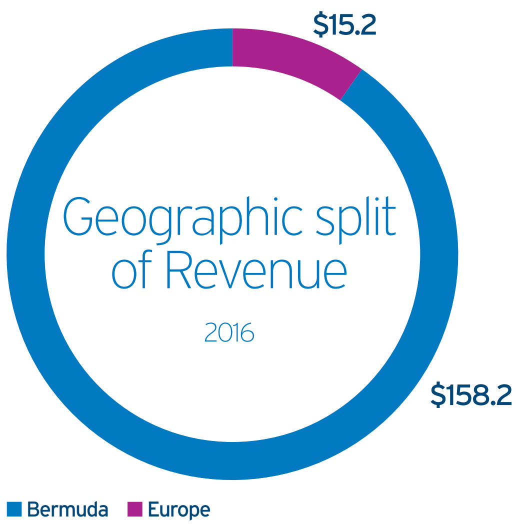
We know that net income is an important measure for our shareholders and we're happy to have been able to report positive earnings for each of the past five years. Again this year we've been able to report solid net income of $7.3 million. These positive results have been driven by strong underlying earnings from business operations of $15.3 million before unrealised investment losses.

Included with the net earnings figure for the year are unrealised investment losses of $8.0 million which are driven by short-term volatility in global investment markets and, as such, are not reflective of longer-term expectations for investment returns.

Net Income







* All figures in millions.
** Revenue includes net premiums earned, commissions, management fees and other income.

As can be seen from the Net Income chart (left), Adjusted Net Income (which removes the 'noise' of unrealised gains and losses) has been consistently strong over the past five years.

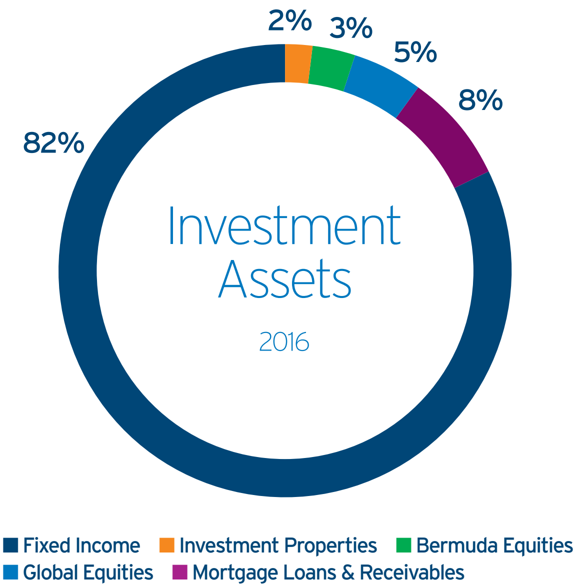
Our financial results benefited from our strategic focus on advocacy which led to strong sales and high client retention during the year. Our ability to retain and acquire new clients in a competitive and complex regulatory market is a testament to the strength of our people and our operations. These actions have had a positive impact on our Net Premiums Earned of $139.2 million, an increase of one percent when compared with the prior year.

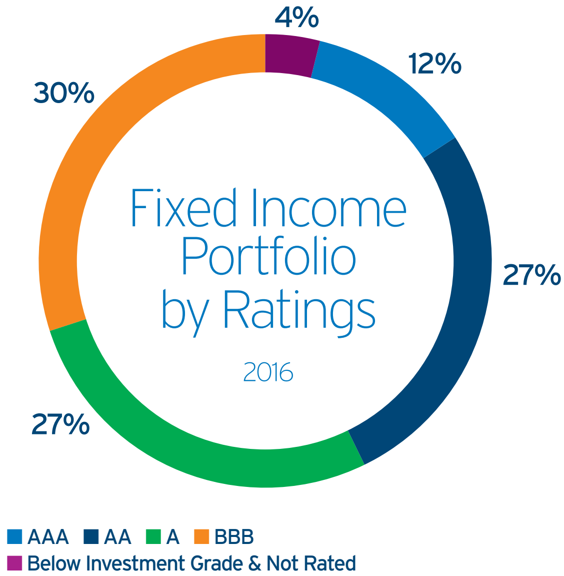
Net Benefits and Claims increased by $9.0 million to $109.6 million primarily due to health claims returning to a more normal level after the unusually low claims incurred in the prior year. Argus is concerned about the continued rising costs of healthcare and the company's investment in health and wellness programmes demonstrates a commitment to support a sustainable healthcare system.

Prudent claims management along with a strategic focus on the mix of business that's written, have resulted in the reduction of the claims ratio in our European property and casualty operations when compared with the prior year. Additionally the absence of any major windstorms has had a positive impact on the claims experience in Bermuda.

As illustrated by the Revenue charts (left), the Group derives approximately three-quarters of operating revenue from serving corporate Employee Benefits clients with 90% of Group revenue arising in Bermuda. While the Group is diversified across product groups within each of our divisions, we continue to focus our growth strategy on geographic diversification outside of Bermuda.

Financial Review





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

We seek 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) Investing in assets with similar characteristics to the liabilities they support – our 'Asset-Liability Matching' strategy.

As can be seen in the charts above, 82% of the Group's investments are fixed income bonds of which 96% are investment grade. The 4% holding of below investment grade and non-rated fixed income asset is comprised of a diverse range of tactical positions and are considered 'money good' by their respective managers.

The Group's investment portfolio is designed to enhance shareholder value and to ensure that we have high quality assets generating appropriate long-term yields. Our first investment management priority is to ensure liquid assets are available to enable us to deliver on our promises to policyholders. Secondly we ensure that the assets generate sufficient yield to deliver a reasonable risk-adjusted return to our shareholders.

The Group reported investment income of $1.5 million, which included unrealised investment losses of $8.0 million compared with $14.8 million, which included unrealised investment gains of $3.2 million. The total return on the investment portfolio was $3.3 million with accounting provisions for impaired loans reducing the reported investment income to $1.5 million.

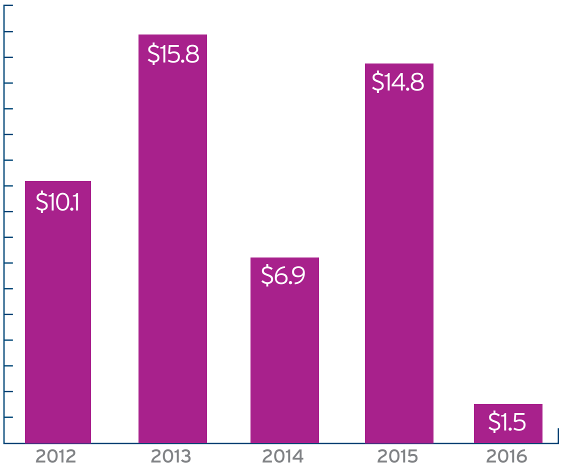
Our investments generally performed well when measured against their 'benchmark' returns (that is, compared to investment portfolios with similar characteristics). However, the accounting treatment adopted for virtually all of our investment assets requires that unrealised gains and losses (that is, market movements on assets we still hold) are included as part of the reported investment income for the year, irrespective of the likelihood that these losses will not be realised.

As in the past two fiscal years, when markets were very volatile, unrealised gains and losses have had a pronounced effect on the Group's reported earnings. Fixed income bond prices generally move in the opposite direction of interest rate changes. In the 2014/15 fiscal year US interest rates dropped, causing a large unrealised gain in the value of our bond portfolio. In 2015/16 the reverse was true; interest rate increases in the US caused unrealised losses in our bond portfolio, particularly at the fiscal half-year mark.

The shifts in both equity and bond markets during the 2015/16 fiscal year resulted in unrealised losses that reduced reported investment income by $8.0 million. Conversely in the prior fiscal year market movements

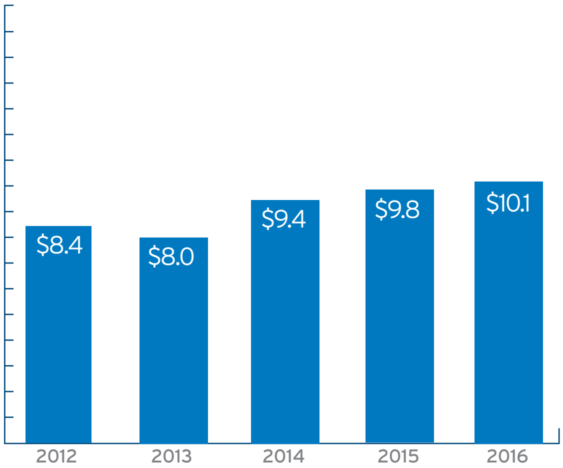
Reported Investment Income

($ Millions)



Core Investment Income

($ Millions)



generated unrealised gains that boosted the reported investment income for that year by $3.2 million.

The unrealised investment losses relate primarily to high quality bonds within our longer-term fixed income portfolio. These assets exist to match the Group's longer-term insurance and investment liabilities. The portfolio consists of assets that generate appropriate long-term yields that are well matched to the liabilities that they are backing. Whilst we have a high degree of confidence in the yield that these assets will generate over their life and their value at maturity, their current market values (and hence the unrealised gains and losses generated by changes in their market values) are inherently sensitive to market movements in interest rates and credit spreads.

Another contributor to unrealised losses for the current fiscal year has been our small residual holdings in Bermuda equities. The thin trading of these Bermuda-listed equities can cause large changes in their quoted value and hence volatility in the Group's reported investment income.

The charts above illustrate the impact of the investment income 'noise' generated by these short-term market movements by contrasting the reported investment income over the past five years with the relative stability of the core investment income (which excludes the volatility of unrealised and realised gains/losses and impairment charges) over the same period.

Our current accounting model requires that movements in the market value of our bonds and equities, both good and bad, are reflected within our net income for the year. While some investment income volatility is inherent, the inclusion of all unrealised gains and losses within our reported investment income detracts from the long-term investment yields and takes focus away from the fundamental objectives and results of the investment portfolio. Accordingly, the Group is taking steps to reduce the income volatility, primarily through changes in the accounting treatment where allowed by IFRS, in an effort to allow the underlying strength of the business to shine through.

Effective April 1, 2016, the unrealised market movements on a large part of the Group's investment portfolio will be reported as Other Comprehensive Income within the Consolidated Statement of Comprehensive Income, but will not be included within the reported Net Income figure in the Consolidated Statement of Operations. These assets will continue to be reported at fair market value on the Balance Sheet.

These actions continue to position the Group to deliver on our policyholder commitments and deliver appropriate long-term yields.

Peter J. Dunkerley
Chief Financial Officer

"My goal is that Bermudians with healthcare needs will look to their Argus Case Manager to act on their behalf and help make their lives better."

Karima Stevens
Nurse Case Manager

Advocacy

Group Benefits "**Thrive.**"

Everyone talks about trying to improve the healthcare system in Bermuda but few take actual practical steps to start this change. Our Population Health and **Thrive.** programmes are doing just that. The Argus Case Management programme has revolutionised how we look at our relationship with our members and how they look at us. Case Management gives our members a voice in managing their own healthcare, which leads to real and tangible cost savings. By helping our members navigate a highly complex healthcare system, we empower them to take control of their well-being and a healthy productive person supports a strong family and contributes to an improved community.

Our members have expressed sincere gratitude that an Argus healthcare advocate is there to help them and answer their questions and concerns.

The programme is already showing success and in just a short time we have positively impacted the health of our members who have been struggling to cope with chronic health conditions. Our members feel increased confidence from a programme that is tailored to meet their individual needs and one which we believe will become a core part of the healthcare system in Bermuda.

Our Outlook

Empowered Customers

More powerful and emergent technologies in the hands of our customers will increase the expectation of access to their data and control of their products and services. Our customers expect the increased freedom of choice that they see in the world around them to be reflected in the interactions they have with us. The power of data, preferences and historical patterns means that we will proactively provide relevant advice and services. Customers will demand anticipatory experiences, not reactive ones. This in turn will power our offers and decisions to empower customers while making self-service easier and reducing operational costs. Moving towards a single user experience for all services and products is essential.

Power of Data

The power of data is in the ability to understand and measure that data. The complexity and sheer volume of data will only grow and companies that invest heavily in data mining and understanding that data will be prepared for the future. What gets measured gets managed (Peter Drucker, 1954). We are being measured in almost every aspect of our lives and that will only increase. The contribution to our personal health, wealth and communities is exponential. How that contributes to the products and services we offer is up to us to capitalise on. Likewise those contributing factors will greatly enhance our ability to affect the bottom line. Everyone wins.

Market Disruption

The displacement of traditional market structures and alliances by disruptive strategies and innovation will be the norm. The speed with which technology is changing the customer experience combined with the predominantly global marketplace will require agile approaches and strategies. The impact this has on relevant product design and sales channels will be compounded and intensive. The global P&C market in relation to EU Solvency II means that a harmonised regulatory environment demands increased capital to mitigate the risk of insolvency.

This means to be a player in the global market we will have to step away from a localised product structure and perspective. We will need to embrace the global marketplace much like our customers have already embraced the global community. Borders and business become virtual. When our operations and strategies are agile we remain relevant.

Older & Healthier

Our older and growing population will put an increased burden on health services. However, that population is increasingly healthier and has more time to drive markets and demand products and services suited to them. The demand on claims will decrease with a healthier generation while the demand on appropriate and comprehensive services will increase. Our ability to educate on diet and personal well-being and decrease smoking will continue the trend. We will have to be ready with new products and services to meet the needs of this expanding market. It is essential that we work hard to advocate for a healthier customer as government strength and resources dwindle.

Power of Communities

The ability to wield tremendous power to affect positive change globally and locally is the norm and our future. The near instantaneous ability to reach individuals around the world and the dissociation of "place" means that our online communities grow exponentially and at the speed of thought. Individuals can affect change locally with the support of instant global communities. Our ability to embrace these communities and be flexible to the benefits and value they offer will directly affect our ability to maintain relationships with our customers for their lifetimes. Our desire to be transparent and share in the power of these communities by influencing positive change with our local governments require us to advocate on behalf of those communities. Our responsibility is to support our various stakeholders by sharing in the increased responsibility and strength of the communities that we inhabit.

There has never been a time when an individual with the support of their communities has such profound power to enact positive change within the traditional bureaucratic process.

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 convergence of the physical and virtual worlds demands flexible and proactive security of our customers data. Understanding this threat 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 investment in forward thinking security strategies and management of our data assets is the first step.


MALTA
WEBSITE
DIGITAL STRATEGY
MOBILE
RESEARCH
GROWTH
ANALYTICS

Innovation

"Our clients will get to engage with us in ways they never have before. We get a level of client understanding and knowledge that a few years ago was impossible."

Phil Davis

Digital Transformation

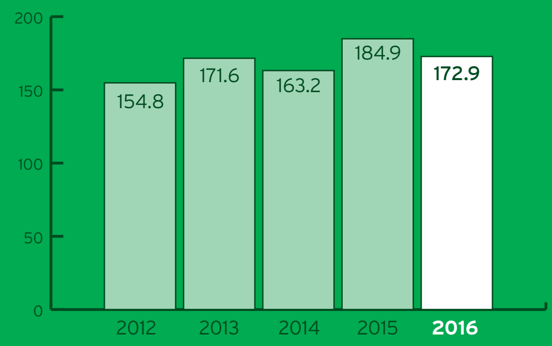
Innovation only ever adds value to our clients if we always keep in mind how we can enhance their lives when they interact with us. We do this by keeping their changing and evolving needs at the very core of everything that we do.

Our business is all about building trust so we seek to harness technological innovation, but blend it with a face to face, personal experience. Investment in our digital channel over the past year has allowed us to collect better management information and data, allowing for process optimisation, increased business focus and targeted customer value generation. Most importantly, our customers experience a seamless Argus journey across multiple channels.

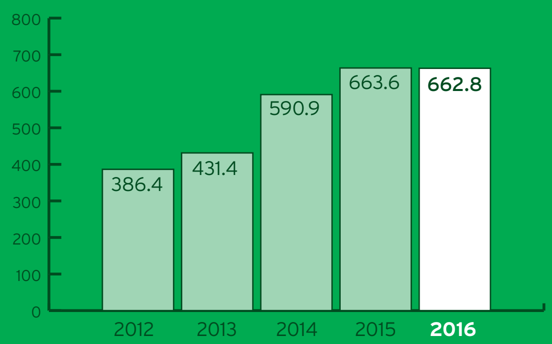
Our agile development approach, cross-functional work teams and rapid problem-solving processes create solutions that can be leveraged across all client portfolios. We always put the client at the centre of our decision making as it makes us better at what we do. It presents a strong global Argus brand, whilst remaining flexible to meet local cultural needs in each of our territories.

Five Year Summary

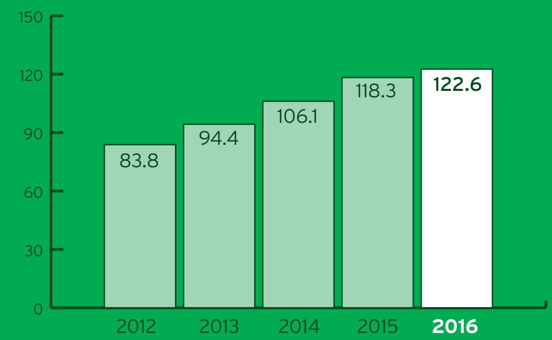
Total Revenue
For the Year (in millions of dollars)



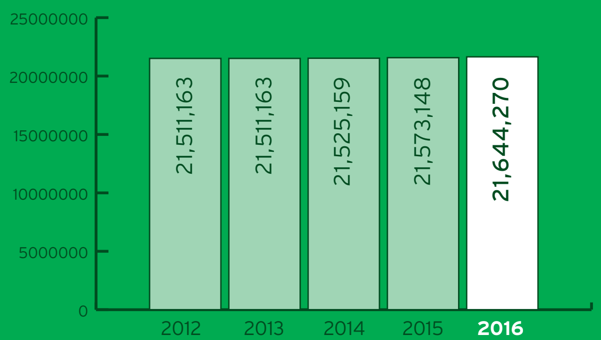
Total General Fund assets
At Year End (in millions of dollars)



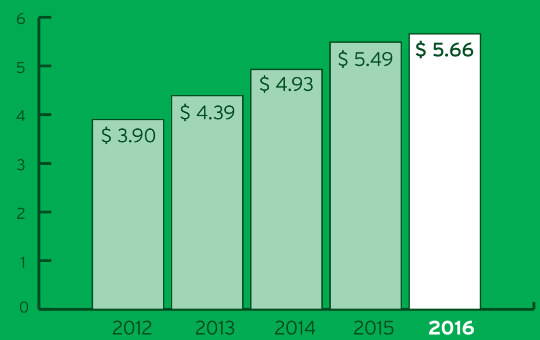
Shareholders' equity
At Year End (in millions of dollars)



Shares in issue
Shareholder Data

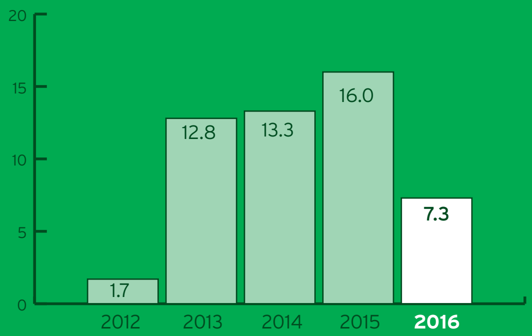


Book value per share
Shareholder Data

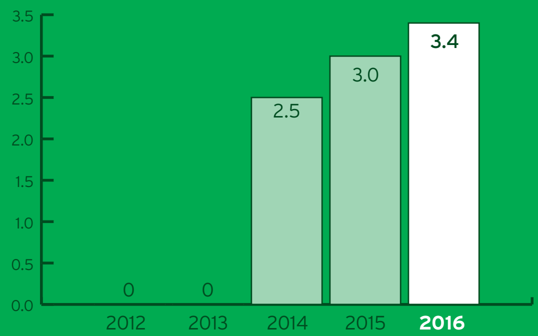


Five Year Summary

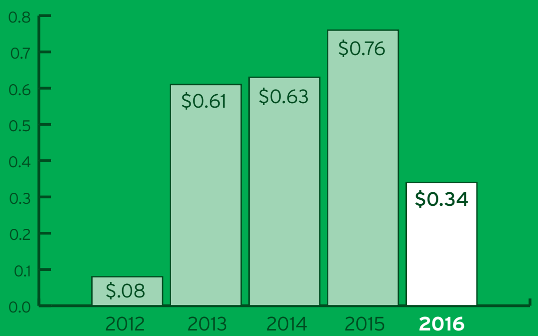
Earnings attributable to Shareholders
For the Year (in millions of dollars)



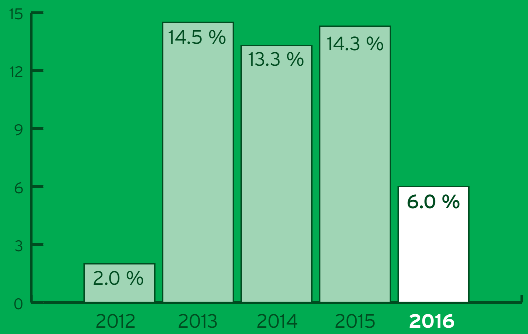
Cash Dividends
For the Year (in millions of dollars)



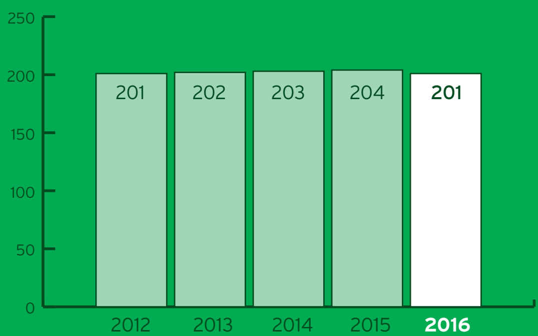
Earnings per share - fully diluted
Financial Ratio



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 fulfill this responsibility, the Group maintains policies, procedures and systems of internal control to ensure that its reporting practices and accounting and administrative procedures are appropriate 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 26 through 83 in accordance with International Standards on Auditing to enable them to express to the Shareholders their opinion on the consolidated financial statements. Their report is shown opposite.

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

These consolidated financial statements were authorised for issue by the Board of Directors on July 21, 2016.

Alison S. Hill
CHIEF EXECUTIVE OFFICER

Peter J. Dunkerley
CHIEF FINANCIAL OFFICER

July 21, 2016

Independent Auditor's Report

TO THE SHAREHOLDERS OF ARGUS GROUP HOLDINGS LIMITED AND SUBSIDIARIES

We have audited the accompanying consolidated financial statements of Argus Group Holdings Limited (the "Group"), which comprise the consolidated balance sheet as at March 31, 2016, and the consolidated statements of operations, comprehensive income, changes in equity and cash flows for the year ended March 31, 2016, and notes, comprising a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Argus Group Holdings Limited as at March 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year ended March 31, 2016 in accordance with International Financial Reporting Standards.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda

July 21, 2016

Consolidated Balance Sheet

(In $ thousands)	Note	MARCH 31 2016	MARCH 31 2015
ASSETS			
Cash and short-term investments		34,106	33,095
Interest and dividends receivable		2,826	3,630
Investments	3, 4	482,287	480,205
Insurance balances receivable	6	12,796	10,830
Reinsurers' share of:			
Claims provisions	12	24,035	33,898
Unearned premiums	12	9,572	9,199
Other assets	8	13,003	7,101
Deferred policy acquisition costs	9	1,098	1,317
Investment in associates	5	11,644	11,782
Investment properties	7	10,448	10,448
Property and equipment	10	58,531	59,697
Intangible assets	11	2,435	2,383
TOTAL GENERAL FUND ASSETS		662,781	663,585
TOTAL SEGREGATED FUND ASSETS	29	1,398,933	1,557,211
TOTAL ASSETS		2,061,714	2,220,796
LIABILITIES			
Insurance contract liabilities	12	231,836	227,164
Insurance balances payable	13	18,402	11,062
Payables arising from investment transactions	15	33,937	46,043
Investment contract liabilities	16	233,985	238,573
Taxes payable		67	91
Accounts payable and accrued liabilities		16,392	16,792
Post-employment benefit liabilities	17	4,135	4,042
TOTAL GENERAL FUND LIABILITIES		538,754	543,767
TOTAL SEGREGATED FUND LIABILITIES	29	1,398,933	1,557,211
TOTAL LIABILITIES		1,937,687	2,100,978
EQUITY			
Attributable to Shareholders of the Company			
Share capital		17,861	17,383
Contributed surplus		52,891	52,698
Retained earnings		55,742	52,141
Accumulated other comprehensive loss	31	(3,937)	(3,893)
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY		122,557	118,329
Attributable to non-controlling interests		1,470	1,489
TOTAL EQUITY		124,027	119,818
TOTAL EQUITY AND LIABILITIES		2,061,714	2,220,796

The accompanying notes form part of these consolidated financial statements.

Consolidated Statement of Operations

For the years ended March 31 (In $ thousands, except per share data)	Note	2016	2015
REVENUE			
Gross premiums written		176,378	177,426
Reinsurance ceded		(36,581)	(39,056)
Net premiums written		139,797	138,370
Net change in unearned premiums	21	(646)	(485)
Net premiums earned		139,151	137,885
Investment income	3	1,499	14,828
Share of earnings of associates	5	138	746
Commissions, management fees and other	24	32,061	31,428
		172,849	184,887
EXPENSES			
Policy benefits		13,251	14,193
Claims and adjustment expenses		96,405	105,450
Reinsurance recoveries	22	(13,594)	(27,282)
Gross change in contract liabilities	23	3,734	29,017
Change in reinsurers' share of claims provisions	23	9,805	(20,805)
NET BENEFITS AND CLAIMS		109,601	100,573
Commission expenses		5,101	5,472
Operating expenses	25	46,042	47,747
Amortisation, depreciation and impairment	10, 11	4,125	14,746
		164,869	168,538
EARNINGS BEFORE INCOME TAXES		7,980	16,349
Income tax (expense)/benefit	28	(119)	142
NET EARNINGS FOR THE YEAR		7,861	16,491
Attributable to:			
Shareholders of the Company		7,280	16,032
Non-controlling interests		581	459
		7,861	16,491
Earnings per share:	20		
Basic		*0.34*	*0.76*
Fully diluted		*0.34*	*0.76*

The accompanying notes form part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the years ended March 31 (In $ thousands)	Note	2016	2015
NET EARNINGS FOR THE YEAR		7,861	16,491
OTHER COMPREHENSIVE (LOSS)/INCOME			
Items that will not be reclassified to net earnings:			
Post-employment medical benefit obligation remeasurement	17	22	306
Reclassification of actuarial losses arising from an associate's defined benefit plan		-	1,090
Items that are or may subsequently be reclassified to net earnings:			
Change in unrealised gains/(losses) on available-for-sale investments		(24)	(25)
Share of other comprehensive income/(loss) of associates	5	-	12
Change in unrealised (losses)/gains on translating financial statements of foreign operations		(42)	(1,437)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		(44)	(54)
COMPREHENSIVE INCOME FOR THE PERIOD		7,817	16,437
OTHER COMPREHENSIVE LOSS ATTRIBUTABLE TO:			
Shareholders of the Company		(44)	(54)
		(44)	(54)
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Shareholders of the Company		7,236	15,978
Non-controlling interests		581	459
		7,817	16,437

The accompanying notes form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the years ended March 31 (In $ thousands except the number of shares)	Note	2016	2015
SHARE CAPITAL			
Authorised:			
25,000,000 common shares of $1.00 each (2015 – 25,000,000)		25,000	25,000
Issued and fully paid, beginning of year 21,573,148 shares (2015 – 21,525,159 shares)		21,573	21,525
Add: Shares issued under the dividend reinvestment plan 71,122 shares (2015 – 47,989 shares)		71	48
Deduct: Shares held in Treasury, at cost 407,931 shares (2015 – 436,709 shares)		(3,783)	(4,190)
TOTAL, NET OF SHARES HELD IN TREASURY, END OF YEAR		17,861	17,383
CONTRIBUTED SURPLUS			
Balance, beginning of year		52,698	52,578
Stock-based compensation expense	26	165	159
Treasury shares granted to employees	26	(175)	(180)
Shares issued under the dividend reinvestment plan	19	203	141
BALANCE, END OF YEAR		52,891	52,698
RETAINED EARNINGS			
Balance, beginning of year		52,141	40,413
Net earnings for the year		7,280	16,032
Dividends	19	(3,388)	(2,955)
Reclassification of actuarial losses arising from an associate's defined benefit plan		-	(1,090)
Loss on treasury shares granted to employees		(291)	(259)
BALANCE, END OF YEAR		55,742	52,141
ACCUMULATED OTHER COMPREHENSIVE LOSS			
Balance, beginning of year		(3,893)	(3,839)
Other comprehensive (loss)/income for the year		(44)	(54)
BALANCE, END OF YEAR	31	(3,937)	(3,893)
TOTAL ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY		122,557	118,329
ATTRIBUTABLE TO NON-CONTROLLING INTERESTS			
Balance, beginning of year		1,489	1,430
Net earnings for the year		581	459
Distributions to non-controlling interests		(600)	(400)
TOTAL EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		1,470	1,489
TOTAL EQUITY		124,027	119,818

The accompanying notes form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the years ended March 31 (In $ thousands)	2016	2015
OPERATING ACTIVITIES		
Earnings before income taxes	7,980	16,349
Adjustments to reconcile net earnings to cash basis (Footnote (i) below)	3,750	846
Change in operating balances (Footnote (ii) below)	15,380	19,283
Interest income received	10,767	8,650
Dividend income received	737	1,336
Income tax paid	(12)	173
CASH GENERATED FROM OPERATING ACTIVITIES	38,602	46,637
INVESTING ACTIVITIES		
Purchase of investments	(1,404,918)	(1,247,200)
Sale and maturity of investments	1,374,190	1,209,376
Purchase of property and equipment	(2,421)	(2,514)
Purchase of intangible assets	(572)	(655)
CASH USED IN INVESTING ACTIVITIES	(33,721)	(40,993)
FINANCING ACTIVITIES		
Dividends paid to Shareholders	(3,181)	(2,826)
Distributions to non-controlling interests	(600)	(400)
CASH USED IN FINANCING ACTIVITIES	(3,781)	(3,226)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND SHORT-TERM INVESTMENTS	(89)	(663)
NET INCREASE IN CASH AND SHORT-TERM INVESTMENTS	1,011	1,755
CASH AND SHORT-TERM INVESTMENTS, BEGINNING OF YEAR	33,095	31,340
CASH AND SHORT-TERM INVESTMENTS, END OF YEAR	34,106	33,095
Footnotes		
(i) Interest income	(12,005)	(10,891)
Dividend income	(843)	(1,036)
Investment income related to Deposit administration pension plans	2,152	2,217
Net realised and unrealised losses/(gains) on investments	6,577	(7,774)
Amortisation of net premium of bonds	1,670	1,602
Net impairment losses on investments	2,047	259
Share of earnings/(loss) of associates	(138)	(746)
Change in fair value of investment property	-	2,310
Amortisation, depreciation and impairment	4,125	14,746
Expense of vesting of stock-based compensation	165	159
	3,750	846
(ii) Insurance balances receivable	(1,978)	1,832
Reinsurers' share of:		
Claims provisions	9,823	(20,715)
Unearned premiums	(385)	(81)
Other assets	542	1,539
Deferred policy acquisition costs	411	50
Insurance contract liabilities	4,738	29,415
Insurance balances payable	7,107	(2,913)
Investment contract liabilities	(4,588)	8,590
Accounts payable and accrued liabilities	(405)	1,436
Post employment benefit liability	115	130
	15,380	19,283

The accompanying notes form part of these consolidated financial statements.

Contents Notes to the Consolidated Financial Statements

		Page
1	Operations	32
2	Significant accounting policies	32
3	Investments	43
4	Fair value measurement	47
5	Investment in associates	52
6	Insurance balances receivable	52
7	Investment properties	52
8	Other assets	53
9	Deferred policy acquisition costs	53
10	Property and equipment	54
11	Intangible assets	55
12	Insurance contract liabilities	56
13	Insurance balances payable	63
14	Risk management	64
15	Payables arising from investment transactions	72
16	Investment contract liabilities	72
17	Post-employment benefit liability	73
18	Group composition	74
19	Dividends	75
20	Earnings per share	76
21	Net change in unearned premiums	76
22	Reinsurance recoveries	76
23	Net change in contract liabilities	76
24	Commissions, management fees and other	76
25	Operating expenses	77
26	Stock-based compensation	77
27	Related party transactions	79
28	Income taxes	80
29	Segregated funds and separate accounts	81
30	Operating segments	82
31	Components of accumulated other comprehensive loss	83
32	Commitments and contingencies	83
33	Comparative figures	83
34	Subsequent events	83

Notes to the Consolidated Financial Statements

March 31, 2016

(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, 2016, it has 1,358 shareholders; 86.7 percent of whom are Bermudian, holding 86.6 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 18 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 Sheet:

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

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

2.2.2 Presentation currency

All amounts 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 2.4 – foreign currency translation;
Note 2.9 – insurance contracts and investment contracts;
Note 2.16 and Note 32.1 – leases and operating leases;
Note 5 – investment in associates; and
Note 7 – investment properties.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:
Note 2.7 – impairment of assets;
Note 3 and Note 16 – investments and investment contract liabilities; and
Note 12 – 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 Statement of Operations and its proportionate share of Other Comprehensive Income on the Consolidated Statement 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 Statement of Operations.

2.4.2 Translation to the presentation currency

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

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

(ii) Held-to-maturity financial assets

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

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

(iii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost less any impairment losses. Interest income from Loans and receivables is recognised in Investment income on the Consolidated Statement 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 Sheet.

(iv) Available-for-sale financial assets

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

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

2.6.1(b) Derecognition and offsetting

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

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

2.6.2 Financial Liabilities

2.6.2(a) Classification and recognition of financial liabilities

The Group has the following financial liabilities: (i) financial liabilities at FVTPL and (ii) other financial liabilities. Management determines the classification 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 Sheet. Contracts recorded at FVTPL are measured at fair value at inception and each subsequent reporting period. Changes in fair value of investment contract liabilities are recorded in Gross change in contract liabilities on the Consolidated Statement of Operations (Note 2.9.2).

(ii) Other financial liabilities

All remaining financial liabilities are classified as other financial liabilities which include Investment contract liabilities related to the deposit administration pension plans and self-funded group health policies (Note 2.9.2), 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 Statement of Operations as incurred. These investments in derivative instruments are subsequently carried at estimated fair value. Changes in the estimated fair value of instruments that do not qualify for hedge accounting are recognised in Investment income on the Consolidated Statement of Operations. The Group does not hold any derivatives classified as hedging instruments. Derivative financial assets and liabilities are reported net under Investments on the Consolidated Balance Sheet.

2.6.4 Investment income

Interest is recorded in Investment income on the Consolidated Statement 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 Statement of Operations and reflected in an allowance account against the Held-to-maturity financial assets or Loans and receivables.

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

2.7.1(b) Available-for-sale financial assets

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

2.7.1(c) Investment in associates

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

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

2.7.2 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets comprising of Investment 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 Statement of Operations if the carrying amount of an asset exceeds its estimated recoverable amount. The recoverable amount of an asset is the greater of its value-in-use and its fair value less costs to sell. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Assets which cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets.

2.8 INVESTMENT PROPERTIES

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

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

2.9 INSURANCE CONTRACTS AND INVESTMENT CONTRACTS

2.9.1 Insurance contracts

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

2.9.1(a) Premiums and acquisition costs

Premiums written from the Group's Property and casualty and Group insurance operating segments as defined in Note 2.18 are recognised as revenue over the terms of the policies. The reserve for Unearned premiums represents that portion of premiums written that relates to the unexpired terms of the policies and is included in Insurance contract liabilities on the Consolidated Balance Sheet. Life and annuity premiums are recognised as income when due.

Costs related to the acquisition of Property and casualty and Group insurance premiums are charged to income over the period of the policy. Acquisition costs are comprised of commissions and those associated with unearned premiums are deferred and are amortised to income over the periods in which the premiums are earned. This is shown as Deferred policy acquisition costs on the Consolidated Balance Sheet. Policy acquisition costs related to unearned premiums are only deferred to the extent that they can be expected to be recovered from the unearned premiums. If the unearned premiums are insufficient to pay expected claims and expenses, a premium deficiency is recognised 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 Statement of Operations.

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

2.9.1(c) Reinsurance

Reinsurance ceded premiums comprise the cost of reinsurance contracts into which the Group has entered. Reinsurance premiums are recognised from the date the reinsurer has contracted to accept the risks and the amount of premium can be measured reliably. The 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 Sheet. 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 Sheet. Amounts due to or from reinsurers with respect to premiums or claims are included in Insurance balances payable or Insurance balances receivable on the Consolidated Balance Sheet.

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

2.9.1(d) Insurance contract liabilities

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

(i) Life and annuity policy reserves

Life and annuity policy reserves are determined by the Group's actuaries and represent the amounts which, together with future premiums and investment income, are required to discharge the obligations under life and annuity contracts and to pay expenses related to the administration of 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 Statement of Operations in the year in which they are determined.

Provision for unpaid and unreported claims are not discounted.

2.9.2 Investment contracts

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

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

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

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

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

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

2.10 PROPERTY AND EQUIPMENT

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

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

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

The assets' residual values, useful lives and method of depreciation are reviewed regularly, at 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 Statement 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 Statement 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 Statement of Operations in the year in which it is identified.

2.12 SEGREGATED FUNDS

Segregated funds are lines of business in which the Group issues a contract where the benefit amount is directly linked to the fair value of the investments held in the particular segregated fund. Although the underlying assets are registered in the name of the Group and the segregated fund 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 Statement of Operations. Deposits to segregated funds are reported as increases in Segregated funds liabilities and are not reported on the Consolidated Statement of Operations.

2.13 EMPLOYEE BENEFITS

Post-employment benefits

The Group operates a post-employment medical benefit plan. 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 Statement of Comprehensive Income. Interest expense and other expenses related to the post-employment medical benefit plan are recognised in Operating expenses on the Consolidated Statement of Operations.

Pensions

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

Stock-based compensation

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

The Stock Option Plan is accounted for under the fair value method. The fair value of stock-based awards is determined using the Black-Scholes option pricing model and is amortised over the applicable vesting period as compensation expense. 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 Statement of Operations and in the Contributed surplus on the Consolidated Statement 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 Statement of Operations, and a corresponding adjustment is made to Contributed surplus over the remaining vesting period. On exercise, the differences between the expense charged to the Consolidated Statement of Operations and the actual cost to the Group is transferred to Contributed surplus.

2.14 TAXATION

Current and deferred taxes are recognised on the Consolidated Statement 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 Statement of Operations because it excludes items which are non-assessable or disallowed and it further excludes items that are taxable or deductible in other periods. It is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred 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 Statement of Changes in Equity. When Treasury Shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in Contributed surplus on the Consolidated Statement of Changes in Equity.

2.16 LEASES

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

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

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

2.17 EARNINGS PER SHARE

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

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

2.18 SEGMENT REPORTING

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

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.

The Group has four reportable segments as follows:

(i) Group insurance – comprised of insured employee benefits; group health, life, long-term disability and employer's indemnity coverage;

(ii) Life and pensions – including individual life insurance, annuities, group retirement income plans and an investment management services company;

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

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

2.19 APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS

Summaries of each of the most recently issued key accounting standards by the International Accounting Standards Board (IASB) are presented below.

2.19.1 Amendments to IAS 19 Employee Benefits

Effective April 1, 2015, the Group adopted the amendments to IAS 19, Employee Benefits issued by the IASB in November 2013. The amendments clarify the accounting for contributions by employees or third parties to defined benefit plans. Adoption of these amendments did not have a significant impact on the Group's consolidated financial statements.

2.19.2 Annual Improvements 2010-2012 and 2011-2013 Cycles

Effective April 1, 2015, the Group adopted the amendments issued under the 2010-2012 and 2011-2013 Cycles of the Annual Improvements project issued by the IASB in December 2013. The IASB issued various minor amendments to different standards, with some amendments to be applied prospectively and others to be applied retrospectively. Adoption of these amendments did not have significant impact on the Group's consolidated financial statements.

2.20 FUTURE ACCOUNTING AND REPORTING CHANGES

There are a number of accounting and reporting changes issued under IFRS including those still under development by the IASB. A summary of the recently issued new accounting standards that will impact the Group in 2017 and beyond is as follows.

TOPIC	EFFECTIVE DATE FOR THE GROUP	EXPECTED IMPACT
Amendments to IAS 16, Property, Plant and Equipment and IAS 38 Intangible Assets	April 1, 2016	No significant impact
Amendments to IFRS 10, Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures	April 1, 2016	No significant impact
Annual Improvements 2012-2014 Cycle	April 1, 2016	No significant impact
IFRS 15, Revenue from Contracts with Customers	April 1, 2018	Impact assessment in progress
IFRS 9, Financial Instruments	April 1, 2018*	Impact assessment in progress
IFRS 16, Leases	April 1, 2019	Impact assessment in progress
IFRS 4, Insurance Contracts (Phase II)	No earlier than April 1, 2020	Impact assessment in progress

*Adoption can be deferred to 2021 if certain conditions are met as discussed in 2.20.7

2.20.1 Amendments to IAS 16, Property, Plant and Equipment and IAS 38 Intangible Assets

Amendments to IAS 16 and IAS 38 are to be applied prospectively. The amendments clarify that the depreciation or amortisation of assets accounted for under these two standards should reflect a pattern of consumption of the assets rather than reflect economic benefits expected to be generated from the assets. Adoption of these amendments is not expected to have a significant impact on the Group's consolidated financial statements.

2.20.2 Amendments to IFRS 10, Consolidated Financial Statements and IAS 28, Investments in Associates and Joint Ventures

Additional amendments to IFRS 10 and IAS 28 were issued in December 2014 and are to be applied retrospectively. The amendments clarify the requirements when applying the investment entities consolidation exception. Adoption of these amendments is not expected to have a significant impact on the Group's consolidated financial statements.

2.20.3 Annual Improvements 2012-2014 Cycle

This was issued in September 2014 as part of the ongoing process by the IASB to efficiently deal with non-urgent narrow scope amendments to IFRS. Adoption of these amendments is not expected to have a significant impact on the Group's consolidated financial statements.

2.20.4 IFRS 15, Revenue from Contracts with Customers

IFRS 15 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. Accordingly, the adoption of IFRS 15 may impact the revenue recognition related to the Group's asset management and service contracts and may result in additional financial statement disclosure. Management is assessing the impact of this standard.

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 proposed amendments to IFRS 4 Insurance Contracts outlined below.

2.20.6 IFRS 16, Leases

IFRS 16 was issued in January 2016 which will be applied retrospectively or on a modified retrospective basis. It is intended to replace IAS 17, Leases and International Financial Reporting Interpretation Committee (IFRIC) 4, Determining whether an arrangement contains a lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, the customer (lessee) and the supplier (lessor). The standard brings most leases on-balance sheet for lessees under a single model, eliminating the previous classifications of operating and finance leases. The only exemption to this treatment is for lease contracts with duration of less than one year. The on-balance sheet treatment will result in the grossing up of the balance sheet due to a right-of-use asset being recognised with an offsetting liability. Lessor accounting under the standard remains largely unchanged with previous classifications of operating and finance leases being maintained. Management is assessing the impact of this standard.

2.20.7 Proposed Amendments to IFRS 4, Insurance Contracts

In June 2013, the IASB proposed a new accounting and reporting model for insurance contracts by issuing a revised Exposure Draft. The proposals apply to all insurance contracts, including certain financial guarantees, other than insurance entities, and to investment contracts with a discretionary participation feature issued by insurance companies. The IASB continued its deliberations on the comments received on this exposure draft during the year and the Group continues to monitor the developments related to this new standard.

In December, 2015, the IASB issued proposed amendments to IFRS 4 which addressed concerns about the different effective dates of IFRS 9 and the new insurance contracts standard that will replace IFRS 4. The amendments propose an optional temporary exemption from applying IFRS 9 that would be available to companies whose predominant activity is to issue insurance contracts. The amendments would permit deferral of adopting IFRS 9 until annual periods beginning on or after January 1, 2021 or until the new insurance contract standard becomes effective if at an earlier date. The amendments also propose an option for entities issuing insurance contracts within the scope of IFRS 4 to apply the overlay approach to the presentation of qualifying financial assets, removing from net income and presenting instead in OCI, the impact of measuring FVTPL financial assets at fair value through profit or loss under IFRS 9 when they would not have been so measured under IAS 39. The Group is assessing the impact of these proposed amendments.

3 INVESTMENTS

3.1 CARRYING VALUES AND ESTIMATED FAIR VALUES OF INVESTMENTS

	MARCH 31, 2016		MARCH 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Investments at FVTPL				
Bonds	398,594	398,594	388,838	388,838
Equities	39,813	39,813	45,733	45,733
	438,407	438,407	434,571	434,571
Held-to-maturity				
Bonds	3,754	3,869	3,318	3,446
	3,754	3,869	3,318	3,446
Available-for-sale				
Equities	2,383	2,383	2,663	2,663
	2,383	2,383	2,663	2,663
Loans and receivables				
Mortgages and loans	37,517	39,778	39,220	41,129
Policy loans	81	81	77	77
	37,598	39,859	39,297	41,206
Derivatives				
Foreign currency forward contracts	103	103	313	313
Other (1)	42	42	43	43
	145	145	356	356
TOTAL INVESTMENTS	482,287	484,663	480,205	482,242

(1) Other consists of interest rate swaps, credit default swaps and futures.

Included in Bonds are investments of $146.8 million (2015 – $148.1 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 plans.

3.2 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

AS AT MARCH 31	Note	2016	2015
Derivative assets		145	356
Derivative liabilities	15	(480)	(167)
Collateral (1)		299	186

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

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

AS AT MARCH 31	Note	2016	2015
Derivative financial instruments			
Foreign currency forward receivable		(147)	1,303
Other derivatives (1)		77	693
TOTAL NET (LOSSES)/INCOME FROM DERIVATIVE FINANCIAL INSTRUMENTS	3.4	(70)	1,996

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

3.2.1 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 14.3.

At March 31, 2016, the Group has outstanding futures with long positions of $1.3 million and short positions of $nil based on notional values (2015 – long positions of $0.9 million and short position of $46.0 million).

3.2.2 Options

The Group's investment guidelines permit the use of exchange-traded options on U.S. treasury future and Eurodollar futures, which are used to manage exposure to interest rate risk and also to hedge duration. Exchange-traded options are held on a similar basis to futures and are subject to similar safeguards. Options are contractual arrangements that give the purchaser the right, but not the obligation, to either buy or sell an instrument at a specific set price at a predetermined future date. The Group may enter into option contracts that are secured by holdings in the underlying securities or by other means which permit immediate satisfaction of the Group's obligations. At March 31, 2016, the Group has outstanding options with long positions of $56.7 million and short positions of $3.8 million based on notional values (2015 – long position of $nil and short position of $4.6 million).

3.2.3 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 Statement of Operations.

Interest rate swap agreements entail the exchange of commitments to pay or receive interest, such as an exchange of floating rate payments for fixed rate payments, with respect to a notional amount of principal. These agreements involve elements of credit and market risk. Such risks include the possibility that there may not be a liquid market, that the counterparty may default on its obligation to perform or that there may be unfavourable movements in interest rates. Credit risk is mitigated by making collateral calls to mitigate exposure and counterparty credit risk evaluation. Credit, market and liquidity risks and how these risks are mitigated are disclosed in Note 14.3.

At March 31, 2016, the Group has open interest rate swaps with long positions of $0.9 million and short positions of $nil based on notional values (2015 – long positions of $3.2 million and short positions of $5.0 million).

3.2.4 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, 2016, the Group has open CDS contracts with long positions of $5.5 million and short positions of $5.7 million based on notional values (2015 – long position of $2.8 million and short position of $2.0 million).

3.2.5 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, 2016 and 2015, the Group does not hold any outstanding swaptions.

3.2.6 Foreign Currency Forwards

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

AS AT MARCH 31	2016		2015	
	Notional Short	Notional Long	Notional Short	Notional Long
Australian Dollar	3,618	1,809	7,432	3,716
Brazilian Real	-	-	-	498
Euro	4,032	2,481	2,853	-
Japanese Yen	69,020	34,510	286,820	143,410
Mexican Peso	-	-	3,885	4,387
Sterling	622	-	180	-

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 of these other forward contracts with long positions and short positions amounted to $1.6million and $nil respectively.

At March 31, 2016, the U.S. dollar equivalent and notional value of outstanding foreign currency forward contracts with long positions and short positions amounted to $10.2 million and $4.4 million respectively (2015 – $12.0 million and $4.6 million).

3.3 REVERSE SALE AND REPURCHASE AGREEMENTS

The Group has entered into reverse sale and repurchase agreements (reverse repos) on investments during the year. The money received from these agreements where the Group is the borrower (i.e. where the Group is under an obligation to take the securities back) is shown on the Consolidated Balance Sheet as a Payable arising from reverse repos in Payables arising from investment transactions (Note 15). The securities delivered to the lender continue to be reported in Investments on the Consolidated Balance Sheet in accordance with their relevant category.

As of March 31, 2016, the Group does not hold any outstanding balances arising from reverse repos. The table below shows balances arising from reverse repos and the collateral as of March 31, 2015.

MARCH 31, 2015	Assets	Liabilities	Collateral(1)
Payables arising from reverse repos	38,073	(38,073)	38,157

(1) Securities pledged at fair value.

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

3.4 INVESTMENT INCOME

AS AT MARCH 31	2016	2015
Interest income		
Bonds – at FVTPL	10,685	9,463
Bonds – held-to-maturity	266	241
Mortgages and loans	956	980
Cash and other	98	206
	12,005	10,890
Dividend income		
Equities – at FVTPL	583	890
Equities – available-for-sale	260	146
	843	1,036
Net realised and unrealised (losses)/gains on investments		
Bonds – at FVTPL	(3,437)	6,728
Equities – at FVTPL	(3,193)	(1,013)
Equities – available-for-sale	123	63
Derivative financial instruments	(70)	1,996
Investment properties	-	(2,310)
	(6,577)	5,464
Other		
Amortisation of premium on bonds	(1,670)	(1,602)
Rental income and other	1,097	1,515
Impairment charges		
Equities – available-for-sale	-	(4)
Mortgages and loans	(2,047)	(254)
	(2,620)	(345)
INVESTMENT INCOME BEFORE DEDUCTIONS	3,651	17,045
Deductions		
Investment income relating to Deposit administration pension plans	(2,152)	(2,217)
INVESTMENT INCOME	1,499	14,828

4 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.

4.1 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

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

MARCH 31, 2016	Level 1	Level 2	Level 3	Total Fair Value
ASSETS				
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
Available-for-sale – Equities				
Private equity funds and unquoted equities	-	-	2,383	2,383
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.

MARCH 31, 2015	Level 1	Level 2	Level 3	Total Fair value
ASSETS				
Investments at FVTPL				
Bonds				
U.S. governments and short-term investments (1)	56,679	20,198	-	76,877
U.S. and local corporates	-	115,389	-	115,389
Municipal, other government and agency	-	34,977	-	34,977
Foreign bonds	-	72,745	-	72,745
Mortgage/asset-backed securities	-	59,863	1,057	60,920
Other (2)	-	27,930	-	27,930
	56,679	331,102	1,057	388,838
Equities				
Bermuda listed equities	18,833	25	-	18,858
Non-Bermuda listed equities	6,358	-	-	6,358
Investment in hedge funds and mutual funds	-	20,204	-	20,204
Private equity funds and unquoted equities	-	-	313	313
	25,191	20,229	313	45,733
TOTAL INVESTMENTS AT FVTPL	81,870	351,331	1,370	434,571
Available-for-sale – Equities				
Private equity funds and unquoted equities	-	-	2,663	2,663
Derivatives	-	356	-	356
Investment properties	-	10,448	-	10,448
TOTAL ASSETS AT FAIR VALUE	81,870	362,135	4,033	448,038
LIABILITIES				
Investment contract liabilities	-	3,014	-	3,014
Reversed repos	38,073	7,970	-	46,043
TOTAL LIABILITIES AT FAIR VALUE	38,073	10,984	-	49,057

(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 18.3, totalled $32.2 million (2015 – $29.5 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 fair value roll forward for the assets and liabilities measured at fair value for which significant unobservable inputs (Level 3) are used in the fair value measurement for the year ended March 31, 2016.

MARCH 31, 2016	INVESTMENTS			
	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

MARCH 31, 2015	INVESTMENTS			
	At FVTPL Bonds	At FVTPL Equities	Available-for-sale Equities	Total
Balance, beginning of year	565	322	2,966	3,853
Included in Investment income	(8)	-	-	(8)
Included in Other comprehensive income	-	-	(25)	(25)
Purchases	500	-	-	500
Sales/Write Off	-	(9)	(278)	(287)
	1,057	313	2,663	4,033

4.2 ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE

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

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

MARCH 31, 2015	Level 1	Level 2	Level 3	Total Fair value	Carrying value
ASSETS					
Held-to-maturity bonds (1)	-	3,446	-	3,446	3,318
Mortgages and loans (2)	-	41,129	-	41,129	39,220
Policy loans	-	77	-	77	77
TOTAL ASSETS DISCLOSED AT FAIR VALUE	-	44,652	-	44,652	42,615
LIABILITIES					
Investment contract liabilities (3)	-	231,543	-	231,543	235,559
TOTAL LIABILITIES DISCLOSED AT FAIR VALUE	-	231,543	-	231,543	235,559

(1) Fair value of bonds – see Note 4.1 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;
- Other financial assets under Other assets; and
- Accounts payable and accrued liabilities.

4.3 TRANSFERS OF LEVEL 1 AND LEVEL 2 ASSETS AND LIABILITIES

The Group's policy is to record transfers of assets and liabilities between levels at their fair values as at the end of each reporting period, consistent with the date of determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. During the years ended March 31, 2016 and 2015, there were no transfers from Level 1 to Level 2. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. During the years ended March 31, 2016 and 2015, there were no transfers from Level 2 to Level 1.

5 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, 2016, the carrying value of this investment is $7.1 million (2015 – $7.2 million) which represents a 28.0 percent interest in the company (2015 – 28.0 percent). The Group received dividends of $0.3 million from this investment during the year (2015 – $0.3 million).

5.1 CONTINGENCIES AND RESTRICTIONS

Included in Investment in associates is a 35.3 percent interest (2015 – 35.3 percent) in a private company with an office building in Hamilton, Bermuda. The carrying value of this investment as at March 31, 2016 is $4.4 million (2015 – $4.4 million). The Group has issued a guarantee in respect of its proportionate share of a term bank loan facility totalling $6.8 million (2014 – $7.4 million) for this office building.

This company 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 (2015 – $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.

5.2 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 3 under Available-for-sale equities and is recorded at cost.

6 INSURANCE BALANCES RECEIVABLE

Insurance balances receivable is comprised of:

MARCH 31, 2016	Insured Employee Benefits	Life and Pensions	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

MARCH 31, 2015	Insured Employee Benefits	Life and Pensions	Property and Casualty	Total
Due from policyholders, agents and brokers	53	1,093	6,666	7,812
Due from reinsurers	2,465	-	553	3,018
TOTAL INSURANCE BALANCES RECEIVABLE	2,518	1,093	7,219	10,830

7 INVESTMENT PROPERTIES

	Fair value
Balance, March 31, 2014	5,885
Acquisition	6,873
Fair value losses	(2,310)
Balance, March 31, 2015	10,448
Acquisition	-
Fair value losses	-
BALANCE, MARCH 31, 2016	10,448

The Group's Investment properties consist of condominium units and fractional apartment units, which are held primarily for resale and for rental income under operating lease agreements. 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 $0.8 million (2015 – $0.6 million), which is included in Investment income on the consolidated Statement of Operations. Direct operating expenses included within Investment income arising in respect of such properties during the year were $0.9 million (2015 – $0.7 million).

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

8 OTHER ASSETS

AS AT MARCH 31	2016	2015
Other financial assets		
Fees receivable	1,311	1,920
Receivable from self-funded group health policies	-	221
Receivable for investments sold	6,703	149
Notes and other receivables	2,496	1,997
TOTAL OTHER FINANCIAL ASSETS	10,510	4,287
Income taxes receivable	161	194
Prepaid expenses	2,332	2,620
TOTAL OTHER ASSETS	13,003	7,101

9 DEFERRED POLICY ACQUISITION COSTS

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

AS AT MARCH 31	2016	2015
Balance, beginning of year	1,317	1,504
Deferral during the year	3,417	3,963
Expense for the year	(3,828)	(4,053)
Foreign exchange rate movements	192	(97)
BALANCE, END OF YEAR	1,098	1,317

10 PROPERTY AND EQUIPMENT

	Land and buildings	Computer equipment	Furniture and other equipment	Total
Gross carrying amount				
Balance, March 31, 2014	79,263	30,821	7,008	117,092
Additions	59	2,429	26	2,514
Retirements (1)	(1,488)	(2,873)	-	(4,361)
Foreign exchange rate movements	(84)	(92)	(74)	(250)
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**
Accumulated depreciation				
Balance, March 31, 2014	17,128	24,721	5,961	47,810
Depreciation charge for the year	2,823	3,695	174	6,692
Retirements (1)	(1,488)	(2,873)	-	(4,361)
Impairment losses	5,314	-	-	5,314
Foreign exchange rate movements	(22)	(78)	(57)	(157)
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**
Net carrying amount:				
As at March 31, 2015	53,995	4,820	882	59,697
BALANCE, MARCH 31, 2016	**51,952**	**5,797**	**782**	**58,531**

(1) In prior year, certain computer equipment under the All other operating segment were retired. These assets were fully depreciated and were no longer used by the Group.

As a result of the continued decline in the appraised value of a property held under the All other operating segment, the Group wrote down the carrying value from $9.1 million to the appraised value of $3.8 million as of March 31, 2015.

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

11 INTANGIBLE ASSETS

	Total
Gross carrying amount	
Balance, March 31, 2014	24,854
Additions (1)	655
Retirements (2)	(1,715)
Foreign exchange adjustments	(319)
Balance, March 31, 2015	23,475
Additions (3)	572
Foreign exchange adjustments	28
BALANCE, MARCH 31, 2016	**24,075**
Accumulated amortisation and impairment losses	
Balance, March 31, 2014	20,214
Amortisation charge for the year	471
Impairment loss	2,269
Retirements (2)	(1,715)
Foreign exchange adjustments	(147)
Balance, March 31, 2015	21,092
Amortisation charge for the year	547
Foreign exchange adjustments	1
BALANCE, MARCH 31, 2016	**21,640**
Net carrying amount:	
Balance, March 31, 2015	2,383
BALANCE, MARCH 31, 2016	**2,435**

(1) During the year ended March 31, 2015, a company within the Property and casualty operating segment acquired a client portfolio from a Malta-based insurance agency.
(2) As at March 31, 2015, the Group retired certain intangibles, which were fully depreciated and were no longer used in the Property and casualty operating segment.
(3) During the year ended March 31, 2016, a company within the Property and casualty operating segment acquired a client portfolio from a Bermuda-based insurance agency.

As a result of unfavourable claims experience and continuous decline in the premium retention ratio of a certain block of business, the Group recognised an impairment in the amount of $nil (2015 – $1.8 million) in the Property and casualty operating segment.

The Group also recorded an impairment charge in the amount of $nil (2015 – $0.5 million) in the Life and pensions operating segment. Prior year's impairment was based on a recoverable amount of the customer list of $1.8 million, which was determined using a discount rate of 8.9%.

The remaining useful lives of the customer list range from two to eight years.

12 INSURANCE CONTRACT LIABILITIES

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

MARCH 31, 2016	Note	Gross	Ceded	Net
Life and annuity policy reserves	12.1	174,894	(7,429)	167,465
Provision for unpaid and unreported claims	12.2	39,344	(16,606)	22,738
		214,238	(24,035)	190,203
Unearned premiums	12.3	17,598	(9,572)	8,026
TOTAL INSURANCE CONTRACT LIABILITIES		231,836	(33,607)	198,229

MARCH 31, 2015	Note	Gross	Ceded	Net
Life and annuity policy reserves	12.1	158,552	(7,589)	150,963
Provision for unpaid and unreported claims	12.2	51,966	(26,309)	25,657
		210,518	(33,898)	176,620
Unearned premiums	12.3	16,646	(9,199)	7,447
TOTAL INSURANCE CONTRACT LIABILITIES		227,164	(43,097)	184,067

12.1 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, 2016	Group Insurance	Life and pensions	Total
Annuities	-	150,590	150,590
Long-term disability	6,588	-	6,588
Life	-	17,716	17,716
Life and annuity policy reserves	6,588	168,306	174,894
Reinsurers' share of claims provisions	(5,140)	(2,289)	(7,429)
LIFE AND ANNUITY POLICY RESERVES, NET OF REINSURANCE	1,448	166,017	167,465

MARCH 31, 2015	Group Insurance	Life and pensions	Total
Annuities	-	133,313	133,313
Long-term disability	7,146	-	7,146
Life	-	18,093	18,093
Life and annuity policy reserves	7,146	151,406	158,552
Reinsurers' share of claims provisions	(5,445)	(2,144)	(7,589)
LIFE AND ANNUITY POLICY RESERVES, NET OF REINSURANCE	1,701	149,262	150,963

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, 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 will be invested in line with the Group's investment policy.

MARCH 31, 2015	Cash	Bonds	Mortgage and loans	Equities	Land and buildings	Total
Annuities	577	101,643	4,762	7,774	18,557	133,313
Long-term disability	-	-	1,701	-	-	1,701
Life	1,118	6,941	4,926	2,964	-	15,949
LIFE AND ANNUITY POLICY RESERVES, NET OF REINSURANCE	1,695	108,584	11,389	10,738	18,557	150,963

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 $2.7 million (2015 – increase of $3.4 million). These amounts are net of the impact of the reinsurance assets on policyholder liabilities of $7.4 million (2015 – $7.6 million).

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

AS AT MARCH 31	2016	2015
Balance, beginning of year	150,963	142,034
Changes due to:		
Issuance of new policies	21,666	13,882
Normal in-force movement	(2,505)	(8,332)
Mortality/morbidity assumptions	(1,245)	2,633
Interest rate assumptions	(2,412)	1,904
Expense assumptions	(640)	-
Other [1]	1,638	(1,158)
BALANCE, END OF YEAR	167,465	150,963

(1) For the year ended March 31, 2016, Other changes comprise of enhancements in the modelling of assets under CALM. For the comparative year, Other changes comprise of changes to valuation methodology for annuities, and updates for other experience-based assumptions such as lapse rates.

12.1.1 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 \$3.3 million, 2.1 percent (2015 – \$3.0 million, 2.2 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.

ASSUMPTION, METHODOLOGY AND SENSITIVITIES	RISK MANAGEMENT
(b) Investment returns and interest rate risk Assets are allocated to the different operating segments. For each significant operating segment, CALM is used to project the cash flows from the supporting assets and the cash flows from the liabilities. The projected asset cash flows are combined with the projected cash flows from future asset sales and purchases to determine the expected investment returns for all future years. The CIA prescribes several representative reinvestment scenarios for use in CALM to determine the sensitivity of the Group's business to possible reinvestment risk. These represent a wide variety of interest rate scenarios. To provide a representative example, a 100 basis points increase in the best estimate investment return assumption decreases the total Life and annuity policy reserves by $13.3 million (2015 – $12.1 million). A 100 basis points decrease in the best estimate assumption increases the total Life and annuity policy reserves by $15.6 million (2015 – $14.3 million).	The Group's policy of closely matching the cash flows of assets with those of the corresponding liabilities is designed to mitigate the Group's exposure to future changes in interest rates. The interest rate risk positions in business segments are monitored on an ongoing basis. Under CALM, the re-investment rate is developed using interest rate scenario testing and reflects the interest rate risk positions. Bonds, equities, real estate and other non-fixed income assets are used to support long-dated obligations in the Group's annuity and pensions businesses, and for long-dated insurance obligations on contracts where the investment return risk is borne by the Group.
(c) Credit risk Credit risk is provided for by reducing investment yields assumed in the calculation of the policy reserves. Past Group and industry experience over the long term, in addition to ongoing reviews of the current portfolio, are used to project credit losses. In addition to the allowances for losses on invested assets due to interest rate risk, the policy reserves include a provision of $1.4 million (2015 – $1.8 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 $0.8 million (2015 – $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.

12.2 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, 2016	Group insurance	Property and casualty	Total
Healthcare	13,758	-	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	13,758	25,586	39,344
Reinsurers' share of claims provisions	(1,282)	(15,324)	(16,606)
PROVISION FOR UNPAID AND UNREPORTED CLAIMS, NET OF REINSURANCE	12,476	10,262	22,738

MARCH 31, 2015	Group insurance	Property and casualty	Total
Healthcare	15,981	-	15,981
Property	-	16,920	16,920
Motor	-	13,367	13,367
Accident and liability	-	5,274	5,274
Marine	-	424	424
Provision for unpaid and unreported claims, gross	15,981	35,985	51,966
Reinsurers' share of claims provisions	(1,372)	(24,937)	(26,309)
PROVISION FOR UNPAID AND UNREPORTED CLAIMS, NET OF REINSURANCE	14,609	11,048	25,657

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

AS AT MARCH 31	2016			2015		
	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	51,966	(26,309)	25,657	33,933	(6,660)	27,273
Claims and adjustment expenses incurred						
Current year	89,323	(5,713)	83,610	123,566	(40,039)	83,527
Prior years (see below)	(5,517)	2,091	(3,426)	1,663	(6,705)	(5,042)
Foreign exchange adjustments	(106)	43	(63)	367	(218)	149
Total Claims and adjustment expenses incurred	83,700	(3,579)	80,121	125,596	(46,962)	78,634
Claims and adjustment expenses paid						
Current year	(71,484)	3,573	(67,911)	(88,176)	23,020	(65,156)
Prior years	(24,838)	9,709	(15,129)	(19,387)	4,293	(15,094)
Total Claims and adjustment expenses paid	(96,322)	13,282	(83,040)	(107,563)	27,313	(80,250)
BALANCE, END OF YEAR	39,344	(16,606)	22,738	51,966	(26,309)	25,657

12.2.1 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 Statement of Operations in the period in which they are determined.

12.2.2 Claims Development Table

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

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

Gross claims:

Accident year	2008 & Prior	2009	2010	2011	2012	2013	2014	2015	2016	Total
Estimate of ultimate liability [1]										
as at end of accident year	139,298	77,647	82,399	89,199	89,748	92,986	94,726	124,890	89,323	
one year later	141,961	78,307	79,533	85,642	85,208	82,895	88,652	121,129	-	
two years later	141,486	79,455	78,749	84,526	83,623	82,114	88,328	-	-	
three years later	142,346	79,072	78,759	84,425	83,562	82,222	-	-	-	
four years later	142,718	78,862	78,964	84,427	83,787	-	-	-	-	
five years later	143,212	79,586	79,560	84,255	-	-	-	-	-	
six years later	143,185	79,547	79,625	-	-	-	-	-	-	
seven years later	147,315	79,175	-	-	-	-	-	-	-	
eight years later	147,017	-	-	-	-	-	-	-	-	
Current estimate of cumulative liability	147,017	79,175	79,625	84,255	83,787	82,222	88,328	121,129	89,323	854,861
Cumulative payments to date	(145,222)	(79,118)	(79,180)	(83,618)	(82,571)	(80,392)	(85,343)	(108,589)	(71,484)	(815,517)
Total gross liability	1,795	57	445	637	1,216	1,830	2,985	12,540	17,839	39,344

Net claims:

Accident year	2008 & Prior	2009	2010	2011	2012	2013	2014	2015	2016	Total
Estimate of net ultimate liability [1]										
as at end of accident year	104,628	73,054	77,754	83,358	84,524	87,005	86,374	84,148	83,610	
one year later	108,231	73,841	74,812	79,903	79,811	77,144	79,887	81,316	-	
two years later	107,826	73,364	73,681	78,882	78,186	76,149	79,926	-	-	
three years later	108,124	73,250	73,682	78,753	78,146	76,286	-	-	-	
four years later	108,235	73,287	73,883	78,448	77,941	-	-	-	-	
five years later	108,621	73,359	73,871	78,791	-	-	-	-	-	
six years later	108,606	73,298	73,767	-	-	-	-	-	-	
seven years later	108,948	73,257	-	-	-	-	-	-	-	
eight years later	109,266	-	-	-	-	-	-	-	-	
Current estimate of net cumulative liability	109,266	73,257	73,767	78,791	77,941	76,286	79,926	81,316	83,610	734,160
Cumulative payments to date	(109,215)	(73,163)	(73,439)	(78,255)	(77,170)	(75,085)	(78,294)	(78,890)	(67,911)	(711,422)
Total net liability	51	94	328	536	771	1,201	1,632	2,426	15,699	22,738

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

12.3 UNEARNED PREMIUMS

AS AT MARCH 31	2016 Unearned premiums	2016 Reinsurer's share of Unearned premiums	2016 Net	2015 Unearned premiums	2015 Reinsurer's share of Unearned premiums	2015 Net
Balance, beginning of year	16,646	9,199	7,447	17,611	9,422	8,189
Premiums written during the year	176,378	36,581	139,797	177,426	39,056	138,370
Net premiums earned (1)	(175,426)	(36,208)	(139,218)	(178,391)	(39,279)	(139,112)
BALANCE, END OF YEAR	17,598	9,572	8,026	16,646	9,199	7,447

(1) Includes foreign exchange movement arising from the translation of Sterling 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, 2016 or 2015.

13 INSURANCE BALANCES PAYABLE

Insurance balances payable is comprised of:

MARCH 31, 2016	Group insurance	Life and pensions	Property and casualty	Total
Due to policyholders, agents and brokers	2,603	2,558	1,786	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	3,912	3,941	10,549	18,402

MARCH 31, 2015	Group insurance	Life and pensions	Property and casualty	Total
Due to policyholders, agents and brokers	175	2,441	1,797	4,413
Due to reinsurers	1,231	1,118	1,614	3,963
Deferred commission income	-	-	2,686	2,686
TOTAL INSURANCE BALANCES PAYABLE	1,406	3,559	6,097	11,062

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

AS AT MARCH 31	2016	2015
Balance, beginning of year	2,686	2,922
Deferral during the year	9,773	9,273
Income for the year	(9,147)	(9,604)
Foreign exchange rate movements	(39)	95
BALANCE, END OF YEAR	3,273	2,686

14 RISK MANAGEMENT

14.1 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 outside of 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.

14.2 OPERATIONAL RISK AND CAPITAL MANAGEMENT

14.2.1 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.

14.2.2 Capital Management

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

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

MARCH 31, 2015	Bermuda	Europe	Total
Statutory capital and surplus	129,478	9,288	138,766
Minimum solvency margin	30,639	4,308	34,947

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, 2016 and 2015, the statutory capital and surplus of the insurance subsidiaries exceeded this regulatory requirement.

In addition, minimum liquidity ratios must be maintained whereby relevant assets, as defined by the Acts, must exceed 75 percent of relevant liabilities. The Bermuda Insurance Act 1978 and Related Regulations limits the maximum amount of annual dividends and distributions that may be paid by the Group's insurance subsidiaries. Before reducing by 15 percent or more of its statutory capital, as set out in the prior year's financial statements, these insurance subsidiaries shall request the approval of the 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, 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. As at January 2016, the implementation date of the Solvency II Directive, AICEL is in compliance with the new regime and exceeds the Solvency Capital Requirement (SCR). Under Solvency II, AICEL has SCR coverage ratio of 244 percent based on the March 2016 quarterly return which is unaudited. Under the new regime, the first audited annual return is for the year ending March 31, 2017, which will be filed in August 2017.

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.

14.3 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.

14.3.1 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.

14.3.1(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	2016	2015
Cash and short-term investments		**34,106**	33,095
Interest and dividends receivable		**2,826**	3,630
Bonds – at FVTPL and Held-to-maturity	3.1	**402,348**	392,156
Mortgages and loans	3.1	**37,517**	39,220
Policy loans	3.1	**81**	77
Derivative financial instruments	3.1	**145**	356
Other financial assets included in Other assets	8	**10,510**	4,287
Insurance balances receivable	6	**12,796**	10,830
Reinsurers' share of claims provisions	12	**24,035**	33,898
TOTAL CONSOLIDATED BALANCE SHEET MAXIMUM CREDIT EXPOSURE		**524,364**	517,549

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.

14.3.1(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	2016	2015
Bonds issued or guaranteed by:		
Banking and finance	94,327	102,612
Government and agency	91,959	114,764
Asset-backed securities	54,691	58,921
Communications	23,466	19,598
Pharmaceutical	14,130	9,288
Manufacturing	13,592	12,301
Transportation	11,255	5,920
Oil and Gas	10,439	12,565
Insurance	10,395	251
Mining	10,156	11,544
Utilities and Energy	9,406	5,284
Supra National	1,719	1,267
Other (1)	56,813	37,841
TOTAL BONDS	402,348	392,156
Derivative financial instruments issued or guaranteed by:		
Other	145	356
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS	145	356

(1) Includes Investment in bond funds of $29.9 million (2015 – $27.9 million).

AS AT MARCH 31	2016	2015
Geographical distribution of bonds is as follows:		
United States of America	271,412	259,275
Cayman Islands	15,751	20,137
United Kingdom	13,033	13,258
Netherlands	11,585	9,881
Canada	7,828	9,574
France	7,670	7,309
Switzerland	5,676	3,115
Japan	4,106	3,691
Australia	3,919	4,261
SupraNational	3,223	2,891
Spain	2,188	2,228
Luxembourg	2,168	2,166
Chile	2,021	-
Russian Federation	-	3,156
Brazil	-	2,181
Norway	-	2,000
Other (1)	51,768	47,033
TOTAL BONDS	402,348	392,156
Geographical distribution of derivative financial instruments is as follows:		
United States of America	145	356
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS	145	356

(1) Includes Investment in bond funds of $29.9 million (2015 – $27.9 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	2016	2015
Residential	16,257	17,379
Non-residential	21,260	21,841
TOTAL MORTGAGES AND LOANS	37,517	39,220

14.3.1(c) Asset Quality

14.3.1(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	2016	2015
Bond portfolio quality:		
AAA	47,875	50,259
AA	107,214	134,589
A	108,071	112,289
BBB	122,066	73,076
BB or lower	16,219	20,357
Not rated	903	1,586
TOTAL BONDS	402,348	392,156
Derivative financial instruments quality:		
Not rated	145	356
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS	145	356

14.3.1(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	2016	2015
Balance, beginning of year	4,026	3,772
Net provision made in year – Mortgages and loans	2,047	254
Provision written off during the year	(206)	-
BALANCE, END OF YEAR	5,867	4,026

Held-to-maturity bonds

During the year, the Group recognised $nil recovery of previously recognised impairment loss (2015 – $0.1 million of recovery) on a bond portfolio classified as held-to-maturity.

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

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	-
TOTAL	1,305	26	21,806	23,137	1,841

MARCH 31, 2015	Past due but not impaired				
	Less than 90 days	90 to 179 days	180 days or more	Total	Total impaired
Mortgage and loans	18	8	21,646	21,672	254
Other receivables included in Other assets	886	124	161	1,171	-
TOTAL	904	132	21,807	22,843	254

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.

14.3.2 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, 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	22,738	-	-	-	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	143,855	99,740	97,414	244,838	585,847

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

MARCH 31, 2015	Within 1 year	2-5 years	6-10 years	Over 10 years	Total
Life and annuity policy reserves					
– net of reinsurance	13,114	47,748	50,064	121,878	232,804(1)
Provision for unpaid and unreported claims					
– net of reinsurance	25,657	-	-	-	25,657
Insurance balances payable	11,062	-	-	-	11,062
Payables arising from investment transactions	46,043	-	-	-	46,043
Investment contract liabilities	36,479	46,550	37,054	118,606	238,689(1)
Tax payable	91	-	-	-	91
Accounts payable and accrued liabilities	16,792	-	-	-	16,792
Post-employment benefit liability	133	654	950	2,783	4,520(1)
TOTAL FROM GENERAL FUND LIABILITIES	149,371	94,952	88,068	243,267	575,658

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

14.3.3 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.

14.3.3(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 £11.8 million and €0.6 million (2015 – £10.9 million and €1.9 million).

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

AS AT MARCH 31 Currency	Change in variables	2016 Impact on equity	2015 Impact on equity
Sterling	+/- 10%	+/- 1,177	+/-1,094
Euro	+/- 10%	+/- 63	-/+ 193

14.3.3(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 12.

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

The Group issues deposit administration pension plans with a short-term guaranteed rate of return. To the extent that the actual rate of return on the underlying funds differs from the guaranteed rate, the risk and rewards are borne by the Group. At March 31, 2016, the sensitivity of net income to a 100 basis point parallel increase in interest rates would have been a $5.6 million decrease (2015: $5.7 million decrease). For a 100 basis point parallel decline in interest rates the sensitivity to net income would have been a $5.9 million increase (2015: $5.9 million increase). For this plan type, the Group ensures (i) the liability and asset cash flows are closely matched, and (ii) the valuation of the liability and asset are monitored regularly.

14.3.3(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 $4.2 million (2015 – $4.8 million); conversely the impact of a ten percent decrease would have an equal but opposite effect. The direct exposure to equity markets generally falls within the risk-taking philosophy of the Group's Investment Policy and is regularly monitored by management.

14.3.4 Limitations of sensitivity analysis

The sensitivity information given in Note 14.3 above and in Note 12 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.

14.4 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 12.

15 PAYABLES ARISING FROM INVESTMENT TRANSACTIONS

AS AT MARCH 31	Note	2016	2015
Payable arising from reverse repos	3.3	-	38,073
Derivatives	3.2	480	167
Investment trades awaiting settlement		33,457	7,803
		33,937	46,043

16 INVESTMENT CONTRACT LIABILITIES

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

AS AT MARCH 31	2016		2015	
	Carrying value	Fair value	Carrying value	Fair value
At amortised cost:				
Deposit administration pension plans	217,886	214,162	221,486	217,470
Self-funded group health policies	13,380	13,380	14,073	14,073
	231,266	227,542	235,559	231,543
At FVTPL:				
Deposit accounted annuity policies	2,719	2,719	3,014	3,014
TOTAL INVESTMENT CONTRACT LIABILITIES	233,985	230,261	238,573	234,577

16.1 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	2016	2015
Balance, beginning of year	235,559	226,761
Deposits	81,318	85,851
Withdrawals	(82,707)	(72,280)
Fees deducted	(4,253)	(4,344)
Interest	2,215	2,479
Other	(866)	(2,908)
BALANCE, END OF YEAR	231,266	235,559

For the year ended March 31, 2016, the net gain relating to investment contracts measured at amortised cost is $2.7 million (2015 – net gain of $3.8 million).

16.2 INVESTMENT CONTRACT LIABILITIES AT FVTPL

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

AS AT MARCH 31	2016	2015
Balance, beginning of year	3,014	3,222
Included in net income (1)	95	(162)
Deposits	2,429	2,567
Withdrawals	(2,819)	(2,613)
BALANCE, END OF YEAR	2,719	3,014

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

For the year ended March 31, 2016, the net loss relating to Investment contract liabilities at FVTPL is $0.1 million (2015 – gain of $0.1 million) and is recorded in Gross change in contract liabilities on the Consolidated Statement of Operations.

17 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	2016	2015
Balance, beginning of year	4,042	4,218
Movements during the year recognised in Operating expense:		
Current service cost	94	90
Interest cost on benefit liability	127	156
	221	246
Remeasurement during the year included in Other comprehensive income:		
Actuarial (gain)/loss arising from experience adjustment	(22)	(306)
Benefit payments	(106)	(116)
BALANCE, END OF YEAR	4,135	4,042

As at March 31, 2016, the present value of the defined benefit obligation was comprised of $2.0 million (2015 – $1.9 million) relating to active employees and $2.1 million (2015 – $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	2016	2015
Discount rate	3.2%	3.8%
Healthcare cost trend rate	6.5%	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 $0.5 million (2015 – $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	2016		2015	
	Increase	Decrease	Increase	Decrease
Aggregate of current service cost and interest cost	16	(13)	15	(13)
Accrued benefit liability	592	(495)	572	(478)

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

18 GROUP COMPOSITION

18.1 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
			2016 & 2015	2016 & 2015
AFL Investments Limited	Bermuda	Investment management services	60%	40%
Argus Insurance Agencies Limited (formerly Fogg 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 International Management Limited	Bermuda	Company management	100%	-
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%	-
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.

18.2 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 14.2.2.

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

AS AT MARCH 31	2016	2015
General fund assets	652,313	669,007
General fund liabilities	523,664	524,458

18.3 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

A subsidiary of the Company acts as investment manager to Argus Investment Strategic Fund Ltd., an investment fund which is a structured entity not consolidated by the Group (the Fund). 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 the Fund, the Group earned $4.2 million of investment management fees income during the year (2015 – $4.1 million). The Fund and the Group also share common directors and officers. Although the Group has power to govern the Fund's financial and operating policies by virtue of the investment management contract, it does not have significant variable returns from the Fund. Accordingly, the Fund was not consolidated as part of the Group.

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

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

MARCH 31, 2015	Assets	Liabilities	Equity	Argus investments (1) & (3)	Maximum exposure to loss (2)
Investment fund	558,611	1,566	557,045	29,511	29,511

(1) These investments are shown under Investment at FVTPL in Note 3.2.
(2) The Group's maximum exposure to loss is limited to amounts invested in the Fund. The maximum loss is expected to occur only upon bankruptcy of the Fund.
(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 – $496.4 million (2015 – $498.9 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 29 for Segregated Funds disclosures.
- Funds held by third parties – $24.8 million (2015 – $28.6 million)

19 DIVIDENDS

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 AT MARCH 31 2015	Per share amount	Amount of dividends	Record date	Payment date
Interim dividend	0.07	1,507	August 11, 2014	September 9, 2014
Final dividend	0.07	1,508	January 30, 2015	February 16, 2015
	0.14	3,015		

As a result of the Dividend Reinvestment Plan, the Company issued 71,122 (2015 – 47,989) shares during the year. The cash value of residual fractional amounts not reinvested is negligible (2015 – negligible) and is shown under Accounts payable and accrued liabilities. This amount will be carried forward and combined with subsequent dividend payments.

20 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	2016	2015
Net earnings for the year	7,280	16,032
Weighted average outstanding common shares	21,193,904	21,102,553
Common shares and common share equivalents	21,236,339	21,136,439

21 NET CHANGE IN UNEARNED PREMIUMS

AS AT MARCH 31	2016	2015
Gross change in unearned premiums	(892)	(367)
Change in unearned premiums on premiums ceded	246	(118)
NET CHANGE IN UNEARNED PREMIUMS	(646)	(485)

22 REINSURANCE RECOVERIES

AS AT MARCH 31	2016	2015
Claims and adjustment expenses recovered from reinsurers	(13,226)	(26,260)
Policy benefits recovered from reinsurers	(368)	(1,022)
TOTAL REINSURANCE RECOVERIES	(13,594)	(27,282)

23 NET CHANGE IN CONTRACT LIABILITIES

AS AT MARCH 31	2016	2015
Gross change in contract liabilities:		
Insurance contracts	3,639	29,179
Investment contracts	95	(162)
	3,734	29,017
Change in reinsurers' share of claims provisions:		
Insurance contract liabilities	9,805	(20,805)
NET CHANGE IN CONTRACT LIABILITIES	13,539	8,212

24 COMMISSIONS, MANAGEMENT FEES AND OTHER

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

AS AT MARCH 31	2016	2015
Policyholder administration	16,108	17,485
Investment management services	5,050	5,419
Reinsurance commission income	8,864	8,412
Other income	2,039	112
TOTAL COMMISSIONS, MANAGEMENT FEES AND OTHER	32,061	31,428

25 OPERATING EXPENSES

Operating expenses incurred during the year are as follows:

AS AT MARCH 31	2016	2015
Employee benefits expense (see table below)	28,201	27,205
Professional fees	4,918	5,371
IT related expense	3,063	3,035
General and corporate expenses	2,844	3,825
Building related expenses	2,629	2,819
Marketing expenses	1,967	1,394
Other expenses	2,420	4,098
TOTAL OPERATING EXPENSES	46,042	47,747

Employee benefits expense during the year is comprised of:

AS AT MARCH 31	Note	2016	2015
Salaries and other short-term benefits		26,753	25,661
Pension costs (1)		1,168	1,250
Post-employment medical benefits	17	115	132
Stock-based compensation	26	165	162
TOTAL EMPLOYEE BENEFITS EXPENSE		28,201	27,205

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

26 STOCK-BASED COMPENSATION

As at March 31, 2016, the Group has two stock-based compensation plans, which are described below.

26.1 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 Sheet. Shares under option and option prices per share are adjusted for all stock dividends declared subsequent to the date of grant. The fair value of 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 26.2 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	2016 Total number of shares under option	2016 Weighted average exercise price	2015 Total number of shares under option	2015 Weighted average exercise price
Outstanding, beginning of year	139,091	$10.50	201,526	$10.00
Changes during the year:				
Expired	(65,030)	$9.04	(62,435)	$8.90
OUTSTANDING AND EXERCISABLE, END OF YEAR	74,061	$11.78	139,091	$10.50

The weighted average remaining contractual life of options outstanding is 0.2 years (2015 – 0.7 years). The fair value of options outstanding is $2.70. The stock options were fully vested on March 31, 2011.

The characteristics as at March 31, 2016, of options outstanding are as follows:

AS AT MARCH 31	Exercise price per share	Number of Outstanding	Shares Exercisable
2007 options	$11.78	74,061	74,061

26.2 RESTRICTED STOCK PLAN

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

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

Shares are granted unvested and vest at the rate of 33 1/3 percent at the end of each year for three years after the date of grant. The fair value of each share granted is based upon the market price at the date of grant.

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

AS AT MARCH 31	2016	2015
Number of shares granted	56,720	49,380
Fair value per share	$3.80	$3.90
Number of shares forfeited	12,280	3,900

The following table summarises information about the outstanding stock grants:

RESTRICTED SHARES VESTING	Number of shares
July 2016	14,620
August 2016	16,867
October 2016	13,633
July 2017	14,620
August 2017	16,867
August 2018	16,867
TOTAL	93,474

27 RELATED PARTY TRANSACTIONS

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

27.1 TRANSACTIONS WITH SIGNIFICANTLY INFLUENCED INVESTEES

27.1.1 The Group provided insurance-related products and services to various significantly influenced investees. The premiums and fees received from these transactions totalled $0.7 million in the year and are shown as Gross premium written and Commission, management fees and other on the Consolidated Statement of Operations (2015 – $9.4 million).

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

AS AT MARCH 31	2016	2015
Payable to self-funded group health policies (1)	631	371
Accounts payable/receivable arising from administration of defined benefit pension plans (2)	99	99

(1) Included in Investment contract liabilities
(2) Included in Accounts payable and accrued liabilities/Other assets.

27.1.2 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 Statement of Operations (2015 – $0.3 million).

27.1.3 The Group received facilities management services from a significantly influenced investee for the consideration amount of $1.4 million which is shown net of Investment income on the Consolidated Statement of Operations (2015 – $1.1 million).

27.2 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	2016	2015
Salaries and other short-term benefits	2,382	2,571
Post-employment benefits (1)	136	117
Stock-based compensation	23	23
TOTAL KEY MANAGEMENT PERSONNEL COMPENSATION	2,541	2,711

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

27.3 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, 2016, was 283,637 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.

28 INCOME TAXES

Bermuda

Group entities domiciled in Bermuda received an undertaking from the Bermuda government exempting these companies from all Bermuda local income, withholding and capital gains taxes until 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.

28.1 INCOME TAXES FOR THE YEAR

AS AT MARCH 31	2016	2015
Income taxes for the year	119	124
Adjustments in respect of prior year income taxes	-	(256)
Total current income taxes	119	(132)
Deferred taxes	-	(10)
TOTAL INCOME TAX EXPENSE/(BENEFIT)	119	(142)

28.2 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	2016	2014
Earnings before income taxes	7,980	16,349
Less: Earnings not subject to taxes	6,598	15,119
EARNINGS/(LOSS) SUBJECT TO TAXES	1,382	1,230
Income taxes at the application rate	281	116
Tax effect of:		
Expenses not deductible for tax purposes	185	7
Difference between depreciation and capital allowances	13	72
Income not taxable	(144)	(68)
Effect of tax losses	-	(99)
Adjustments to tax charge in respect of previous period	(1)	(192)
Unrecognised temporary difference	(215)	22
TOTAL CURRENT INCOME TAXES	119	(142)

28.3 UNRECOGNISED DEFERRED TAX ASSETS

As at March 31, 2016, the Group has net operating loss carryforwards of $2.6 million originating in 2007 through 2015 (2015 – $2.1 million originating in 2007 through 2015). Of the total net operating loss carryforwards of the Group, $0.7 million (2015 – $0.7 million) is subject to limitations under IRC section 382.

$1.5 million of the Group's net operating loss carryforwards will expire in 2027 through 2032 under the current U.S. tax legislation (2015 – $1.8 million which will expire in 2027 through 2032). The remaining net operating loss carryforwards of $0.3 million (2015 – $0.1 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	2016	2015
Tax losses carried forward	884	714
Capital allowances carried forward	639	739
Deductible temporary differences	(38)	8
NET UNRECOGNISED DEFERRED TAX ASSETS	1,485	1,461

29 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	2016	2015
Additions to Segregated Funds		
Premiums, contributions and transfers	146,795	149,611
Net investment income	305	861
Net increase/(decrease) in fair value of investments	(81,894)	49,340
Segregated funds acquired	-	-
Transfer from general funds	683	-
	65,889	199,812
Deductions from Segregated Funds		
Withdrawals, benefit payments and transfers to the General Fund	210,815	140,913
Operating expenses	13,352	15,936
	224,167	156,849
Net (deductions)/additions to Segregated Funds for the year	(158,278)	42,963
Segregated Funds, beginning of year	1,557,211	1,514,248
SEGREGATED FUNDS, END OF YEAR	1,398,933	1,557,211

30 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.

30.1 RESULTS BY SEGMENT

AS AT MARCH 31		Group insurance	Life and pensions	Property and casualty	All other	Elimination	Total
Segment revenues	**2016**	**103,746**	**41,365**	**28,336**	**2,038**	**(4,273)**	**171,212**
	2015	106,806	37,578	29,361	113	(4,545)	169,313
Investment income	**2016**	**721**	**5,284**	**(73)**	**(5,262)**	**829**	**1,499**
	2015	3,963	13,512	2,873	(3,310)	(2,210)	14,828
Share of earnings of associates	**2016**	**-**	**104**	**55**	**(21)**	**-**	**138**
	2015	-	356	-	390	-	746
TOTAL SEGMENT REVENUES	**2016**	**104,467**	**46,753**	**28,318**	**(3,245)**	**(3,444)**	**172,849**
	2015	110,769	51,446	32,234	(2,807)	(6,755)	184,887
Amortisation,	**2016**	**1,587**	**512**	**1,325**	**701**	**-**	**4,125**
depreciation and impairment	2015	1,773	1,114	4,083	7,776	-	14,746
Income tax (expense)/benefit	**2016**	**-**	**(14)**	**133**	**-**	**-**	**119**
	2015	-	11	(153)	-	-	(142)
Segment earnings/(loss) attributable to shareholders,	**2016**	**11,616**	**(968)**	**2,308**	**(8,372)**	**2,696**	**7,280**
after tax	2015	28,029	12,444	(1,420)	(22,762)	(259)	16,032

GEOGRAPHIC INFORMATION ON SEGMENT REVENUES:

AS AT MARCH 31		Bermuda	Europe	Total
Segment revenues	**2016**	**158,092**	**14,757**	**172,849**
	2015	166,626	18,261	184,887

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

30.2 ASSETS AND LIABILITIES BY SEGMENT:

	Group insurance	Life and pensions	Property and casualty	All other	Elimination	Total
MARCH 31, 2016:						
Total General Fund Assets	**77,405**	**476,787**	**102,363**	**159,372**	**(153,146)**	**662,781**
Segregated Fund Assets	**-**	**1,398,933**	**-**	**-**	**-**	**1,398,933**
Total General Fund Liabilities	**25,494**	**440,540**	**58,385**	**21,474**	**(7,139)**	**538,754**
Segregated Fund Liabilities	**-**	**1,398,933**	**-**	**-**	**-**	**1,398,933**
MARCH 31, 2015:						
Total General Fund Assets	86,526	479,554	107,444	146,686	(156,625)	663,585
Segregated Fund Assets	-	1,557,211	-	-	-	1,557,211
Total General Fund Liabilities	28,124	438,674	63,427	20,451	(6,909)	543,767
Segregated Fund Liabilities	-	1,557,211	-	-	-	1,557,211

31 COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS

AS AT MARCH 31	2016	2015
Remeasurement of post-employment medical benefit obligation	(1,561)	(1,583)
Available-for-sale investments	200	224
Investment in associates	12	12
Translation of financial statements of foreign operations	(2,588)	(2,546)
TOTAL ACCUMULATED OTHER COMPREHENSIVE LOSS	(3,937)	(3,893)

32 COMMITMENTS AND CONTINGENCIES

32.1 OPERATING LEASES

32.1.1 Group as a lessor

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

Future annual minimum lease rentals receivable under non-cancellable operating leases as at March 31, 2016, are as follows:

AS AT MARCH 31	2016	2015
Within one year	1,563	1,599
After one year but not more than five years	2,958	1,604

32.1.2 Group as a lessee

The Group has entered into commercial leases on office spaces. These leases have remaining terms of between one and nine 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, 2016 and 2015, an amount of $1.0 million and $1.0 million respectively, was recognised in Operating expenses on the Consolidated Statement of Operations for operating leases.

Future annual minimum rentals payable under non-cancellable operating leases as at March 31, 2016, are as follows:

AS AT MARCH 31	2016	2015
Within one year	849	901
After one year but not more than five years	1,446	2,264
More than five years	699	1,088

32.2 CONTINGENCIES

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

33 COMPARATIVE FIGURES

Certain of the 2015 comparative figures have been reclassified to conform to the presentation adopted for 2016.

34 SUBSEQUENT EVENTS

34.1 DIVIDENDS

Based upon the audited financial results of the Group for the year ended March 31, 2016, the Directors have declared an interim dividend of nine cents per share (2015 – eight cents per share) payable on August 4, 2016 for shareholders of record on July 11, 2016.

34.2 ACQUISITION

On May 31, 2016, the Group entered into an agreement to acquire 100 percent of Island Insurance Brokers Limited, a privately-owned insurance broking operation based in Malta, for a total consideration of €4.1 million. The purchase consideration is subject to certain adjustments dependent on the persistency of the book of business.

BOARD OF DIRECTORS

Sheila E. Nicoll, FCII
CHAIRMAN

Alan R. Thomson
DEPUTY CHAIRMAN

Wendall 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 Scheiner, MBA

Bernhard U. Schluep, LL.M.

Robert D. Steinhoff, FCA, JP

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

OFFICERS OF ARGUS GROUP HOLDINGS LIMITED

Sheila E. Nicoll, FCII
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

COMMITTEES OF THE BOARD

- AUDIT
- RISK
- COMPENSATION
- NOMINATION & GOVERNANCE

BUSINESS UNIT HEADS

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

Andrew H. Bickham, ACII
EXECUTIVE VICE PRESIDENT
BROKING

Dr. Vanessa O. Borg, DBA, MPHIL, MBA, B.COM
CHIEF 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

Joel P. Schaefer, CFA
PRESIDENT & CHIEF EXECUTIVE OFFICER
AFL INVESTMENTS LIMITED

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

SUPPORT UNIT HEADS

Cindy F. Campbell, CPA, MBA
EXECUTIVE VICE PRESIDENT
STRATEGIC DEVELOPMENT

Simon Giffen, CFA, TEP
GROUP INVESTMENT MANAGER

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

Wanda E. Richardson, MA, SPHR
EXECUTIVE VICE PRESIDENT
CLIENT SOLUTIONS, SALES AND MARKETING

Hannah Ross, FIA
CHIEF ACTUARY

Sheena M. Smith, CPA
VICE PRESIDENT
FINANCIAL REPORTING

Kellianne M. Smith, BA
HEAD OF GLOBAL HUMAN RESOURCES
AND ORGANISATIONAL DEVELOPMENT

Directors of Principal Operating Subsidiaries

ARGUS INSURANCE COMPANY LIMITED

Wendall S. F. Brown
CHAIRMAN
John Doherty
Peter J. Dunkerley
Alison S. Hill
Marcia Scheiner
Robert D. Steinhoff
Paul C. Wollmann

BERMUDA LIFE INSURANCE COMPANY LIMITED

Sheila E. Nicoll
CHAIRMAN
Lauren M. Bell
Wendall S. F. Brown
Peter J. Dunkerley
Timothy C. Faries
Alison S. Hill
Michelle A. Jackson
Alan R. Thomson

BERMUDA LIFE WORLDWIDE LIMITED

Sen. James S. Jardine
CHAIRMAN
Peter R. Burnim
Peter J. Dunkerley
Alison S. Hill
Bernhard U. Schluep
Sen. Lynne A. Woolridge

CENTURION INSURANCE SERVICES

Alison S. Hill
CHAIRMAN
Andrew H. Bickham
Peter J. Dunkerley

ARGUS INTERNATIONAL LIFE BERMUDA LIMITED

Sen. James S. Jardine
CHAIRMAN
Peter R. Burnim
Peter J. Dunkerley
Bernhard U. Schluep
Sen. Lynne A. Woolridge

ARGUS INTERNATIONAL LIFE INSURANCE LIMITED

Sen. James S. Jardine
CHAIRMAN
Peter R. Burnim
Peter J. Dunkerley
Alison S. Hill
Bernhard U. Schluep
Sen. Lynne A. Woolridge

ARGUS INSURANCE COMPANY (EUROPE) LIMITED

Sheila E. Nicoll
CHAIRMAN
Timothy C. Faries
Alison S. Hill
Tyrone Montovio
Michael Oliver
Bernhard U. Schluep

AFL INVESTMENTS LIMITED

Sen. James S. Jardine
CHAIRMAN
Robert D. Steinhoff
James M. Keyes
Henry R. Perren
Craig Rimer

ARGUS INSURANCE AGENCIES LIMITED

Charles Farrugia
CHAIRMAN
Vanessa O. Borg
Albert E. Cardona
Alison S. Hill
Sheila E. Nicoll
Jonathan Schembri

WESTMED INSURANCE SERVICES LIMITED

Alison S. Hill
CHAIRMAN
Tyrone Montovio
John Stagnetto

ISLAND INSURANCE BROKERS LIMITED

Dr. Carmel Cascun
Peter J. Dunkerley*
Alison S. Hill
Sheila E. Nicoll*
Lawrence Pavia

*subject to Malta Financial Services Authority approval

PAPER:

In line with our policy to implement environmentally friendly measures, this report has been printed on paper made of virgin fibre sourced from sustainable and FSC certified forests. The bleaching process is Elemental Chlorine free and the printing process uses soy-based litho inks.

By using this paper we have used:

16% less wood
22% less net energy
12% less greenhouse gas
22% less wastewater
18% less solid waste

ARGUS
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