# 2013 SIX-MONTH REPORT


Going for Gold and Meeting the Challenge

ARGUS

## THE ARGUS GROUP

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

## OUR VISION

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

## OUR MISSION

We will achieve our vision by:

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

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

## OUR PHILOSOPHY AND VALUES

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

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

# THE ARGUS GROUP

### ARGUS GROUP HOLDINGS LIMITED
Group Holding Company

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

### CENTURION INSURANCE SERVICES LIMITED
Licenced Broker

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

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

### BERMUDA LIFE INSURANCE COMPANY LIMITED
Pensions, Group Life and Long-Term Disability Insurance, Individual Life and Annuities, Group and Individual Health Insurance

### ARGUS INTERNATIONAL LIFE BERMUDA LIMITED
Individual Life and Annuities

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

### BERMUDA LIFE WORLDWIDE LIMITED
Individual Life and Annuities

### AFL INVESTMENTS LIMITED
Investment Management Services
*(60% Interest)*

### ARGUS INVESTMENT NOMINEES LIMITED
Nominee Company
*(60% Interest)*

### ARGUS INTERNATIONAL MANAGEMENT LIMITED
Company Management

### ARGUS MANAGEMENT SERVICES LIMITED
Financial and General Management Services

### DATA COMMUNICATIONS LIMITED
Information Systems

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

### TROTT PROPERTY LIMITED
Property Holding Company

### FOGG INSURANCE AGENCIES LIMITED, *Malta*
Insurance Agent

*Argus Group Holdings Limited is a public company, its shares trading on the Bermuda Stock Exchange. At September 30, 2013 it had 1,278 shareholders; 87 percent of whom were Bermudian, holding 85 percent of the issued shares.*

# REPORT TO SHAREHOLDERS

## INTRODUCTION

The Argus Group reports a profit of $1.6 million for the six months ended September 30, 2013, compared to a profit of $7.1 million for the corresponding period in 2012 and net earnings for the year ended March 31, 2013 of $12.6 million.

Although modest, this profit is supported with strong performance from our core business operations of $7.5 million as a result of achieving high client retention levels in a competitive environment and managing operating expenses.

The recent uncertainty in fixed income investment markets worldwide resulted in an investment loss for the six months ended September 30, 2013 of $3.2 million, which includes unrealised investment losses of $9.0 million. This arose as the increase in interest rates served to decrease the fair value of the Company's extensive fixed income portfolios. Partially offsetting this was a decrease in future liabilities as a result of the Company's asset liability matching policy, which serves to limit volatility of reported earnings as a result of interest rate swings in either direction. This reduction in investment income detracted significantly from the overall continued strong performance of our core business operations.

The recent volatility in our fixed income portfolios is regarded by Management as a short-term setback to the otherwise positive development of Group Net Earnings. The efforts towards balance sheet strengthening, including investment restructuring activities, continue to focus upon the longer term by closely matching the Group's liabilities with appropriate assets in a considered and orderly fashion. Indeed, since September 30, 2013, interest rate volatility in global fixed income markets has abated and Management believes that, overall, investment income will be positive for the full year.

The leadership team is focused on delivering excellent products and services to our customers, on delivering long-term sustainable value to our Shareholders and delivering on our commitment to the community.

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

## FINANCIAL RESULTS

*On the Condensed Consolidated Balance Sheet, Total Assets including Segregated Fund Assets* remain steady at $1.9 billion. *Shareholders' Equity Attributable to Shareholders of the Company* has increased to $96.1 million, substantially in excess of the statutory capital required to conduct the Group's insurance and financial services businesses by the regulatory bodies to whom we report.

The Group amended its accounting policy regarding amendments to IAS 19 Employee Benefits, which retrospectively impacted Shareholders' Equity and the effects of which are fully disclosed in Note 2.2.1 to the attached Condensed Consolidated Financial Statements. Upon adoption, the Group's investment in an associate with a defined benefit pension plan liability resulted in a decrease in Shareholders' Equity of $1.1 million.

*Net Premiums Earned* in the period fell by 7 percent or $4.4 million compared to the prior year, generally reflecting the lingering recession in Bermuda as clients continue to seek ways in which to reduce costs. Excellent client retention ratios across all lines of business have been maintained despite fierce competition in the marketplace.

*Net Benefits and Claims* decreased by 18 percent primarily due to lower than anticipated claims both locally and overseas. In addition and, as discussed above, life and annuity reserves decreased by $1.8 million as a result of the increase in the discount rate applied as fixed income interest rates rose in the period under review. Finally, we were thankful, once again, for the absence of major windstorms or other catastrophic events in our property and casualty businesses.

*Commissions, management fees and other* increased in the period due to increased ceding commissions earned by our property and casualty operations and improved fees arising from our investment-related businesses as assets under management rose compared to the corresponding period in the prior year.

*Operating expenses* decreased by four percent as certain cost containment measures implemented recently by Management took effect.

## 2013 ANNUAL GENERAL MEETING ("AGM")

At the AGM of the Company held on September 26, 2013, the entire Board of Directors was re-elected and all other resolutions were similarly passed.

At a meeting of the Board held after the AGM, Ms. Sheila Nicoll was re-elected Chairman and all other Officers remain unchanged.

## DIVIDEND

As Shareholders will be aware, the Directors declared an interim dividend of six cents per share in July 2013 payable on September 9, 2013 after a period of two years of no dividends as the Group sought to strengthen its capital base.

In the future, the Board anticipates that dividends will be considered on a semi-annual basis to coincide with the six-monthly reporting cycles. Accordingly, the Board has declared a dividend of six cents per share payable on February 28, 2014, for Shareholders of record on January 15, 2014. This represents a final dividend based upon the audited financial statements of the Group for the year ended March 31, 2013.

## DIRECTORS' AND OFFICERS' HOLDINGS, SHARE OPTIONS AND RESTRICTED STOCK

At September 30, 2013, the Directors and Officers of the Company had combined interests totalling 360,658 shares out of 21,511,163 shares in issue on that date.

Rights to acquire shares in the Company were granted in the past to key employees who include executive Directors and Officers under the 2004 Stock Option Plan. No stock options have been granted since 2007. No share options were exercised in the six months to September 30, 2013 and, at that date, the total number of share options outstanding which can be exercised at various dates up to May 31, 2017, were 201,256 at exercise prices ranging from $8.95 to $11.78.

In the six-month period ended September 30, 2013 there were no restricted shares granted to Directors and Officers.

## THANK YOU

In conclusion, I wish to thank our staff for their hard work and commitment and our clients and Shareholders for their continued loyalty and support.

Alison S. Hill
CHIEF EXECUTIVE OFFICER

December 13, 2013

# CONDENSED CONSOLIDATED BALANCE SHEET

| (In $ thousands) | Note | (Unaudited) SEPTEMBER 30 2013 | (Unaudited and restated) MARCH 31 2013 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and short-term investments | | 27,042 | 30,326 |
| Interest and dividends receivable | | 2,570 | 2,706 |
| Investments | 3 | 245,762 | 250,518 |
| Insurance balances receivable | | 19,880 | 18,469 |
| Reinsurers' share of: | | | |
| Claims provisions | | 13,887 | 14,001 |
| Unearned premiums | | 14,268 | 10,202 |
| Other assets | | 8,053 | 7,982 |
| Deferred policy acquisition costs | | 2,661 | 2,182 |
| Investment in associates | | 10,884 | 10,830 |
| Investment properties | | 6,025 | 6,936 |
| Property and equipment | | 70,340 | 71,719 |
| Intangible assets | | 5,137 | 5,520 |
| TOTAL GENERAL FUND ASSETS | | 426,509 | 431,391 |
| SEGREGATED FUND ASSETS | | 1,522,029 | 1,476,685 |
| TOTAL ASSETS | | 1,948,538 | 1,908,076 |
| **LIABILITIES** | | | |
| Insurance contract liabilities | | | |
| Life and annuity policy reserves | | 144,620 | 146,731 |
| Provision for unpaid and unreported claims | | 35,001 | 33,722 |
| Unearned premiums | | 24,020 | 17,691 |
| TOTAL INSURANCE CONTRACT LIABILITIES | | 203,641 | 198,144 |
| Insurance balances payable | | 11,594 | 10,772 |
| Payables arising from investment transactions | | 2,502 | 21,530 |
| Investment contract liabilities | 4 | 91,147 | 83,932 |
| Tax payable | | 13 | 61 |
| Accounts payable and accrued liabilities | | 15,871 | 16,580 |
| Post-employment benefit liability | 6 | 4,014 | 4,524 |
| TOTAL GENERAL FUND LIABILITIES | | 328,782 | 335,543 |
| SEGREGATED FUND LIABILITIES | | 1,522,029 | 1,476,685 |
| TOTAL LIABILITIES | | 1,850,811 | 1,812,228 |
| **EQUITY** | | | |
| Attributable to Shareholders of the Company | | | |
| Share capital | | 16,742 | 16,742 |
| Contributed surplus | | 52,666 | 52,615 |
| Retained earnings | | 30,764 | 30,467 |
| Accumulated other comprehensive loss | 8 | (4,083) | (5,433) |
| TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY | | 96,089 | 94,391 |
| Attributable to non-controlling interests | | 1,638 | 1,457 |
| TOTAL EQUITY | | 97,727 | 95,848 |
| TOTAL LIABILITIES AND EQUITY | | 1,948,538 | 1,908,076 |

*See accompanying notes to the condensed consolidated financial statements.*

# CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

| *For the six months ended September 30 (In $ thousands, except per share data)* | *Note* | *(Unaudited)* 2013 | *(Unaudited and restated)* 2012 |
|---|---|---|---|
| **REVENUE** | | | |
| Gross premiums written | | 88,491 | 90,391 |
| Reinsurance ceded | | (25,645) | (24,129) |
| Net premiums written | | 62,846 | 66,262 |
| Net change in unearned premiums | | (2,263) | (1,302) |
| Net premiums earned | | 60,583 | 64,960 |
| Investment income | *3.3* | (3,208) | 10,298 |
| Share of earnings of associates | | 192 | 434 |
| Commissions, management fees and other | | 14,817 | 12,572 |
| | | 72,384 | 88,264 |
| **EXPENSES** | | | |
| Policy benefits | | 6,910 | 6,749 |
| Claims and adjustment expenses | | 39,929 | 45,260 |
| Reinsurance recoveries | | (3,500) | (3,515) |
| Gross change in contract liabilities | | (540) | 5,988 |
| Change in reinsurers' share of claims provisions | | 1,233 | (635) |
| NET BENEFITS AND CLAIMS | | 44,032 | 53,847 |
| Commission expenses | | 1,875 | 2,239 |
| Operating expenses | | 21,078 | 21,944 |
| Amortisation, depreciation and impairment | | 3,599 | 2,760 |
| Interest on loan | | - | 150 |
| | | 70,584 | 80,940 |
| EARNINGS BEFORE INCOME TAXES | | 1,800 | 7,324 |
| Income taxes | | - | 53 |
| NET EARNINGS FOR THE PERIOD | | 1,800 | 7,271 |
| Attributable to: | | | |
| Shareholders of the Company | | 1,587 | 7,143 |
| Non-controlling interests | | 213 | 128 |
| | | 1,800 | 7,271 |
| Earnings per share: | *7* | | |
| basic | | *0.08* | 0.34 |
| fully diluted | | *0.08* | 0.34 |

*See accompanying notes to the condensed consolidated financial statements.*

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/(LOSS)

| *For the six months ended September 30 (In $ thousands)* | *(Unaudited)* 2013 | *(Unaudited and restated)* 2012 |
|---|---|---|
| **NET EARNINGS FOR THE PERIOD** | 1,800 | 7,271 |
| OTHER COMPREHENSIVE INCOME/(LOSS) | | |
| Items that will not be reclassified to net earnings: | | |
| Post-employment medical benefit obligation remeasurement | 608 | (132) |
| Items that are or may subsequently be reclassified to net earnings: | | |
| Change in unrealised gains/(losses) on available-for-sale investments | (20) | 37 |
| Share of other comprehensive income/(loss) of associates | - | (154) |
| Change in unrealised gains/(losses) on translating financial statements of foreign operations | 762 | 107 |
| OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD | 1,350 | (142) |
| COMPREHENSIVE INCOME FOR THE PERIOD | 3,150 | 7,129 |
| OTHER COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO: | | |
| Shareholders of the Company | 1,350 | (142) |
| Non-controlling interests | - | - |
| | 1,350 | (142) |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO: | | |
| Shareholders of the Company | 2,937 | 7,001 |
| Non-controlling interests | 213 | 128 |
| | 3,150 | 7,129 |

*See accompanying notes to the condensed consolidated financial statements.*

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| For the six months ended September 30 (In $ thousands) | Note | (Unaudited) 2013 | (Unaudited and restated) 2012 |
|---|---|---|---|
| **SHARE CAPITAL** | | | |
| Authorised: | | | |
| 25,000,000 common shares of $1.00 each (2012 – 25,000,000) | | 25,000 | 25,000 |
| Issued and fully paid, beginning of period 21,511,163 shares (2012 – 21,511,163 shares) | | 21,511 | 21,511 |
| Deduct: Shares held in Treasury, at cost 509,741 shares (2012 – 431,941 shares) | | (4,769) | (4,504) |
| TOTAL, NET OF SHARES HELD IN TREASURY, END OF PERIOD | | 16,742 | 17,007 |
| **CONTRIBUTED SURPLUS** | | | |
| Balance, beginning of period | | 52,615 | 52,737 |
| Stock-based compensation expense | | 28 | 18 |
| Treasury shares granted to employees | | - | (169) |
| Transaction with non-controlling interests | | 23 | - |
| BALANCE, END OF PERIOD | | 52,666 | 52,586 |
| **RETAINED EARNINGS** | | | |
| Balance, beginning of period | | 30,467 | 18,032 |
| Net earnings for the period | | 1,587 | 7,143 |
| Dividend declared | | (1,290) | - |
| Loss on treasury shares granted to employees | | - | (405) |
| BALANCE, END OF PERIOD | | 30,764 | 24,770 |
| ACCUMULATED OTHER COMPREHENSIVE (LOSS)/INCOME | | | |
| Balance, beginning of period | | (5,433) | (4,188) |
| Other comprehensive income/(loss) for the period | | 1,350 | (142) |
| BALANCE, END OF PERIOD | 8 | (4,083) | (4,330) |
| TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY | | 96,089 | 90,033 |
| Attributable to non-controlling interests | | | |
| Balance, beginning of period | | 1,457 | 2,343 |
| Net earnings for the period | | 213 | 128 |
| Declared distributions to non-controlling interests | | (9) | (1,236) |
| Changes due to business combination | | (23) | - |
| TOTAL EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS | | 1,638 | 1,235 |
| TOTAL EQUITY | | 97,727 | 91,268 |

*See accompanying notes to the condensed consolidated financial statements.*

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| *For the six months ended September 30 (In $ thousands)* | *(Unaudited)* 2013 | *(Unaudited and restated)* 2012 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Earnings before income taxes | 1,800 | 7,324 |
| Adjustments to reconcile net earnings to cash basis (Footnote (i) below) | 7,224 | (7,349) |
| Change in operating balances (Footnote (ii) below) | 6,196 | 16,154 |
| Interest income received | 3,680 | 1,955 |
| Dividend income received | 1,662 | 67 |
| Income tax paid | (48) | (189) |
| CASH GENERATED FROM OPERATING ACTIVITIES | 20,514 | 17,962 |
| **INVESTING ACTIVITIES** | | |
| Purchase of investments | (624,972) | (550,412) |
| Sale and maturity of investments | 602,772 | 520,909 |
| Purchase of property and equipment | (1,592) | (617) |
| Sale of investment property | 911 | - |
| Purchase of intangible assets | - | (52) |
| CASH USED IN INVESTING ACTIVITIES | (22,881) | (30,172) |
| FINANCING ACTIVITIES | | |
| Dividends paid to Shareholders | (1,290) | - |
| Distributions to non-controlling interests | (9) | (800) |
| Repayment of loan | - | (4,500) |
| Interest paid on loan | - | (150) |
| CASH USED IN FINANCING ACTIVITIES | (1,299) | (5,450) |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND SHORT-TERM INVESTMENTS | 382 | 49 |
| NET DECREASE IN CASH AND SHORT-TERM INVESTMENTS | (3,284) | (17,611) |
| CASH AND SHORT-TERM INVESTMENTS, beginning of period | 30,326 | 46,127 |
| CASH AND SHORT-TERM INVESTMENTS, end of period | 27,042 | 28,516 |

Footnotes

| | | |
|---|---|---|
| (i) Interest income | (5,777) | (5,002) |
| Dividend income | (1,282) | (888) |
| Investment income related to Deposit administration pension plans | 1,760 | 2,100 |
| Investment income related to Segregated funds with guaranteed return | 99 | 61 |
| Net realised losses/(gains) on sale of investments | 52 | (1,730) |
| Amortisation of net premium on bonds | 951 | 518 |
| Net impairment losses | 3 | 659 |
| Change in fair value of investments | 7,843 | (5,561) |
| Share of earnings of associates | (54) | (434) |
| Depreciation of property and equipment | 3,084 | 2,307 |
| Amortisation of intangibles | 515 | 453 |
| Impairment of intangibles | 2 | - |
| Interest on loan | - | 150 |
| Expense on vesting of stock-based compensation | 28 | 18 |
| | 7,224 | (7,349) |
| (ii) Insurance balances receivable | (1,206) | 1,339 |
| Reinsurers' share of: | | |
| Claims provisions | 320 | (610) |
| Unearned premiums | (3,924) | (3,551) |
| Other assets | (33) | 159 |
| Deferred policy acquisition costs | (360) | 199 |
| Insurance contract liabilities | 4,146 | 9,159 |
| Insurance balances payable | 701 | (649) |
| Investment contract liabilities | 7,215 | 7,809 |
| Accounts payable and accrued liabilities | (761) | 1,619 |
| Post-employment benefit liability | 98 | 680 |
| | 6,196 | 16,154 |

*See accompanying notes to the condensed consolidated financial statements.*

## 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 HM11, Bermuda. The Company and its subsidiaries (the Group) operates predominantly in Bermuda, Gibraltar and Malta underwriting life, health, property and casualty insurance. The Group also provides investment, savings and retirement products, and offers a range of administrative services including company management and accounting services.

The Company's subsidiaries are as follows:

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

On March 31, 2012, Argus Property Limited amalgamated with Bermuda Life Insurance Company Limited. On March 31, 2013, Somers Isles Insurance Company Limited amalgamated with Bermuda Life Insurance Company Limited.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### 2.1 BASIS OF PRESENTATION

These unaudited consolidated interim financial statements have been prepared on a condensed basis in accordance with International Accounting Standard 34 (IAS 34), Interim Financial Reporting and do not include all of the information required for full annual financial statements.

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

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

These condensed consolidated interim financial statements follow the same accounting policies and methods of their application as our March 31, 2013 audited financial statements and should be read in conjunction with the latter.

### 2.2 APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS

The Group has applied the following new and revised standards issued by the International Accounting Standards Board (IASB) that are mandatorily effective for the accounting period beginning April 1, 2013.

Amendments to IAS 19, Employee Benefits
IFRS 13, Fair Value Measurement
IFRS 10, Consolidated Financial Statements
IFRS 12, Disclosure of Interests in Other Entities
Amendments to IAS 27, Separate Financial Statements
Amendments to IAS 28, Investments in Associates
Amendments to IAS 1, Presentation of Financial Statements
Amendments to IFRS 7, Financial Instruments: Disclosure

With the exception of the amendments to IAS 19, the adoption of the new and revised standards did not have a significant impact on the Group's condensed consolidated interim financial statements.

Additional disclosures required by IFRS 13 are included in Notes 3 and 4.

### 2.2.1 Impact upon Adoption of the Amendments to IAS 19

The Group amended its accounting policy to fully recognise all actuarial gains and losses in Other comprehensive income. The actuarial gains and losses arise from the Group's post-employment benefit liability and an associate's defined benefit pension plans.

The following tables summarise the impact of the retrospective application of the amendments to IAS 19.

#### *2.2.1(a) Consolidated Balance Sheets*

| MARCH 31, 2013 | As reported | Amendments to IAS 19 | Restated |
|---|---|---|---|
| **General fund assets** | | | |
| Investment in associates | 11,918 | (1,088) | 10,830 |
| **Equity** | | | |
| Retained earnings | 28,085 | 2,382 | 30,467 |
| Accumulated other comprehensive loss | (1,963) | (3,470) | (5,433) |

| SEPTEMBER 30, 2012 | As reported | Amendments to IAS 19 | Restated |
|---|---|---|---|
| **General Fund assets** | | | |
| Investment in associates | 11,707 | (934) | 10,773 |
| **Equity** | | | |
| Retained earnings | 22,519 | 2,251 | 24,770 |
| Accumulated other comprehensive loss | (1,145) | (3,185) | (4,330) |

| APRIL 1, 2012 | As reported | Amendments to IAS 19 | Restated |
|---|---|---|---|
| **General Fund assets** | | | |
| Investment in associates | 11,404 | (780) | 10,624 |
| **Equity** | | | |
| Retained earnings | 15,913 | 2,119 | 18,032 |
| Accumulated other comprehensive loss | (1,289) | (2,899) | (4,188) |

#### *2.2.1(b) Consolidated Statement of Comprehensive Income/Loss*

| FOR THE SIX-MONTHS ENDED SEPTEMBER 30, 2012 | As reported | Amendments to IAS 19 | Restated |
|---|---|---|---|
| Operating expenses | 22,076 | (132) | 21,944 |
| Net earnings for the period attributable to Shareholders of the Company | 7,011 | 132 | 7,143 |
| Other comprehensive loss | | | |
| Post-employment medical benefit obligation remeasurement | - | (132) | (132) |
| Share of other comprehensive income/(loss) of associates | - | (154) | (154) |
| Total comprehensive income for the period attributable to Shareholders of the Company | 7,155 | (154) | 7,001 |
| **Earnings per share:** | | | |
| *basic* | 0.33 | 0.01 | 0.34 |
| *fully diluted* | 0.33 | 0.01 | 0.34 |

### 2.3 FUTURE ACCOUNTING CHANGES

The following are the accounting and reporting changes issued under International Finacial Reporting Standards including those still under development by the IASB.

| TOPIC | EFFECTIVE DATE FOR THE GROUP | EXPECTED IMPACT |
|---|---|---|
| Amendments to IAS 32, Financial Instruments: Presentation | April 1, 2014 | Impact assessment in progress |
| IFRS 9, Financial Instruments | On or after April 1, 2015 | Impact assessment in progress |
| IFRS 4, Insurance Contracts (Phase II) | Expected to be effective not earlier than 2018 | Impact assessment in progress based on revised exposure draft |

For additional information, refer to Note 2.19 of the 2013 Annual Report.

## 3 INVESTMENTS

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

| | SEPTEMBER 30, 2013 | | MARCH 31, 2013 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| **Investments at FVTPL** | | | | |
| Bonds | 147,336 | 147,336 | 151,248 | 151,248 |
| Equities | 50,294 | 50,294 | 49,049 | 49,049 |
| | 197,630 | 197,630 | 200,297 | 200,297 |
| **Held-to-maturity** | | | | |
| Bonds | 4,075 | 4,022 | 5,237 | 5,340 |
| | 4,075 | 4,022 | 5,237 | 5,340 |
| **Available-for-sale** | | | | |
| Equities | 3,179 | 3,179 | 3,704 | 3,704 |
| | 3,179 | 3,179 | 3,704 | 3,704 |
| **Loans and receivables** | | | | |
| Mortgages and loans | 41,015 | 41,652 | 41,236 | 41,835 |
| Policy loans | 75 | 75 | 66 | 66 |
| | 41,090 | 41,727 | 41,302 | 41,901 |
| **Derivatives** | | | | |
| Interest rate swaps | (114) | (114) | 5 | 5 |
| Foreign currency forward contracts | (98) | (98) | (27) | (27) |
| | (212) | (212) | (22) | (22) |
| TOTAL INVESTMENTS | 245,762 | 246,346 | 250,518 | 251,220 |

### 3.2 INVESTMENTS MEASURED AT FAIR VALUE

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

**Level 1** – Fair value is based on unadjusted quoted prices for identical assets or liabilities in active markets.
**Level 2** – Fair value is based on quoted prices for similar assets or liabilities in active markets.
**Level 3** – Fair value is based on valuation techniques that require one or more significant inputs that are not based on observable market inputs. These unobservable inputs reflect the Group's assumptions about the market participants in pricing the investments.

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

| SEPTEMBER 30, 2013 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Investments at FVTPL** | | | | |
| Bonds | | | | |
| US government and agency | 2,442 | 14,884 | - | 17,326 |
| Other government and agency | - | 21,579 | - | 21,579 |
| Corporate | - | 75,538 | - | 75,538 |
| Mortgage/asset-backed securities | - | 11,538 | - | 11,538 |
| Other (1) | - | 21,355 | - | 21,355 |
| Equities | | | | |
| Bermuda listed equities | 21,631 | - | - | 21,631 |
| Non-Bermuda listed equities | 6,020 | - | - | 6,020 |
| Investments in mutual funds and hedge funds | - | 22,122 | - | 22,122 |
| Private equity funds and unquoted equities | - | - | 521 | 521 |
| | 30,093 | 167,016 | 521 | 197,630 |
| **Available-for-sale – equities** | | | | |
| Private equity funds and unquoted equities | - | - | 3,179 | 3,179 |
| **Derivatives** | - | (212) | - | (212) |
| TOTAL INVESTMENTS AT FAIR VALUE | 30,093 | 166,804 | 3,700 | 200,597 |

(1) Investment in bond funds

When available, quoted market prices are used to determine fair value. 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 flows. Broker quotes are used only when external public vendor prices are not available. The Group's investment validation process includes a review of price movements relative to the market. Any significant discrepancies are investigated and discussed with the investment managers.

Valuation techniques used to measure fair value of the investments measured and disclosed at fair value 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. Treasury securities which are classified under Level 1.
- 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 under 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 forms the basis of the net asset valuation include assets such as private business ventures, to which the Group does not have access to. 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 – Investments in mutual funds and hedge funds are $25.4 million of investment in Argus Investment Strategies Fund Ltd. This fund has been classified between Bonds and Equities based on the underlying securities held. Net asset valuation is performed on a weekly basis and investors are able to redeem the shares weekly, unless the value of redemption is more than 10 percentage of the net asset value of the fund, when the amount of the redemption is at the fund's discretion. This investment is classified under 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 flow models, which incorporate the pricing of the underlying instrument, yield curves and other factors.

The Group recognises transfers between levels in the fair value hierarchy as of the end of the reporting period during which the transfers have occurred. There were no transfers between the different levels during the six months ended September 30, 2013.

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

| SEPTEMBER 30, 2013 | INVESTMENTS | | |
|---|---|---|---|
| | At FVTPL | Available-for-sale | |
| | Equities | Equities | Total |
| Balance, beginning of period | 514 | 3,704 | 4,218 |
| Included in Investment income | 7 | - | 7 |
| Included in Other comprehensive income/(loss) | - | (20) | (20) |
| Purchases | - | - | - |
| Sales | - | (505) | (505) |
| BALANCE, END OF PERIOD | 521 | 3,179 | 3,700 |

## 3.3 INVESTMENT INCOME

| FOR THE SIX MONTHS ENDED SEPTEMBER 30 | 2013 | 2012 |
|---|---|---|
| **Interest income** | | |
| Bonds – at FVTPL | 4,385 | 3,644 |
| Bonds – held-to-maturity | 158 | 172 |
| Mortgages and loans | 1,133 | 1,078 |
| Cash and other | 101 | 108 |
| | 5,777 | 5,002 |
| **Dividend income** | | |
| Equities – at FVTPL | 1,056 | 719 |
| Equities – available-for-sale | 226 | 169 |
| | 1,282 | 888 |
| **Net realised gains/(losses) on sale of investments** | | |
| Bonds – at FVTPL | 542 | 1,559 |
| Equities – at FVTPL | 88 | (54) |
| Derivative financial instruments | (682) | 225 |
| | (52) | 1,730 |
| **Other** | | |
| Amortisation of premium on bonds | (951) | (518) |
| Rental income and other | 435 | 455 |
| Recovery of previously recognised impairment loss/(Impairment loss) | | |
| Bonds – held-to-maturity | 3 | 106 |
| Mortgages and loans | - | (765) |
| | (513) | (722) |
| INVESTMENT INCOME BEFORE DEDUCTIONS AND CHANGE IN FAIR VALUE | 6,494 | 6,898 |
| **Deductions** | | |
| Investment income relating to Deposit administration pension plans | (1,760) | (2,100) |
| Investment income relating to Segregated funds with a guaranteed return | (99) | (61) |
| | (1,859) | (2,161) |
| **Change in fair value arising from** | | |
| Bonds | (9,039) | 4,164 |
| Equities | 1,482 | 1,265 |
| Derivative financial instruments | (286) | 132 |
| | (7,843) | 5,561 |
| INVESTMENT INCOME | (3,208) | 10,298 |

# 4 INVESTMENT CONTRACT LIABILITIES

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

| FOR THE YEARS ENDED MARCH 31 | SEPTEMBER 30, 2013 | | MARCH 31, 2013 | |
|---|---|---|---|---|
| | Carrying value | Fair value | Carrying value | Fair value |
| **At amortised cost:** | | | | |
| Deposit administration pension plans | 77,642 | 76,899 | 72,522 | 71,714 |
| Self-funded group health policies | 11,266 | 11,266 | 8,623 | 8,623 |
| | 88,908 | 88,165 | 81,145 | 80,337 |
| **At FVTPL:** | | | | |
| Deposit accounted annuity policies | 2,239 | 2,239 | 2,787 | 2,787 |
| TOTAL INVESTMENT CONTRACT LIABILITIES | 91,147 | 90,404 | 83,932 | 83,124 |

Fair value of the Deposit accounted annuity policies is determined by using valuation techniques, such as discounted cash flow methods. A variety of factors are considered in the valuation techniques, including yield curve, credit spread and default assumptions, which have market observable inputs. These investment contract liabilities are classified under Level 2 instruments in the fair value hierarchy. See Note 3.2 for a description of the Group's fair value hierarchy.

## 5 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.

### 5.1 RESULTS BY SEGMENT

| FOR THE SIX MONTHS ENDED SEPTEMBER 30 | | Insured employee benefits | Life and pensions | Property and casualty | All other | Total |
|---|---|---|---|---|---|---|
| Segment revenues | 2013 | 51,947 | 5,004 | 13,802 | 1,631 | 72,384 |
| | 2012 | 53,456 | 17,729 | 15,129 | 1,950 | 88,264 |
| Investment income | 2013 | 217 | (3,201) | 316 | (540) | (3,208) |
| | 2012 | 767 | 8,898 | 1,265 | (632) | 10,298 |
| Amortisation, | 2013 | 493 | 932 | 1,194 | 980 | 3,599 |
| depreciation and impairment | 2012 | 214 | 840 | 741 | 965 | 2,760 |
| Income tax expense | 2013 | - | - | - | - | - |
| | 2012 | - | - | 53 | - | 53 |
| Reportable segment | | | | | | |
| earnings/(loss) attributable | 2013 | 9,570 | (4,394) | 1,150 | (4,739) | 1,587 |
| to shareholders, after tax | 2012 | 6,157 | 4,688 | 1,994 | (5,696) | 7,143 |

#### GEOGRAPHIC INFORMATION ON SEGMENT REVENUES:

| FOR THE SIX MONTHS ENDED SEPTEMBER 30 | | Bermuda | Europe | Total |
|---|---|---|---|---|
| Segment revenues | 2013 | 65,056 | 7,328 | 72,384 |
| | 2012 | 80,447 | 7,817 | 88,264 |

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

### 5.2 ASSETS AND LIABILITIES BY SEGMENT:

| | Insured employee benefits | Life and pensions | Property and casualty | All other | Total |
|---|---|---|---|---|---|
| SEPTEMBER 30, 2013: | | | | | |
| Total General Fund Assets | 26,581 | 287,398 | 72,236 | 40,294 | 426,509[1] |
| Segregated Fund Assets | - | 1,522,029 | - | - | 1,522,029 |
| Total General Fund Liabilities | 29,019 | 234,088 | 51,499 | 14,176 | 328,782[1] |
| Segregated Fund Liabilities | - | 1,522,029 | - | - | 1,522,029 |
| MARCH 31, 2013: | | | | | |
| Total General Fund Assets | 26,327 | 295,162 | 68,184 | 41,718 | 431,391[1] |
| Segregated Fund Assets | - | 1,476,685 | - | - | 1,476,685 |
| Total General Fund Liabilities | 22,570 | 250,137 | 46,613 | 16,223 | 335,543[1] |
| Segregated Fund Liabilities | - | 1,476,685 | - | - | 1,476,685 |

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

## 6 POST-EMPLOYMENT BENEFIT LIABILITY

The movement in the defined benefit liability is as follows:

| | For the six months ended September 30 2013 | For the year ended March 31 2013 |
|---|---|---|
| Accrued benefit liability, beginning of period | 4,524 | 4,078 |
| Current service cost | 52 | 126 |
| Interest cost on the benefit liability | 99 | 159 |
| Net actuarial (gain)/loss | (608) | 263 |
| Benefits paid | (53) | (102) |
| ACCRUED BENEFIT LIABILITY, END OF PERIOD | 4,014 | 4,524 |

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

(i) Current service cost represents benefits earned in the current period. These are determined with reference to the current workforce eligible for benefits and the amount of benefits to which employees 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 period 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:

| | September 30 2013 | March 31 2013 |
|---|---|---|
| Discount rate | 4.45% | 4.00% |
| Healthcare cost trend rate | 8.00% | 8.00% |

## 7 EARNINGS PER SHARE

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

| FOR THE SIX MONTHS ENDED SEPTEMBER 30 | 2013 | 2012 |
|---|---|---|
| Net earnings for the period | 1,587 | 7,143 |
| Weighted average outstanding common shares | 21,001 | 21,079 |
| Common shares and common equivalents | 21,001 | 21,079 |

## 8 COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS

| | September 30 2013 | March 31 2013 |
|---|---|---|
| Items that will not be reclassified to net earnings: | | |
| Post-employment medical benefit obligation remeasurement | (1,774) | (2,382) |
| Items that are or may subsequently be reclassified to net earnings: | | |
| Available-for-sale investments | 249 | 269 |
| Translation of financial statements of foreign operations | (1,470) | (2,232) |
| Share of other comprehensive loss of associates | (1,088) | (1,088) |
| TOTAL ACCUMULATED OTHER COMPREHENSIVE LOSS | (4,083) | (5,433) |

## 9 COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the presentation adopted for the current period.

# BOARD OF DIRECTORS

| | |
|---|---|
| Sheila E. Nicoll, FCII | *Chairman* |
| Alan R. Thomson | *Deputy Chairman* |
| Wendall S. F. Brown | |
| Peter R. Burnim | |
| John D. Campbell, QC, JP | |
| Alison S. Hill, ACMA | *Chief Executive Officer* |
| Sen. James S. Jardine, FCA, FCIS, JP | |
| Reginald S. Minors, JP | |
| Everard Barclay Simmons, LLB, MBA | |
| Robert D. Steinhoff, FCA | |
| Paul C. Wollmann, MBA, CPCU, ARe, ARM | |

# GROUP MANAGEMENT

| | |
|---|---|
| Alison S. Hill, ACMA | *Chief Executive Officer* |
| David W. Pugh, FCA | *Chief Financial Officer* |
| Lauren M. Bell, FLMI, HIA, ACS | *Executive Vice President, Life & Pensions* |
| Andrew H. Bickham, ACII | *Executive Vice President, Broking* |
| Alex Cabe, CFA | *Group Investment Manager* |
| Cindy F. Campbell, CPA, MBA | *Chief Operating Officer, AFL Investments Limited* |
| John Doherty, CPCU, ARM, ARe | *Executive Vice President, Property & Casualty* |
| Peter J. Dunkerley, FCA | *Executive Vice President, Finance & Treasury* |
| Martin N. M. Gutteridge, BA, MA | *Executive Vice President, Information Systems* |
| Michelle A. Jackson, MBA, MSc | *Executive Vice President, Group Insurance* |
| George N. H. Jones, MBA, LLB | *Group Company Secretary & Legal Advisor* |
| Tyrone Montovio, ACII | *General Manager, Argus Insurance Company (Europe) Limited* |
| Onesimus Nzabalinda, MBA, MSc | *Head of Compliance & Risk Management* |
| Larry A. Peck, FSA, FCIA, MAAA | *Executive Vice President, Group Chief Actuary* |
| Wanda E. Richardson, MA, SPHR | *Executive Vice President, Client Solutions, Sales and Marketing* |
| Kellianne M. Smith, BA | *Head of Global Human Resources and Organisational Development* |
| Sheena M. Smith, CPA | *Vice President, Finance* |
| Philip R. Trussell | *Vice President & Managing Director, International Life* |
| Sen. Lynne Woolridge, FLMI, FALU, HIA | *Head of International Life* |

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