2014 ANNUAL REPORT

ARGUS

Our Interest is You.

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

CONTENTS

Integral to our philosophy and values is the commitment of our resources to helping the community. We do this by making donations and providing volunteers to support numerous charities and fundraising events throughout the year. A timeline of these efforts runs through the course of the Report to Shareholders.

BOARD OF DIRECTORS

Sheila E. Nicoll, FCII
CHAIRMAN

Alan R. Thomson
DEPUTY CHAIRMAN

Wendall S. F. Brown

Peter R. Burnim, MBA

John D. Campbell, QC, JP

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

Alison S. Hill, ACMA
CHIEF EXECUTIVE OFFICER

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

Reginald S. Minors, JP

Everard Barclay Simmons, MBA, LLB

Robert D. Steinhoff, FCA, JP

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

COMMITTEES OF THE BOARD

Audit Committee

Nominations and Governance Committee

Compensation Committee

Risk Committee

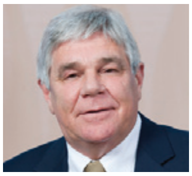
Succession Planning Committee

OFFICERS OF ARGUS GROUP HOLDINGS

Sheila E. Nicoll, FCII
CHAIRMAN

Alan R. Thomson
DEPUTY CHAIRMAN

Alison S. Hill, ACMA
CHIEF EXECUTIVE OFFICER



David W. Pugh, FCA
CHIEF FINANCIAL OFFICER

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

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

BUSINESS UNIT HEADS

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

Andrew H. Bickham, ACII
EXECUTIVE VICE PRESIDENT
BROKING

Dr. Vanessa O. Borg,
OBA, MPHIC, MBA
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 INVESTMENT LIMITED

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

SUPPORT UNIT HEADS

Alex Cabe, CFA
GROUP INVESTMENT MANAGER

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

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

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

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

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

Sheena M. Smith, CPA
VICE PRESIDENT
FINANCE

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

Philip R. Trussell
VICE PRESIDENT & MANAGING DIRECTOR
INTERNATIONAL LIFE

FIVE YEAR SUMMARY

FINANCIAL AND SHAREHOLDER DATA

	2014*	(Restated) 2013*	2012	2011	2010
FOR THE YEAR *(In $ thousands)*					
Total revenue	163,157	171,574	154,787	138,188	131,679
Earnings/(loss) for the year attributable to Shareholders of the Company	13,245	12,839	1,696	(6,092)	(18,435)
Cash dividends	2,522	-	-	8,414	12,187
AT YEAR END *(In $ thousands)*					
Total General Fund Assets	430,090	431,391	386,423	533,459	533,887
Shareholders' Equity	106,866	94,391	83,794	82,406	96,415
FINANCIAL RATIOS					
Earnings per share – fully diluted	$0.63	$0.61	$0.08	$(0.29)	$(0.88)
Return on average Shareholders' Equity	13.2%	14.5%	2.0%	(6.8%)	(17.5%)
SHAREHOLDER DATA					
Shares in issue	21,525,159	21,511,163	21,511,163	21,511,163	21,511,163
Book value per share	$4.96	$4.39	$3.90	$3.83	$4.48
NUMBER OF EMPLOYEES	203	202	201	199	171

**Effective April 1, 2013, Argus Group Holdings Limited and its subsidiaries adopted the new and amended accounting standards as discussed in Note 2.19. The 2013 comparatives were restated for the adoption of these new and amended accounting standards.*

Our focus is on our stakeholders.

Because they are what makes us succeed.

Our commitment to our stakeholders is to foster strong, long-term, one-on-one relationships built on loyalty, service and trust, and we accomplish this by behaving with honesty, openness and transparency in everything we do. By leveraging industry-leading knowledge from dedicated, caring and respected professionals, we make sure we put the needs of clients and staff first.

We feel our new brand position, 'Our Interest is You' nicely sums up our innate desire to take care of people and our commitment to our staff, our clients, our shareholders and our community. And that's what we believe makes Argus unique.

REPORT TO SHAREHOLDERS

THE YEAR IN REVIEW

Net earnings for the Argus Group were $13.2 million for the year ended March 31, 2014 compared to $12.8 million in the prior year.

These earnings have been achieved against a backdrop of global economic challenges that have lingered for several years and continued volatility in investment markets. These positive results are underpinned by strong business fundamentals, primarily:

- continued strong performance from our core business operations,
- very high client retention levels despite fiercely competitive markets,
- efficient management of operating expenses,
- strong governance and risk management processes, and
- sustained efforts to optimise the Balance Sheet and capital structure in a considered and orderly fashion.

Management and your Board believe that there are signs that the economic downturn in Bermuda and elsewhere may have bottomed out, but economic recovery will be slow. The Group continues to make progress with its strategic goal of focusing on markets where Argus can grow and earn higher returns within acceptable risk tolerances. Accordingly, we remain confident that the Argus Group is well positioned for the future.

Shareholders' Equity now stands at $106.9 million, up from $94.4 million one year ago, and remains substantially in excess of the minimum statutory capital required to conduct the Group's various insurance and investment related businesses. The result for the year represents a return on average Shareholders' Equity of 13.2 percent compared to 14.5 percent for the previous year.

During the year under review the Company resumed the payment of dividends to Shareholders in accordance with the Group's revised dividend policy. As reported last year, this policy anticipates that dividends will be considered on a semi-annual basis to coincide with the six-monthly reporting cycles to which the Group adheres. In normal circumstances, it is intended that this will consist of an interim and final dividend for each financial year and be based upon the results as declared for the prior financial year.

Thus in July 2013 and January 2014, the Board declared interim and final dividends each of six cents per share. Based upon the audited financial results of the Group for the year ended March 31, 2014, the Board has declared an interim dividend of seven cents per share payable on September 15, 2014 for shareholders of record on August 11, 2014.

JANUARY

Argus selected SCARS Bermuda as one of its key community partners, helping the charity reach more adults with its 'Darkness to Light Stewards of Children' training programme. Support was given in the form of a financial donation and by providing conference room facilities where the training takes place.

FEBRUARY

Argus again teamed up with the Centre on Philanthropy for the Argus Walks the Walk event – the only charity walk where participants choose which charity receives their entry fee as a donation. Also this month, Argus was the title sponsor for the expanded Jump 2b Fit campaign, organised by the Bermuda Heart Foundation.

The Company's share price moved during the year from a low of $3.20 to a high of $4.70 per share. Based upon the average price in the year of $3.90 per share, the dividends paid provided an annualised yield of 3.1 percent.

During the year, Management successfully launched the Dividend Reinvestment Programme or "DRIP", whereby Shareholders are afforded the opportunity to use their cash dividends to buy more shares in the Company, thereby compounding the returns for those Shareholders that choose to do so. We are pleased to note that 160 Shareholders, representing over 1.1 million shares have signed up for this programme.

During June 2014, the ratings agency A.M. Best confirmed the Group's outlook as "stable" and affirmed the financial strength of B++ (Good) and issuer credit rating of bbb.

FINANCIAL RESULTS

Net Earnings for the Year attributable to Shareholders of the Company were $13.2 million for the year ended March 31, 2014 compared to $12.8 million for the previous year. The *Earnings per share* was $0.63 compared to $0.61 last year.

As at March 31, 2014, *Total Assets*, including *Segregated Fund Assets*, stood at $2.1 billion and *Shareholders' Equity* increased to $106.9 million from $94.4 million one year ago.

Net premiums written increased by $3.0 million, or two percent, arising from a combination of new business and very high client retention levels. Overall, *Net Benefits and Claims* decreased by seven percent as the Group experienced a benign claims year in our health, and property and casualty portfolios.

Investment income and *Share of earnings of associates* decreased significantly when compared to the prior year. The accounting policy under International Financial Reporting Standards (IFRS) requires the valuation of the majority of our investments at fair value which can and often does lead to significant volatility of financial results, especially in our life and annuity businesses. As a result, the Group reported an unrealised loss on our fixed income portfolio of $5.3 million compared to a $2.7 million gain in the prior year. This arose as the increase in interest rates in the year served to decrease the fair value of the Group's extensive fixed income portfolios.

Commissions, management fees and other fell two percent compared to the prior year due to decreased profit commissions offset by an increase in management fees commensurate with the rise in assets under management.

Operating expenses have decreased three percent over the previous year reflecting the tight budgetary control and monitoring processes exercised by management.

PROPERTY AND CASUALTY, BERMUDA

Despite intense and overtly aggressive competition in the marketplace, the division continues to maintain its disciplined approach to underwriting. This coupled with the Group commitment to proactive customer service has resulted in high levels of retention and produced a solid result for the year.

Overall, gross premiums for the division were slightly down on the prior year reflecting the recession in Bermuda as clients constantly seek ways to economise by reducing their insurance spend to an absolute minimum.

MARCH

In partnership with the Bermuda Dietitians Association (BDA), Argus launched the inaugural 'School Nutrition Champions' competition as part of the BDA's Nutrition Month activities to help inform children and their families about healthy eating and to increase public awareness of Bermuda's daily dietary and physical exercise guidelines.

APRIL

Argus teamed with the Bermuda National Athletics Association and Bermuda Olympic Association to organise the inaugural Women In Sports Expo at the Fairmont Hamilton Princess Hotel. The event brought together women ranging from elite status, to para-athletes and amateur athletes for a discussion on women's issues and how the community can become more active.

The fire portfolio, which protects our insureds from fire and windstorm damage, among other perils, has once again performed satisfactorily due to several factors. These include a catastrophe-free year, for which we are thankful, combined with various cost containment measures principally driven by the continued streamlining of processes.

The accident and marine portfolios performed within planned parameters and continue to contribute to the overall profitability of the division.

PROPERTY AND CASUALTY, EUROPE

Once again it has been a challenging year in both our European jurisdictions of Gibraltar and Malta. Aggressive competition abounds and the effect of the downturn in economic activity and contraction in spending on capital projects has continued to slow premium growth. As a consequence, management has remained focused on client retention and reinforcing client relationships to protect our accounts.

In Malta, further progress was made in diversifying the portfolio away from being overweight in motor risks. Action has been taken to re-engineer the portfolio through withdrawal from loss-making sectors and further increases in rates where appropriate. Strong growth in the home and also commercial portfolios was achieved as a result of the launch of upgraded products and a revised distribution strategy. Non-Motor business now accounts for 25 percent of the portfolio and this is expected to increase to 30 percent by the end of 2015.

In both jurisdictions the finance and commercial departments were strengthened by added resources and reorganised to further improve internal controls and processes to cater for new systems.

Following Mr. Andrew Baker's retirement earlier in the year, Dr. Vanessa Borg was appointed Chief Executive in Malta.

GROUP INSURANCE

The Group Insurance division, comprised of group health, life, long-term disability and workers' compensation products in Bermuda, has once again performed well in spite of challenging economic conditions.

Whilst retention levels have remained high for group insurance business, the average insured headcount over the year has decreased, indicating that the total number of employees insured within groups has continued to fall as employers reduce staff in the face of a weak economy. We have also seen an increasing number of employers reducing their level of benefit coverage and switching to lower cost plans. As more employers opt for lower cost plans, the restricted benefits available under these plans have led to some containment of incurred claims.

The division has seen success over the past year in the expansion of the Preferred Provider Network, an overseas network of selected medical facilities focused on quality patient care at excellent value. The expansion of the Preferred Provider Network highlights the continued success in cost containment for overseas claims.

We are committed to collaborating with the Ministry of Health, Seniors and Environment and the Bermuda Health Council to improve the local healthcare system. The budget reduction for the Ministry of Health and subsequent transfer of certain health costs from government to private health insurers and their customers represents most of the increase in premium for 2014–2015 year. The additional cost of the services transferred from the Bermuda Government is approximately seven percent premium inflation. Were it not for these changes in legislation, the health insurance premiums for our clients across the entire portfolio would have been less than the current general rate of inflation.

A key challenge for Bermuda's health care system continues to be the rise in chronic non-communicable diseases. Preventing and managing these diseases is critical to managing health care costs for the future. Over the upcoming year, we will be piloting a focused patient advocacy programme in collaboration with Johns Hopkins Medicine International. The goal of this programme is to assist with the management and coordination of care for our clients with chronic illnesses with the goal of improving health outcomes both for our clients and the community as a whole.

PENSIONS

We are pleased to report that pension assets under management have continued to increase and the client base has remained stable over the year. In addition, the Argus Select Funds that offer a broad range of investment options and styles to suit the needs of all of our plan members, have performed well during the year.

With increasing life-expectancy and lower birth rates, our client base is ageing in line with population projections. This is compounded by the recent reduction in the guest-worker population of mostly younger people. Accordingly, through educational workshops, we continue to emphasise the importance of planning for retirement to ensure that residents have sufficient funds to sustain them in their retirement years.

In February 2014, our 401k plan was expanded to include American spouses of Bermudians and those with dual citizenship. Argus is the only financial institution to offer a solution for American employees that complies with Internal Revenue Service (IRS) requirements as well as both Bermuda and US pension and tax legislation.

INTERNATIONAL LIFE

Our International Life division offers insurance solutions to high net worth clients globally. Building on the success of 2013, the International Life division added a further $106 million of new business during the 2014 financial year. Several new distribution channels were established and, as a result, a number of new investment-linked life and annuity products have been developed and added to our existing suite. We are confident for the future and believe that International Life will continue to make a meaningful contribution to the Argus Group.

AFL INVESTMENTS

AFL enjoyed a satisfactory year with high client retention driven in large part by its focus on delivering a high level of servicing to its client base. In addition, the changes that were implemented in the Argus Select Funds the previous year have now had a period of time to demonstrate that the adjustments were positive to performance, something that our clients greatly appreciated.

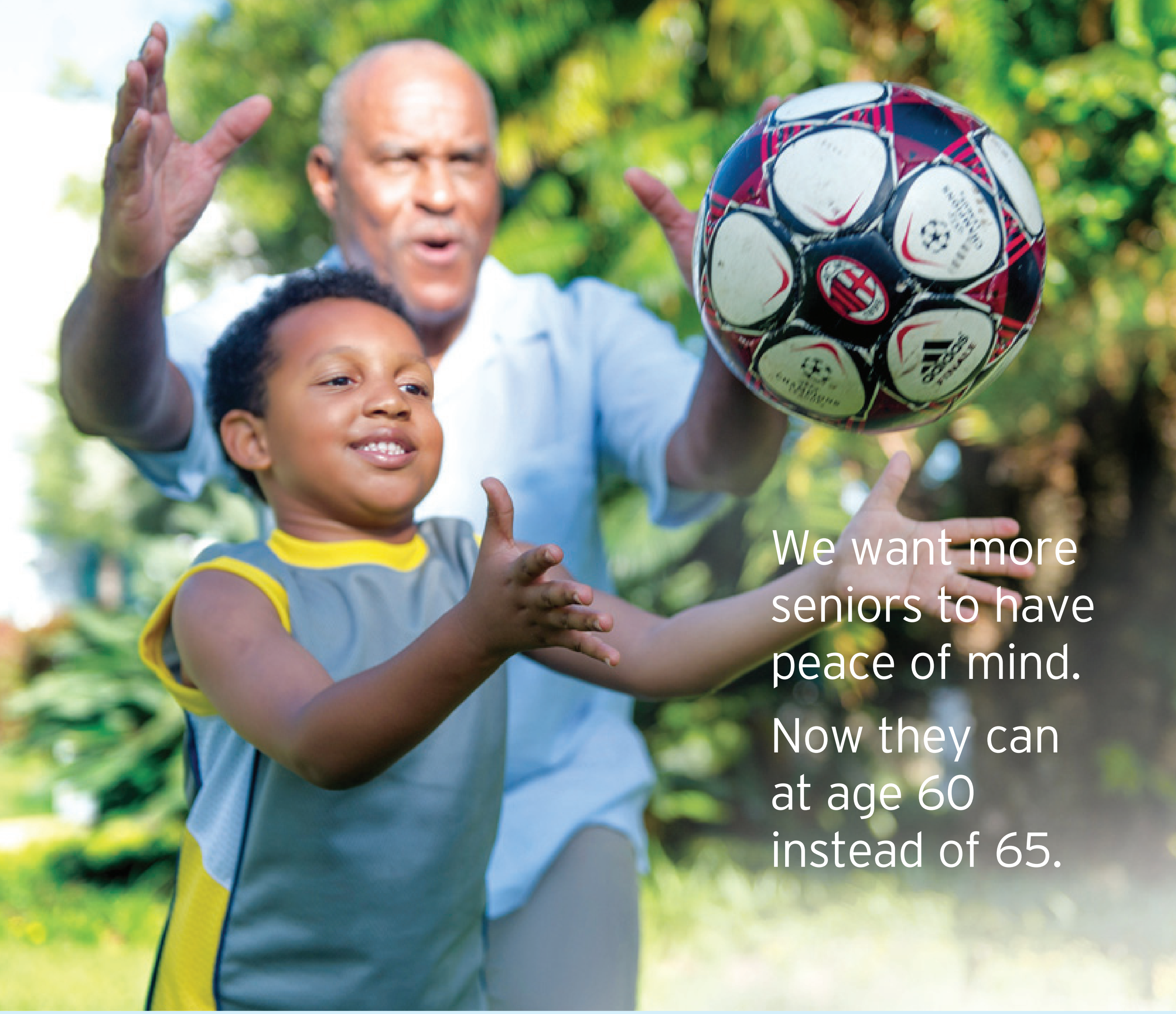
In March 2014, there was a transition of senior management as Mrs. Cindy Campbell moved to be appointed Executive Vice President, Strategic Development and Mr. Joel Schaefer, a 20 year veteran of the Bermuda investment community, joined AFL as

MAY

As part of a new Business Partnership Initiative of mentoring students at West Pembroke Primary School through YouthNet, volunteers from Argus have been visiting the school on a weekly basis to read to and mentor two classes of P2 students as well as making a financial donation to cover the cost of books used.

JUNE

In partnership with the Bermuda Diabetes Association, Argus hosted the highly successful, free seminar entitled 'Sugar: The Bitter Truth' with guest speaker, Dr. Robert H. Lustig, MD, a worldwide authority on obesity and the underlying causes – principally that of added sugar in food and drink.

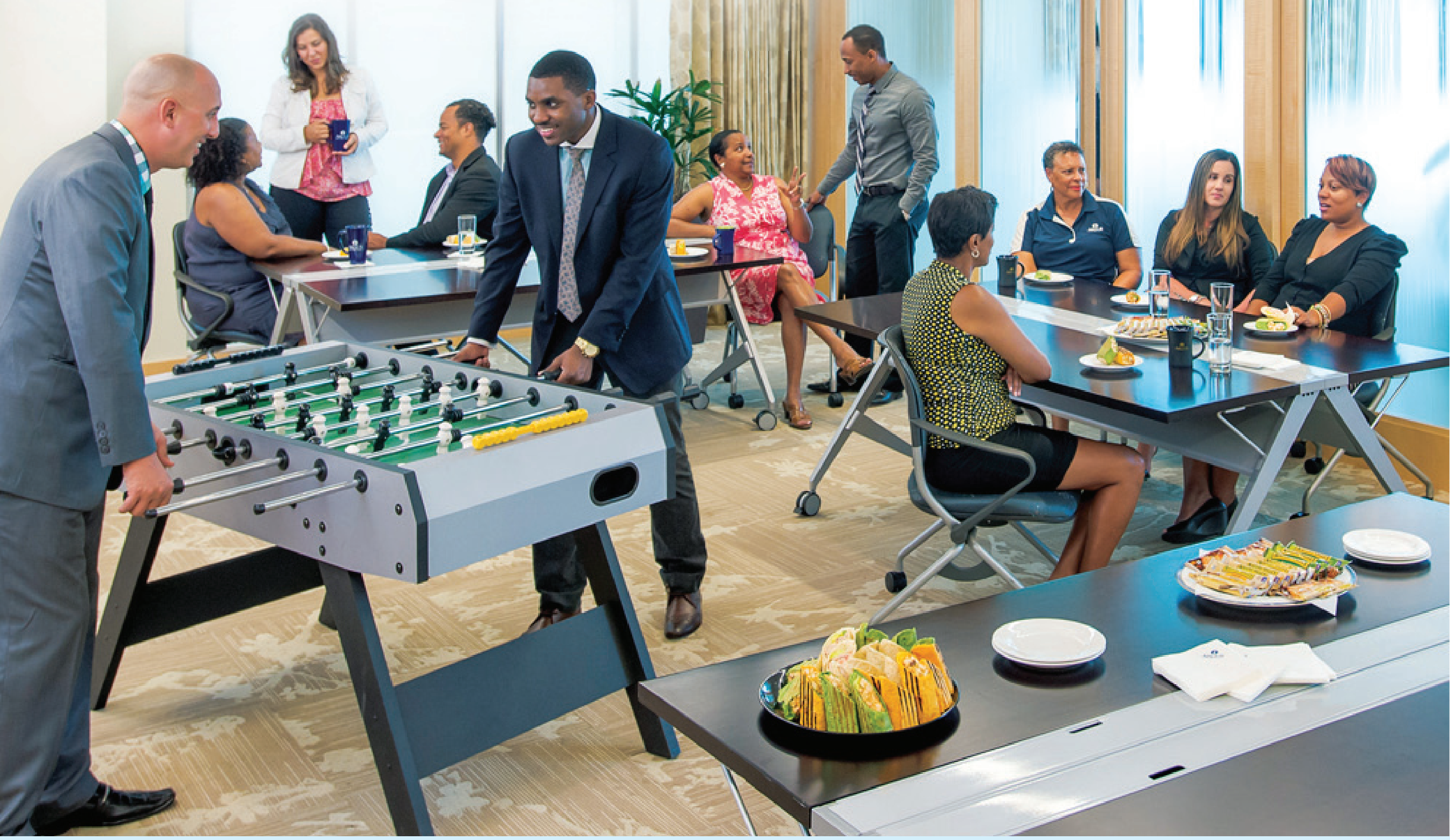


Home Essentials, a home and property protection insurance policy, was designed to meet the changing lifestyle of Bermuda's increasing senior population. To make the offer more accessible, we lowered the age of eligibility for the offer to 60 years, five years younger than the original age eligibility. A move like this helps to bring peace of mind to a lot more people.

Argus is committed to delivering value to our stakeholders, which is why we continually think of ways to deliver unique products to help our clients solve their financial and insurance needs.

Our work is important.

Which is why we believe the people who work here are too.



Each year the people-based survey endeavours to find out which of the Island's companies offer the most rewarding work environment across a number of key employment areas including: corporate culture, staff benefits, internal communication and overall satisfaction, among others. We are so pleased that the Argus Group has been recognised as one of the best companies to work for on the Island, and has placed fifth in the 2013 survey!

At Argus, we believe in a healthy work/life balance. By injecting a bit of fun into the work environment, employees are more engaged and have a greater sense of job satisfaction, leading to better customer service, increased productivity, and a better workplace atmosphere.

President & Chief Executive Officer. We believe that Mr. Schaefer's arrival will provide an opportunity to grow the business and strengthen our investment expertise still further.

SALES AND MARKETING

Mrs. Wanda Richardson transferred into the new position of Head of Client Solutions, effective August 2013, and is responsible for leading and developing cross functional design, delivery of holistic client solutions and brand channel management strategies that maximise sales and business development opportunities.

Our commitment to our stakeholders is clear: we aim to foster strong, long-term, one-on-one relationships built on loyalty, service and trust. We deliver on our promise to our stakeholders by behaving with honesty, openness and transparency in everything we do. We leverage industry-leading knowledge from dedicated, caring and respected professionals, putting the needs of clients and staff at the centre of our decision-making. We believe our new brand position 'Our Interest is You' sums up our commitment, that Argus is a company that cares deeply about our staff, our clients, our shareholders and our community. And it is this innate desire to take care of people that makes Argus the unique company that it is. Under this new brand positioning, 'Our Interest is You', we have created a new logo, which will be used to present 'Why we do what we do ... and who we do it for'.

INFORMATION TECHNOLOGY (IT)

The Group IT function continues to focus on the development of infrastructure platforms that provide improved service delivery across multiple business units. Group Insurance is a particular emphasis, as we bring new systems on line during the coming fiscal year to give our clients significantly greater functionality and flexibility.

These new systems will allow the Group to leverage the same software platforms in differing jurisdictions, which helps to position us as an efficient service provider.

We are entering the core stages of removing obsolete legacy systems and hardware, which will lower our operational costs and increase efficiency. It will also allow us to focus further on providing on-line transactional capabilities. This is supported by the standardisation of our web platform, which is now being used in all jurisdictions.

We continue to work on the development of multi country support capability leveraging commonality of systems. These IT activities are creating the operational platform to support our longer term strategic aims.

RISK AND COMPLIANCE

The Group's risk management framework and risk appetite policy were developed by Management and formally approved by the Board of Directors over the past year. The framework and policy form the basis of a robust system of internal control and provides guidelines on how to identify and mitigate material risks to which we may be exposed. Details of the Group risk management framework are fully described in Note 14 to the consolidated financial statements.

During the fiscal year, we remained in compliance with the Bermuda Monetary Authority's Insurance Code

JULY

Argus, in collaboration with the Argo Foundation, supported the Bermuda Cricket Board's 2013 Summer Clinic, making it more accessible to the local youth community at a subsidised rate. This helped to keep Bermuda's children active over the summer months playing a sport they love.

AUGUST

A long-time supporter of the Adult Education School, due to their work with the community in increasing education and job skills, Argus made a financial donation to help the organisation prepare for the new GED test format, in line with new adult education standards introduced by the U.S. Department of Education.

of Conduct, the Bermuda Solvency Capital Requirements (BSCR), and the requirements of our regulators in Malta and Gibraltar. We are actively implementing the requirements of the United States Foreign Account Tax Compliance Act (FATCA). To that end, we have identified the products and clients that will be impacted by FATCA and have completed the online registration with the IRS.

HUMAN RESOURCES (HR)

In November 2013, Ms. Kellianne Smith joined the Group and replaced Mrs. Wanda Richardson as Head of Global Human Resources and Organisational Development. In this position Ms. Smith manages and directs the strategies that build upon the competencies of employees, promotes accountability, and ensures maximum levels of employee productivity and creativity.

This year we continue to focus on the Europe HR integration plan, by standardising and aligning HR policies, practices and benefits between corporate and overseas offices.

In November 2013, Argus participated for the first time in the Bottom Line magazine's annual survey to identify the Top 10 Employers in Bermuda and was awarded fifth place. At Argus Group, we strongly believe that we provide a rewarding work environment across a number of key employment areas including: corporate culture, staff benefits, internal communications, workplace safety and conditions, and overall employee satisfaction.

The Argus Group was awarded the Investors in People (IIP) Gold standard last year, and we continue to build upon the development of our people and strengthening overall staff engagement. We are excited that Argus was selected by IIP as a case study for managing change for inclusion on their international IIP website.

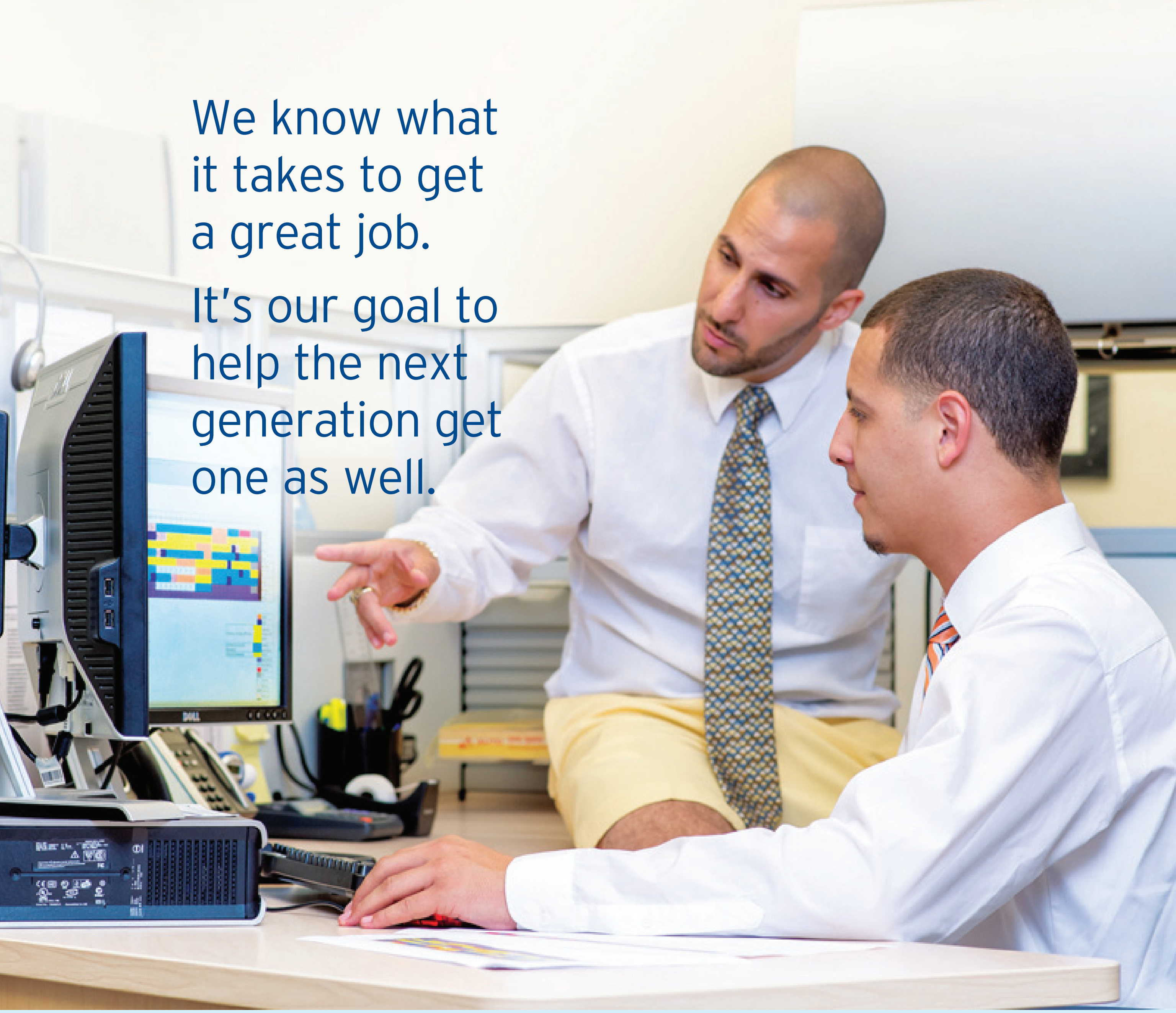
COMMUNITY

The Group actively supports organisations and community events for the benefit of all in Bermuda. Our corporate giving programme continues to focus on the theme of "prevention" as Argus is in the business of helping our clients prevent financial and physical misfortune. Argus has supported a selection of charities that are making a positive difference in the community and to the lives of young people in particular. The charity partnerships forged during the year were with: The Family Centre, The Centre Against Abuse, The Chewstick Foundation, Meals on Wheels, The Eliza Dolittle Society, PRIDE Bermuda and the Bermuda Zoological Society.

In addition we supported a number of community events that are in line with our wellness philosophy including the very popular Bermuda National Trust Palm Sunday Walk, the Argus Walks the Walk with The Centre on Philanthropy Charity 5K Walk and the Argus Crime Stoppers 5K Road Race & Walk. The Group also continued to sponsor the Jump 2B Fit Programme organised by the Bermuda Heart Foundation, where the emphasis is placed on improving the level of fitness of children in our schools. We also teamed up with the Bermuda National Athletics Association and the Bermuda Olympic Association and held the inaugural Women in Sports Expo, designed to encourage equitable participation by girls and women in physical recreation and sports. The event not only increased the profile of sports to females, it also drives awareness of the importance of physical activity for health reasons.

SEPTEMBER

Through a financial donation, Argus supported Chain Reaction Bermuda, a voluntary programme aimed at disarming bullying and preventing violence through kindness, respect and understanding in schools. The programme was offered to students aged 11 to 18 at Sandys Secondary Middle School in the Fall 2013 semester at no cost.



We know what it takes to get a great job.

It's our goal to help the next generation get one as well.

Argus understands the importance of gaining valuable life experience in the workforce at a young age and is dedicated to helping the next generation of Bermudians achieve that objective. By supporting the Family Centre's "Building My Future" programme, 21 youths have been able to obtain work experience that taught them accountability and responsibility, which we believe will provide a new perspective as they continue their studies and strive for success.

Argus has always been a strong supporter of the Community. We believe in 'doing well by doing good' and we are very proud to be able to contribute to future generations of the Island community.

We partnered this year with the Bermuda Diabetes Association and hosted a free seminar for the public entitled 'Sugar: The Bitter Truth'. The speaker was Dr. Robert H. Lustig, MD, who is known worldwide as the authority on obesity and its underlying causes – principally that of added sugar in food and drink.

In July 2013, the NatWest Island Games XV was held in Bermuda. More than 2,000 athletes from 24 island countries around the world competed in the largest multi-sport event ever held in our country. The Argus Group was pleased to be one of a few local companies that supported this landmark event by becoming a 'Premier' level sponsor for the Games. As an added privilege we were also able to honour our relationship with Gibraltar by donating all the playing kits and track suits for the Gibraltar Team. We were delighted to be a part of the Island Games and happy we were able to contribute to its success.

Finally we continue to assist the Bermuda Sloop Foundation by the provision of office space as a donation-in-kind.

FORWARD LOOKING STATEMENTS

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

NEW DIRECTOR

On February 28, 2014, Mr. Timothy C. Faries was appointed to the Board to fill a casual vacancy. Mr. Faries is a partner of Appleby, the Bermuda group head of the Corporate and Commercial department and the Insurance and Reinsurance sector leader. Mr. Faries has extensive experience with Bermuda insurance law and regulation, public and private insurance company capital raising and M&A activity, public listings on US, UK and European securities exchanges, the establishment and licensing of alternative risk financing vehicles, and captive insurance companies in established and emerging markets.

NOTE OF APPRECIATION

On behalf of the Board and Management, we would like to express our appreciation to Mr. S. Reginald Minors who will be retiring from the Board at the forthcoming Annual General Meeting in September 2014. We are grateful for his twenty years of service as a Director of the Company.

Finally we wish to thank our Shareholders and clients for their continued support and acknowledge and commend the hard work and commitment of our staff.

Sheila E. Nicoll
CHAIRMAN

Alison S. Hill
CHIEF EXECUTIVE OFFICER

July 17, 2014

OCTOBER

In association with Swan's Running Club, Argus sponsored the annual Argus Crime Stoppers 5K Road Race and Walk and a Junior Walk. The event raises awareness for Crime Stoppers Bermuda, a civilian community service that enables anyone with details of criminal activity to report information anonymously through a confidential hotline phone number or website.

NOVEMBER

Argus joined forces with the Bermuda Diabetes Association to support Diabetes Awareness Month by sponsoring the organisation's first 'Moon Walk for Diabetes' as well as a lunch seminar on 'Healthy Living with Diabetes'. Both events were designed to raise awareness and support for diabetes education and outreach in Bermuda.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The accompanying consolidated financial statements and other financial information in this Annual Report have been prepared by the Group's management, which is responsible for their integrity, consistency, objectivity and reliability. To fulfill this responsibility, the Group maintains policies, procedures and systems of internal control to ensure that its reporting practices and accounting and administrative procedures are appropriate to provide a high degree of assurance that relevant and reliable financial information is produced and assets are safeguarded. These controls include the careful selection and training of employees, the establishment of well-defined areas of responsibility and accountability for performance, and the communication of policies and a code of conduct throughout the Group. In addition, the Group maintains an Internal Audit Department that conducts periodic audits of all aspects of the Group's operations. The Internal Audit Department 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 examined the consolidated financial statements set out on pages 18 through 79 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 17, 2014.

Alison S. Hill
CHIEF EXECUTIVE OFFICER

David W. Pugh
CHIEF FINANCIAL OFFICER

July 17, 2014

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF ARGUS GROUP HOLDINGS LIMITED AND SUBSIDIARIES

We have audited the accompanying consolidated financial statements of Argus Group Holdings Limited (the "Group"), which comprise the consolidated balance sheet as at March 31, 2014, and the consolidated statements of operations, comprehensive income, changes in equity and cash flows for the year ended March 31, 2014, and notes, comprising a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Argus Group Holdings Limited as at March 31, 2014, and its consolidated financial performance and its consolidated cash flows for the year ended March 31, 2014 in accordance with International Financial Reporting Standards.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda

July 25, 2014

CONSOLIDATED BALANCE SHEET

(In $ thousands)	Note	MARCH 31 2014	Restated* MARCH 31 2013
ASSETS			
Cash and short-term investments		31,340	30,326
Interest and dividends receivable		3,930	2,706
Investments	3	255,952	250,518
Insurance balances receivable	6	13,057	18,469
Reinsurers' share of:			
Claims provisions	12	13,992	14,001
Unearned premiums	12	9,422	10,202
Other assets	8	9,019	7,982
Deferred policy acquisition costs	9	2,279	2,182
Investment in associates	5	11,292	10,830
Investment properties	7	5,885	6,936
Property and equipment	10	69,282	71,719
Intangible assets	11	4,640	5,520
TOTAL GENERAL FUND ASSETS		430,090	431,391
TOTAL SEGREGATED FUND ASSETS	28	1,657,818	1,476,685
TOTAL ASSETS		2,087,908	1,908,076
LIABILITIES			
Insurance contract liabilities	12	200,910	198,144
Insurance balances payable	16	14,185	10,772
Payable for investments purchased		558	21,530
Investment contract liabilities	13	86,413	83,932
Taxes payable		66	61
Accounts payable and accrued liabilities		15,444	16,580
Post-employment benefit liability	15	4,218	4,524
TOTAL GENERAL FUND LIABILITIES		321,794	335,543
TOTAL SEGREGATED FUND LIABILITIES	28	1,657,818	1,476,685
TOTAL LIABILITIES		1,979,612	1,812,228
EQUITY			
Attributable to Shareholders of the Company			
Share capital		16,939	16,742
Contributed surplus		52,578	52,615
Retained earnings		41,169	30,467
Accumulated other comprehensive loss	30	(3,820)	(5,433)
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY		106,866	94,391
Attributable to non-controlling interests		1,430	1,457
TOTAL EQUITY		108,296	95,848
TOTAL EQUITY AND LIABILITIES		2,087,908	1,908,076

**See Note 2.19.1*

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	2014	Restated* 2013
REVENUE			
Gross premiums written		166,885	162,167
Reinsurance ceded		(41,871)	(40,179)
Net premiums written		125,014	121,988
Net change in unearned premiums	20	(700)	1,210
Net premiums earned		124,314	123,198
Investment income	3	6,887	15,799
Share of earnings of associates	5	734	714
Commissions, management fees and other	23	31,222	31,863
		163,157	171,574
EXPENSES			
Policy benefits		14,406	13,196
Claims and adjustment expenses		90,541	88,253
Reinsurance recoveries	21	(11,623)	(5,890)
Gross change in contract liabilities	22	1,580	9,649
Change in reinsurers' share of claims provisions	22	342	(2,595)
NET BENEFITS AND CLAIMS		95,246	102,613
Commission expenses		4,895	5,015
Operating expenses	24	42,579	43,729
Amortisation, depreciation and impairment	10 ; 11	6,727	6,827
Interest on loan		-	193
		149,447	158,377
EARNINGS BEFORE INCOME TAXES		13,710	13,197
Income taxes	27	60	8
NET EARNINGS FOR THE YEAR		13,650	13,189
Attributable to:			
Shareholders of the Company		13,245	12,839
Non-controlling interests		405	350
		13,650	13,189
Earnings per share:	19		
basic		*0.63*	*0.61*
fully diluted		*0.63*	*0.61*

**See Note 2.19.1*
The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended March 31 (In $ thousands, except per share data)	Note	2014	Restated* 2013
NET EARNINGS FOR THE YEAR		13,650	13,189
OTHER COMPREHENSIVE INCOME/(LOSS)			
Items that will not be reclassified to net earnings:			
Remeasurement of post-employment medical benefit obligation	15	492	(263)
Items that are or may subsequently be reclassified to net earnings:			
Change in unrealised (losses)/gains on available-for-sale investments		(20)	24
Share of other comprehensive loss of associates	5	(2)	(308)
Change in unrealised gains/(losses) on translating financial statements of foreign operations		1,143	(698)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		1,613	(1,245)
COMPREHENSIVE INCOME FOR THE YEAR		15,263	11,944
OTHER COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO:			
Shareholders of the Company		1,613	(1,245)
Non-controlling interests		-	-
		1,613	(1,245)
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Shareholders of the Company		14,858	11,594
Non-controlling interests		405	350
		15,263	11,944

**See Note 2.19.1*

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the years ended March 31 (In $ thousands)	Note	2014	Restated* 2013
SHARE CAPITAL			
Authorised:			
25,000,000 common shares of $1.00 each (2013 – 25,000,000)		25,000	25,000
Issued and fully paid, beginning of year 21,511,163 shares (2013 – 21,511,163 shares)		21,511	21,511
Add: Shares issued under the dividend reinvestment plan 13,996 shares	18	14	-
Deduct: Shares held in Treasury, at cost 468,701 shares (2013 – 510,041 shares)		(4,586)	(4,769)
TOTAL, NET OF SHARES HELD IN TREASURY, END OF YEAR		16,939	16,742
CONTRIBUTED SURPLUS			
Balance, beginning of year		52,615	52,737
Stock-based compensation expense		87	44
Treasury shares granted to employees	25	(191)	(166)
Shares issued under the dividend reinvestment plan	18	44	-
Transaction with non-controlling interests		23	-
BALANCE, END OF YEAR		52,578	52,615
RETAINED EARNINGS			
Balance, beginning of year		30,467	18,032
Net earnings for the year		13,245	12,839
Dividends	18	(2,522)	-
Loss on treasury shares granted to employees		(21)	(404)
BALANCE, END OF YEAR		41,169	30,467
ACCUMULATED OTHER COMPREHENSIVE LOSS			
Balance, beginning of year		(5,433)	(4,188)
Other comprehensive income/(loss) for the year		1,613	(1,245)
BALANCE, END OF YEAR	30	(3,820)	(5,433)
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY		106,866	94,391
ATTRIBUTABLE TO NON-CONTROLLING INTERESTS			
Balance, beginning of year		1,457	2,343
Net earnings for the year		405	350
Distributions to non-controlling interests		(409)	(1,236)
Changes due to business combination		(23)	-
BALANCE, END OF YEAR		1,430	1,457
TOTAL EQUITY		108,296	95,848

**See Note 2.19.1*

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended March 31 (In $ thousands)	2014	Restated* 2013
OPERATING ACTIVITIES		
Earnings before income taxes	13,710	13,197
Adjustments to reconcile net earnings to cash basis (Footnote (i) below)	451	(8,565)
Change in operating balances (Footnote (ii) below)	11,802	23,580
Interest income received	7,407	4,297
Dividend income received	1,794	1,477
Income taxes paid	(61)	(130)
CASH GENERATED FROM OPERATING ACTIVITIES	35,103	33,856
INVESTING ACTIVITIES		
Purchase of investments	(388,906)	(756,789)
Sale and maturity of investments	359,382	718,808
Purchase of property and equipment	(3,148)	(1,739)
Sale of investment property	925	-
Purchase of intangible assets	-	(66)
CASH USED IN INVESTING ACTIVITIES	(31,747)	(39,786)
FINANCING ACTIVITIES		
Dividends paid to Shareholders	(2,464)	-
Dividends paid to non-controlling interests	(409)	(1,236)
Acquisition of shares held in Treasury	(29)	(261)
Repayment of loan	-	(7,843)
Interest paid on loan	-	(193)
CASH USED IN FINANCING ACTIVITIES	(2,902)	(9,533)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND SHORT-TERM INVESTMENTS	560	(338)
NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS	1,014	(15,801)
CASH AND SHORT-TERM INVESTMENTS, BEGINNING OF YEAR	30,326	46,127
CASH AND SHORT-TERM INVESTMENTS, END OF YEAR	31,340	30,326

Footnotes

	2014	2013
(i) Interest income	(11,388)	(9,724)
Dividend income	(1,797)	(1,702)
Investment income related to the Deposit administration pension plans	705	830
Investment income related to Segregated funds with guaranteed return	2,060	2,517
Net realised and unrealised losses/(gains) on investments	2,506	(10,635)
Amortisation of net premium of bonds	1,848	1,160
Net impairment losses	297	2,615
Share of earnings of associates	(734)	(714)
Change in fair value of investment property	140	24
Depreciation of property and equipment	5,656	5,638
Amortisation of intangible assets	1,071	1,031
Impairment of intangibles	-	158
Interest on loan	-	193
Expense on vesting of stock-based compensation	87	44
	451	(8,565)
(ii) Insurance balances receivable	5,706	3,512
Reinsurers' share of:		
Claims provisions	338	(2,595)
Unearned premiums	997	524
Other assets	(883)	(573)
Deferred policy acquisition costs	42	12
Insurance contract liabilities	888	8,346
Insurance balances payable	3,252	(1,879)
Investment contract liabilities	2,481	14,168
Accounts payable and accrued liabilities	(1,205)	1,882
Post-employment benefit liability	186	183
	11,802	23,580

**See Note 2.19.1*

The accompanying notes form part of these consolidated financial statements.

CONTENTS NOTES TO THE 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 HM 11, Bermuda. The Company's shares are traded on the Bermuda Stock Exchange. At March 31, 2014, it has 1,315 shareholders; 85.32 percent of whom were Bermudian, holding 82.87 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 17 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;
- Certain segregated fund assets and liabilities are measured at fair value; and
- Post-employment benefit liability is measured at the present value of the defined benefit obligation.

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

2.2.2 Presentation currency

All amounts, excluding per share data or where otherwise stated, are in thousands of Bermuda dollars, which is the Group's presentation currency and which is on par with 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 31.1 – 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 13 – 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 financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

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

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

2.3.3 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.

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.

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

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

(ii) Held-to-maturity financial assets

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

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

(iii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition. Loans and receivables are measured at amortised cost 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), Payable for investments purchased and Accounts payable and accrued liabilities. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

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

2.7.2 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets comprising of Investment properties, Property and equipment and Intangible assets are reviewed at each reporting date to determine if there is objective evidence of impairment.

Objective factors that are considered when determining whether a non-financial asset may be impaired include, but are not limited to, the following:

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

If objective evidence of impairment exists, then the asset's recoverable amount is estimated. An impairment loss is recognised in Amortisation, depreciation and impairment on the Consolidated Statement of Operations if the carrying amount of an asset exceeds its estimated recoverable amount. The recoverable amount of an asset is the greater of its value-in-use and its fair value less costs to sell. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Assets which cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets.

2.8 INVESTMENT PROPERTIES

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

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

2.9 INSURANCE CONTRACTS AND INVESTMENT CONTRACTS

2.9.1 Insurance contracts

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

2.9.1(a) Premiums and acquisition costs

Premiums written from the Group's Property and casualty and 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 are 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 by writing down the deferred acquisition cost asset.

2.9.1(b) Receivables and payables related to insurance contracts

Receivables and payables related to insurance contracts are recognised when due and measured on initial recognition at the fair value of the consideration receivable or payable. Subsequent to initial recognition, Insurance balances receivable and Insurance balances payable are measured at amortised cost. The carrying value 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 constantly monitors the credit worthiness of the reinsurance companies to which it cedes and assesses any reinsurance assets for impairment, with any impairment loss recognised in Operating expense 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 this 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. These are measured at FVTPL.

2.10 PROPERTY AND EQUIPMENT

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

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

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

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

2.11 INTANGIBLE ASSETS

Intangible assets 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 between 10 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.

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

2.12 SEGREGATED FUNDS

Segregated funds are lines of business in which the Group issues a contract where the benefit amount is directly linked to the fair value of the investments held in the particular segregated fund. Although the underlying assets are registered in the name of the Group and the segregated fund 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.

Effective March 31, 2012, certain policies previously held under Deposit administration pension plans were amended such that the related assets and liabilities could be included in Segregated funds. These pension plans offer a guaranteed rate of return and the risks and rewards of the Fund's investment performance are borne by the Group. The primary reason for the amendment was to afford the policyholders certain protection from creditors of the Group. As a result of the transfer, the Group has two types of Segregated fund products: (1) Segregated funds with a guaranteed return and (2) Segregated funds without a guaranteed return.

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

2.13 EMPLOYEE BENEFITS

Post-employment benefits

The Group operates a 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 obligation to the Group. Contributions are recognised as employee benefits on the Consolidated Statement of Operations under Operating expenses in the period to which they relate.

Stock-based compensation

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

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

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

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

2.14 TAXATION

Current and deferred 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

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

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

The Group has four reportable segments as follows:

(i) 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 and group retirement income plans;

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

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

2.19 APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS

The Group has applied the following new and revised accounting standards issued by the IASB that were mandatorily effective for the accounting period beginning April 1, 2013.

2.19.1 Amendments to IAS 19, Employee Benefits (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.

2.19.1(a) Consolidated Balance Sheet

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)

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)

2.19.1(b) Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED MARCH 31, 2013	As reported	Amendments to IAS 19	Restated
Operating expenses	43,992	(263)	43,729
Net earnings for the year attributable to Shareholders of the Company	12,576	263	12,839
Other comprehensive loss			
Remeasurement of post-employment medical benefit obligation	-	(263)	(263)
Share of other comprehensive income/(loss) of associates	-	(308)	(308)
Comprehensive income for the year attributable to Shareholders of the Company	11,902	(308)	11,594
Earnings per share:			
basic	0.60	0.01	0.61
fully diluted	0.60	0.01	0.61

2.19.2 IFRS 13, Fair Value Measurement (IFRS 13)

Effective April 1, 2013, the Company adopted IFRS 13 as issued by the IASB in May 2011. IFRS 13 defines fair value and provides guidance on how to determine fair value, but does not change the requirements regarding which items should be measured or disclosed at fair value. The adoption of this standard resulted in additional financial statement disclosures in the consolidated financial statements of the Group.

The standard requires additional disclosures for both financial and non-financial assets and liabilities measured at, or based on, fair value and for items not measured at fair value but for which fair value is disclosed. The additional disclosures include a description of the valuation technique used for each of the Group's major categories of assets and liabilities measured or disclosed at fair value. The standard also requires more disclosures around inputs and sensitivities for Level 3 fair values for those items measured at fair value on a recurring basis, along with expanded disclosures around transfers between levels in the fair value hierarchy. These new disclosure requirements are included in Note 4.

2.19.3 New standards on consolidation and other interests

Effective April 1, 2013, the Company adopted four new related standards issued by the IASB:

- IFRS 10, Consolidated Financial Statements (IFRS 10);
- IFRS 12, Disclosure of Interests in Other Entities (IFRS 12);

- Amendments to IAS 27, Separate Financial Statements (IAS 27R); and
- Amendments to IAS 28, Investments in Associates and Joint Ventures (IAS 28R).

IFRS 10 replaces the consolidation guidance in IAS 27 and Standing Interpretations Committee 12, Consolidation – Special Purpose Entities, by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee. Under IFRS 10, control is based on whether an investor has 1) power over the investee; 2) exposure, or rights, to variable returns from its involvement with the investee; and 3) the ability to use its power over the investee to affect the amount of the returns. The adoption of IFRS 10 did not result in the consolidation or deconsolidation of any additional investments and segregated funds.

IFRS 12 requires enhanced disclosures about both consolidated and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to present information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvement with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of consolidated entities. The adoption of IFRS 12 resulted in additional financial statement disclosures which are included in Notes 5 and 17.

IAS 27R was amended to remove principles of control over another entity, as these principles are now presented within IFRS 10. IAS 28R was also amended to require the equity method for joint ventures where joint control is present. The adoption of these amendments had no effect on the consolidated financial statements of the Group.

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

An amendment to IAS 1 was issued in June 2011 requiring changes to the presentation of items within Other comprehensive income. Under the amendments, presentation of items within Other comprehensive income will be separately presented based on whether or not the item will be subsequently reclassified into the Consolidated Statement of Operations. The new presentation was adopted as shown in the Consolidated Statement of Comprehensive Income.

2.19.5 Amendments to IFRS 7, Financial Instruments: Disclosure

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g. collateral agreements). The disclosures provide users with information that is useful in evaluating the effect of netting arrangements on the entity's financial position. The new disclosures are required for all recognised financial instruments that are set-off in accordance with IAS 32, Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set-off in accordance with IAS 32. These new disclosure requirements are included in Note 14.3.5.

2.20 FUTURE ACCOUNTING CHANGES

There are a number of accounting and reporting changes issued under IFRS including those still under development by the IASB. A summary of the recently issued new accounting standards that will impact the Group in 2015 and beyond is as follows:

TOPIC	EFFECTIVE DATE FOR THE GROUP	EXPECTED IMPACT
Amendments to IAS 32, Financial Instruments: Presentation	April 1, 2014	No significant impact
Amendments to IAS 36, Impairment of assets	April 1, 2014	No significant impact
IFRS 9, Financial Instruments	Expected to be effective not earlier than 2018	Impact assessment in progress
Amendments to IFRS 10, IFRS 12 and IAS 27, Investment Entities	April 1, 2014	No significant impact
Annual Improvements 2010 – 2012 and 2011 – 2013 Cycles	April 1, 2015	No significant impact
Amendments to IAS 19, Employee Benefits	April 1, 2015	No significant impact
IFRS 4, Insurance Contracts (Phase II)	Expected to be effective not earlier than 2018	Impact assessment in progress

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

The amendments to IAS 32, issued in December 2011, clarify the basis for offsetting financial instruments presented on the Consolidated Balance Sheet. The amendments to IAS 32 are effective for fiscal years beginning on or after January 1, 2014. Upon adoption, derivatives will be shown gross on the Consolidated Balance Sheet. Adoption of these amendments is not expected to have a significant impact on the Group's consolidated financial statements.

2.20.2 Amendments to IAS 36, Impairment of assets (IAS 36)

These amendments reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where the recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. The amendments to IAS 36 are effective for fiscal years beginning on or after January 1, 2014. Adoption of these amendments is not expected to have a significant impact on the Group's consolidated financial statements.

2.20.3 IFRS 9, Financial Instruments (IFRS 9)

IFRS 9 was issued in November 2009 and subsequently amended in October 2010 and November 2013, and is intended to replace IAS 39, Financial Instruments: Recognition and Measurement. The project has been divided into three phases: classification and measurement, impairment of financial assets, and hedge accounting. IFRS 9 currently 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. The classification and measurement for financial liabilities remains generally unchanged. However, revisions have been made to the accounting for changes in fair value of a financial liability attributable to changes in the credit risk of that liability. The other phases of this project, which include impairment of financial assets and hedge accounting, are currently under development.

In November 2013, the IASB removed the mandatory effective date of April 1, 2015. The IASB has stated that a new effective date will be determined when all three phases of the IFRS 9 project are closer to completion. The Group is currently monitoring the developments of this standard and assessing the impact of these changes.

2.20.4 Amendments to IFRS 10, IFRS 12 and IAS 27, Investment Entities

The amendments to IFRS 10, IFRS 12 and IAS 27, Investment Entities were issued in October 2012. The amendments require investment entities to use fair value accounting for all of their investments, including those which they control or have significant influence over. The amendments provide an exception to entities that meet the "investment entity" definition and which display particular characteristics.

IFRS 12 was amended to introduce disclosures specific to investment entities. The amendments for these standards are effective for fiscal years beginning on or after January 1, 2014. Adoption of these amendments is not expected to have a significant impact on the Group's consolidated financial statements.

2.20.5 Annual Improvements 2010-2012 and 2011-2013 Cycles

Annual Improvements 2010-2012 and 2011-2013 Cycles were issued in December 2013, resulting in minor amendments to ten standards. The improvements for these standards have an anticipated effective date of July 1, 2014. Adoption of these amendments is not expected to have a significant impact on the Group's consolidated financial statements.

2.20.6 Amendments to IAS 19, Employee Benefits

The amendments to IAS 19, Employee Benefits were issued in November 2013. The amendments clarify the accounting for contributions by employees or third parties to defined benefit plans. The amendments to this standard have an anticipated effective date of July 1, 2014. Adoption of these amendments is not expected to have a significant impact on the Group's consolidated financial statements.

2.20.7 IFRS 4, Insurance Contracts (IFRS 4)

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

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

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

Redeliberations on the standard are planned for completion in 2014 and publication of a final standard is not likely to be issued until 2015 and is not expected to be effective before January 1, 2018.

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

3 INVESTMENTS

3.1 CARRYING VALUES AND ESTIMATED FAIR VALUES OF INVESTMENTS are as follows:

	MARCH 31, 2014		MARCH 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Investments at FVTPL				
Bonds	159,687	159,687	151,248	151,248
Equities	47,565	47,565	49,049	49,049
	207,252	207,252	200,297	200,297
Held-to-maturity				
Bonds	4,159	4,136	5,237	5,340
	4,159	4,136	5,237	5,340
Available-for-sale				
Equities	2,966	2,966	3,704	3,704
	2,966	2,966	3,704	3,704
Loans and receivables				
Mortgages and loans	41,485	42,112	41,236	41,835
Policy loans	73	73	66	66
	41,558	42,185	41,302	41,901
Derivatives				
Interest rate swaps	33	33	5	5
Foreign currency forward contracts	(16)	(16)	(27)	(27)
	17	17	(22)	(22)
TOTAL INVESTMENTS	255,952	256,556	250,518	251,220

3.2 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

FOR THE YEARS ENDED MARCH 31	Note	2014	2013
Derivative financial instruments			
Interest rate swaps		(87)	160
Foreign currency forward receivable		5	237
TOTAL NET (LOSSES)/INCOME FROM DERIVATIVE FINANCIAL INSTRUMENTS	3.3	(82)	397

3.2.1 Money Market Futures

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

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

Liquidity risk represents the possibility that the Group may not be able 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, 2014, the notional amount of outstanding money market futures amounted to $nil (2013 – $2.5 million).

3.2.2 Interest Rate Swaps

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

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

At March 31, 2014, the Group has open interest rate swaps with long positions of $11.8 million and short positions of $9.9 million (2013 – long positions of $500,000 and short positions of $3.0 million).

3.2.3 Foreign Currency Forwards

A foreign currency forward contract is a commitment to purchase or sell a foreign currency at a future date at a defined rate. The Group may utilise foreign currency forward contracts to manage the impact of fluctuations in foreign currencies on the value of its foreign currency denominated investments or to gain exposure to a certain currency or market rate. Forward contracts may expose the Group to credit, market and liquidity risks. Credit risk arises from the potential inability of counterparties to perform under the terms of the contract. The Group is exposed to market risk to the extent that adverse changes occur in the exchange rate of the underlying foreign currency. Liquidity risk represents the possibility that the Group may not be able rapidly to adjust the size of its forward positions at a reasonable price in times of high volatility and financial stress. Credit risk is mitigated by making collateral calls to mitigate exposure and counterparty credit risk evaluation. Credit, market and liquidity risks and how these risks are mitigated are disclosed in Note 14.3.

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

MARCH 31, 2014	Notional receivable	Notional payable
Japanese yen	134,160	-
Australian dollar	3,694	1,847
Mexican peso	-	3,986
Brazilian real	498	995
Euro	748	374
Sterling	161	-

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

At March 31, 2014, the U.S. dollar equivalent of outstanding foreign currency forward contracts with long positions and short positions amounted to $6.2 million and $3.0 million respectively (2013 – $4.4 million and $700,000).

3.3 INVESTMENT INCOME

FOR THE YEARS ENDED MARCH 31	2014	2013
Interest income		
Bonds – at FVTPL	8,457	6,505
Bonds – held-to-maturity	255	344
Mortgages and loans	2,579	2,680
Cash and other	97	195
	11,388	9,724
Dividend income		
Equities – at FVTPL	1,452	1,380
Equities – available-for-sale	345	322
	1,797	1,702
Net realised and unrealised gains/(losses) on investments		
Bonds – at FVTPL	(4,981)	6,135
Equities – at FVTPL	2,557	4,103
Derivative financial instruments	(82)	397
Investment properties	(140)	(24)
	(2,646)	10,611
Other		
Amortisation of premium on bonds	(1,848)	(1,160)
Rental income and other	1,258	884
(Impairment loss)/Recovery of previously recognised impairment loss		
Bonds – held-to-maturity	101	208
Mortgages and loans	(398)	(2,823)
	(887)	(2,891)
INVESTMENT INCOME BEFORE DEDUCTIONS	9,652	19,146
Deductions		
Investment income relating to Deposit administration pension plans	(705)	(830)
Investment income relating to Segregated funds with guaranteed return	(2,060)	(2,517)
	(2,765)	(3,347)
INVESTMENT INCOME	6,887	15,799

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.

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 included 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 Risk Committee.

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, 2014	Level 1	Level 2	Level 3	Total fair value
ASSETS				
Investments at FVTPL				
Bonds				
US government and agency	42,788	14,320	-	57,108
Other government and agency	-	4,599	-	4,599
Corporate	-	69,259	-	69,259
Mortgage/asset-backed securities	-	6,559	-	6,559
Other (1)	-	22,162	-	22,162
Equities				
Bermuda listed equities	21,087	32	-	21,119
Non-Bermuda listed equities	5,688	-	-	5,688
Investment in hedge funds and mutual funds	-	20,436	-	20,436
Private equity funds and unquoted equities	-	-	322	322
	69,563	137,367	322	207,252
Available-for-sale – Equities				
Private equity funds and unquoted equities	-	-	2,966	2,966
Derivatives	-	17	-	17
Investment properties	-	5,885	-	5,885
Segregated funds with a guaranteed return				
Bonds				
US government and agency	21,257	-	-	21,257
Other government and agency	-	8,366	-	8,366
Corporate	-	117,000	-	117,000
Mortgage/asset-backed securities	-	14,571	-	14,571
Payable arising from securities repurchase transaction	(17,624)	-	-	(17,624)
	3,633	139,937	-	143,570
TOTAL ASSETS AT FAIR VALUE	73,196	283,206	3,288	359,690
LIABILITIES				
Investment contract liabilities	-	3,222	-	3,222
Segregated funds with a guaranteed return	3,633	139,937	-	143,570
TOTAL LIABILITIES AT FAIR VALUE	3,633	143,159	-	146,792

(1) Investment in bond funds

MARCH 31, 2013	Level 1	Level 2	Level 3	Total fair value
Investments at FVTPL				
Bonds				
US government and agency	30,583	16,171	-	46,754
Other government and agency	-	8,413	-	8,413
Corporate	-	63,415	-	63,415
Mortgage/asset-backed securities	-	13,291	-	13,291
Other (1)	-	19,375	-	19,375
Equities				
Bermuda listed equities	22,176	-	-	22,176
Non-Bermuda listed equities	6,104	-	-	6,104
Investment in hedge funds and mutual funds	-	20,589	-	20,589
Private equity funds and unquoted equities	-	-	180	180
	58,863	141,254	180	200,297
Available-for-sale – Equities				
Private equity funds and unquoted equities	-	-	3,704	3,704
Derivatives		(22)	-	(22)
Investment properties	-	6,936	-	6,936
Segregated funds with a guaranteed return				
Bonds	4,432	36,468	-	40,900
US government and agency	-	7,020	-	7,020
Other government and agency	-	73,655	-	73,655
Corporate	-	19,000	-	19,000
	4,432	136,143	-	140,575
TOTAL ASSETS AT FAIR VALUE	63,295	284,311	3,884	351,490
LIABILITIES				
Investment contract liabilities	-	2,787	-	2,787
Segregated funds with a guaranteed return	4,432	136,143	-	140,575
TOTAL LIABILITIES AT FAIR VALUE	4,432	138,930	-	143,362

(1) 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. Treasury securities which are classified as 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 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 – Investments in mutual funds and hedge funds are $28.3 million (2013 – $25.3 million) of investments in Argus Investment Strategies Fund Ltd. This fund has been classified between Bonds and Equities based on the underlying securities held. Net assets 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 percent of the net asset value of the fund, when the amount of the redemption is at the fund's discretion. This investment is 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, 2014.

FOR THE YEAR ENDED MARCH 31, 2014	INVESTMENTS			SEGREGATED FUNDS
	At FVTPL	Available-for-sale		
	Equities	Equities	Total	
Balance, beginning of year	180	3,704	3,884	-
Included in Other comprehensive income	-	(20)	(20)	-
Transfers from Level 1 to Level 3 (1)	306	-	306	-
Sales	(164)	(718)	(882)	-
ASSETS BASED ON LEVEL 3 INPUTS	322	2,966	3,288	-

(1) The Group reclassified certain equities from Level 1 to Level 3 during the year. This was due to lack of recent and observable arm's length transactions in these equities.

FOR THE YEAR ENDED MARCH 31, 2013	INVESTMENTS			SEGREGATED FUNDS
	At FVTPL	Available-for-sale		
	Equities	Equities	Total	
Balance, beginning of year	1,340	4,177	5,517	918
Included in Other comprehensive income	-	24	24	-
Sales	(1,160)	(497)	(1,657)	(918)
ASSETS BASED ON LEVEL 3 INPUTS	180	3,704	3,884	-

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, 2014	Level 1	Level 2	Level 3	Total fair value	Carrying value
ASSETS					
Held-to-maturity bonds [1]	-	4,136	-	4,136	4,159
Mortgages and loans [2]	-	42,112	-	42,112	41,485
Policy loans	-	73	-	73	73
Investment in Bermuda Aviation Services (BAS) [3]	4,831	-	-	4,831	7,167
TOTAL ASSETS DISCLOSED AT FAIR VALUE	4,831	46,321	-	51,152	52,884
LIABILITIES					
Investment contract liabilities [4]	-	80,329	-	80,329	83,191
TOTAL LIABILITIES DISCLOSED AT FAIR VALUE	-	80,329	-	80,329	83,191

MARCH 31, 2013	Level 1	Level 2	Level 3	Total fair value	Carrying value
ASSETS					
Held-to-maturity bonds [1]	-	5,340	-	5,340	5,237
Mortgages and loans [2]	-	41,835	-	41,835	41,236
Policy loans	-	66	-	66	66
Investment in BAS [3]	4,486	-	-	4,486	7,225
TOTAL ASSETS DISCLOSED AT FAIR VALUE	4,486	47,241	-	51,727	53,764
LIABILITIES					
Investment contract liabilities [4]	-	79,934	-	79,934	81,145
TOTAL LIABILITIES DISCLOSED AT FAIR VALUE	-	79,934	-	79,934	81,145

(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 in BAS is based on bid price as quoted in the Bermuda Stock Exchange.
(4) 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 value 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;
- Payable for investments purchased; 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 Level 1 and Level 2 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 year ended March 31, 2014, the Group transferred $31,900 of assets measured at fair value from Level 1 to Level 2 (2013 – nil transfers). 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, 2014 and 2013, 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.

Investment in associates is comprised of:

FOR THE YEARS ENDED MARCH 31	2014	2013
Investment in BAS	7,167	7,225
Investment in other associates	4,125	3,605
TOTAL INVESTMENT IN ASSOCIATES	11,292	10,830

The proportionate share of the comprehensive income/(loss) of associates for the year is as follows:

FOR THE YEARS ENDED MARCH 31	2014	2013
Investment in BAS	217	412
Investment in other associates	517	302
SHARE OF EARNINGS OF ASSOCIATES	734	714
Investment in BAS	(2)	(308)
Investment in other associates	-	-
SHARE OF OTHER COMPREHENSIVE INCOME/(LOSS) OF ASSOCIATES	(2)	(308)
Investment in BAS	215	104
Investment in other associates	517	302
SHARE OF TOTAL COMPREHENSIVE INCOME OF ASSOCIATES	732	406

5.1 INVESTMENT IN BAS

BAS is a public company traded on the Bermuda Stock Exchange. It is a well-diversified company engaged in the provision of aircraft, passenger and cargo handling services; distribution of automotive parts and provision of automotive services; provision of facilities management and courier services; provision of customised energy solutions and provision of cabling, networking and telephony services and maintenance. BAS is a material associate to the Group.

The share capital of BAS consists of ordinary shares, which are held directly by the Group. The principal place of business, as shown below, is also the place of incorporation and registration, and the proportion of ownership interest is the same as the proportion of voting rights held.

Principal place of business	Measurement method	Fair value		Carrying value – at equity	
		2014	2013	2014	2013
Bermuda	Equity	4,831	4,486	7,167	7,225

As the fair value is lower than the equity of the Investment in BAS, an impairment review and evaluation on the going concern basis was performed. The Group believes that the recoverable amount using the value-in-use method is higher than the published fair value because the market price continues to reflect ongoing uncertainty and volatility in the local economy as opposed to the fundamental long-term value of this investment. The recoverable amount under the value-in-use method is also higher than the equity of the Investment in BAS.

Transactions arising from contracts entered into between the Group and BAS are disclosed in Note 26.1.

Set out below is the summarised financial information of BAS:

	BAS 2014	2013
Summarised Balance Sheet		
Current assets	22,826	20,676
Non-current assets	23,748	25,743
Current liabilities	(13,351)	(10,221)
Non-current liabilities	(5,742)	(8,903)
Non-controlling interests	(1,065)	(654)
Net assets	26,416	26,641
Percentage of Group's ownership interest	27.13%	27.12%
INVESTMENT IN BAS	7,167	7,225
Summarised Statement of Comprehensive Income		
Revenue	56,237	44,362
Net earnings from continuing operations	809	1,195
Net (loss)/earnings from discontinued operations	(9)	324
Other comprehensive income	(7)	(1,136)
TOTAL COMPREHENSIVE INCOME	793	383
DIVIDENDS RECEIVED FROM BAS	273	273

5.2 CONTINGENCIES AND RESTRICTIONS

Included in Investment in other associates is a 35.3 percent interest in a local private company that built an office building in Hamilton, Bermuda. The Group has issued a guarantee in respect of its proportionate share of a term bank loan facility totalling $7.8 million (2013 – $8.4 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 $235,000 (2013 – $225,000), 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.

5.3 OTHER

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

6 INSURANCE BALANCES RECEIVABLE

Insurance balances receivable is comprised of:

MARCH 31, 2014	Insured Employee Benefits	Life and Pensions	Property and Casualty	Total
Due from policyholders, agents and brokers	2,784	1,073	6,366	10,223
Due from reinsurers	2,834	-	-	2,834
TOTAL INSURANCE BALANCES RECEIVABLE	5,618	1,073	6,366	13,057

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

7 INVESTMENT PROPERTIES

	Fair value
Balance, March 31, 2012	7,010
Fair value losses	(24)
Foreign exchange rate movements	(50)
Balance, March 31, 2013	6,936
Sale of investment property	(925)
Fair value losses	(140)
Foreign exchange rate movements	14
BALANCE, MARCH 31, 2014	5,885

The Group's investment properties consist of a residential apartment and condominium fractional units which are held for rental income. Investment properties are stated at fair value. During the year ended March 31, 2014, the Group sold the residential apartment.

The Group has entered into operating leases for certain investment properties. The rental income arising during the year amounted to $157,000 (2013 – $152,000), which is included in Investment income on the Consolidated Statement of Operations. Direct operating expenses included within Investment income arising in respect of such properties during the year were $281,000 (2013 – $251,000).

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

8 OTHER ASSETS

FOR THE YEARS ENDED MARCH 31	2014	2013
Other financial assets		
Fees receivable	1,801	1,559
Receivable from self-funded group health policies	1,152	2,653
Receivable for investments sold	508	366
Notes and other receivables	3,207	1,465
TOTAL OTHER FINANCIAL ASSETS	6,668	6,043
Income taxes receivable	248	230
Prepaid expenses	2,103	1,709
TOTAL OTHER ASSETS	9,019	7,982

9 DEFERRED POLICY ACQUISITION COSTS

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

FOR THE YEARS ENDED MARCH 31	2014	2013
Balance, beginning of year	2,182	2,295
Deferral during the year	4,158	3,873
Expense for the year	(4,200)	(3,885)
Foreign exchange rate movements	139	(101)
BALANCE, END OF YEAR	2,279	2,182

10 PROPERTY AND EQUIPMENT

	Land and buildings	Computer equipment	Furniture and other equipment	Total
Gross carrying amount				
Balance, March 31, 2012	78,567	27,448	6,946	112,961
Additions	556	1,117	66	1,739
Retirements	-	(38)	(43)	(81)
Foreign exchange rate movements	(38)	(34)	(29)	(101)
Balance, March 31, 2013	79,085	28,493	6,940	114,518
Additions	597	2,505	46	3,148
Retirements	(501)	(322)	(55)	(878)
Foreign exchange rate movements	72	47	47	166
BALANCE, MARCH 31, 2014	79,253	30,723	6,978	116,954
Accumulated depreciation				
Balance, March 31, 2012	12,100	19,585	5,628	37,313
Depreciation charge for the year	2,715	2,741	182	5,638
Retirements	-	(38)	(43)	(81)
Foreign exchange rate movements	(26)	(31)	(14)	(71)
Balance, March 31, 2013	14,789	22,257	5,753	42,799
Depreciation charge for the year	2,803	2,651	202	5,656
Retirements	(501)	(322)	(55)	(878)
Foreign exchange rate movements	27	37	31	95
BALANCE, MARCH 31, 2014	17,118	24,623	5,931	47,672
Net carrying amount, end of year				
As at March 31, 2013	64,296	6,236	1,187	71,719
BALANCE, MARCH 31, 2014	62,135	6,100	1,047	69,282

11 INTANGIBLE ASSETS

	Total
Gross carrying amount	
Balance, March 31, 2012	24,651
Additions	66
Foreign exchange adjustments	(217)
Balance, March 31, 2013	24,500
Foreign exchange adjustments	354
BALANCE, MARCH 31, 2014	24,854
Accumulated amortisation and impairment losses	
Balance, March 31, 2012	17,864
Amortisation charge for the year	1,031
Impairment loss	158
Foreign exchange adjustments	(73)
Balance, March 31, 2013	18,980
Amortisation charge for the year	1,071
Foreign exchange adjustments	163
BALANCE, MARCH 31, 2014	20,214
Net carrying amount, end of year	
As at March 31, 2013	5,520
BALANCE, MARCH 31, 2014	4,640

The remaining useful lives of the customer lists range from four to 10 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, 2014	Note	Gross	Ceded	Net
Life and annuity policy reserves	12.1	149,366	(7,332)	142,034
Provision for unpaid and unreported claims	12.2	33,933	(6,660)	27,273
		183,299	(13,992)	169,307
Unearned premiums	12.3	17,611	(9,422)	8,189
TOTAL INSURANCE CONTRACT LIABILITIES		200,910	(23,414)	177,496

MARCH 31, 2013	Note	Gross	Ceded	Net
Life and annuity policy reserves	12.1	146,731	(7,942)	138,789
Provision for unpaid and unreported claims	12.2	33,722	(6,059)	27,663
		180,453	(14,001)	166,452
Unearned premiums	12.3	17,691	(10,202)	7,489
TOTAL INSURANCE CONTRACT LIABILITIES		198,144	(24,203)	173,941

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, 2014	Insured employee benefits	Life and pensions	Total
Annuities	-	124,154	124,154
Long-term disability	7,003	-	7,003
Life	-	18,209	18,209
Life and annuity policy reserves	7,003	142,363	149,366
Reinsurers' share of claims provisions	(5,261)	(2,071)	(7,332)
LIFE AND ANNUITY POLICY RESERVES, NET OF REINSURANCE	1,742	140,292	142,034

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

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, 2014	Cash	Bonds	Mortgage and loans	Equities(1)	Land and buildings	Total
Annuities	108	67,524	6,836	33,063	16,623	124,154
Long-term disability	-	-	1,742	-	-	1,742
Life	431	5,542	7,044	3,121	-	16,138
LIFE AND ANNUITY POLICY RESERVES, NET OF REINSURANCE	539	73,066	15,622	36,184	16,623	142,034

(1) Includes Investment in associates

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

(1) Includes Investment in associates

The Group examines the assumptions used in determining the Life and annuity policy reserves on an ongoing basis to ensure they appropriately reflect emerging experience and changes in risk profile. Annually the Group conducts a comprehensive review of all actuarial methods and assumptions. Changes to actuarial methods and assumptions used in determining Insurance contract liabilities will result in a change to the projected value of policy cash flows and therefore, to the Life and annuity policy reserves. The net impact of changes in actuarial methods and assumptions was an increase in reserves backing policyholder liabilities of $2.1 million (2013 – $3.5 million). These amounts are net of the impact of the reinsurance assets on policyholder liabilities of $7.3 million (2013 – $7.9 million).

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

FOR THE YEARS ENDED MARCH 31	2014	2013
Balance, beginning of year	138,789	135,144
Changes due to:		
Issuance of new policies	3,810	5,700
Normal in-force movement	(2,709)	(5,520)
Interest rate assumptions	1,661	3,159
Expense assumptions	483	306
BALANCE, END OF YEAR	142,034	138,789

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 in the conservative end of the ranges suggested by the CIA. In conjunction with prudent business practices to manage both business and investment risks, the selection and monitoring of appropriate assumptions are designed to minimise the Group's exposure to measurement uncertainty.	
(a) Mortality and morbidity risk Mortality refers to the likelihood of death. The mortality assumption is based on industry standard life insurance and standard annuity past and emerging experience. The Group's life insurance and annuity business is not sufficient to use company specific mortality tables. A five percent decrease in the best estimate assumption for annuitant mortality would increase the policy reserves by $2.13 million, 1.67 percent (2013 – $2.07 million, 1.68 percent). Morbidity refers to the incidence of accident and sickness as well as the recovery from the incidence. The morbidity assumptions are based on the industry standard morbidity tables for the long-term disability business. The frequency of claims is low and the risk is substantially reinsured.	The Group maintains underwriting standards to determine the insurability of applicants. Claim trends are monitored on an ongoing basis. To offset some of the mortality risk, the Group cedes a proportion of the risk with reinsurers. Mortality and morbidity are monitored regularly.

ASSUMPTION, METHODOLOGY AND SENSITIVITIES	RISK MANAGEMENT
(b) Investment returns and interest rate risk Assets are allocated to the different business segments. For each significant operating segment, CALM is used to project the cash flows from the supporting assets and the cash flows from the liabilities. The projected asset cash flows are combined with the projected cash flows from future asset sales and purchases to determine the expected investment returns for all future years. The CIA prescribes several representative reinvestment scenarios for use in CALM to determine the sensitivity of the Group's business to possible reinvestment risk. These represent a wide variety of interest rate scenarios. To provide a representative example a one percent increase in the best estimate investment return assumption decreases the total Life and annuity policy reserves by $11.5 million (2013 – $11.3 million). A one percent decrease in the best estimate assumption increases the total Life and annuity policy reserves by $13.5 million (2013 – $13.3 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 $1.7 million (2013 – $1.6 million) to provide for future asset defaults and loss of asset value on current assets and future purchases.	For certain policies, the premiums and benefits reflect the Group's assumed level of future credit losses at contract inception or most recent contract adjustment date. The Group holds explicit provisions in actuarial liabilities for credit risk including PfAD.
(d) Expenses Operating expense assumptions reflect the projected costs of servicing and maintaining the in-force policies. The assumptions are derived from internal reviews of operating costs and include an allowance for inflation. A ten percent increase in the best estimate assumption for unit expenses would increase the policy reserves by approximately $0.8 million (2013 – $0.7 million).	The Group prices its products to cover the expected costs of servicing and maintaining them. In addition, the Group monitors expenses quarterly, including comparisons of actual expenses to expense allowances used in pricing and valuation.

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, 2014	Insured employee benefits	Property and casualty	Total
Healthcare	15,759	-	15,759
Fire	-	851	851
Motor	-	15,567	15,567
Accident and liability	-	1,577	1,577
Marine	-	179	179
Provision for unpaid and unreported claims	15,759	18,174	33,933
Reinsurers' share of claims provisions	(442)	(6,218)	(6,660)
PROVISION FOR UNPAID AND UNREPORTED CLAIMS, NET OF REINSURANCE	15,317	11,956	27,273

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

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

FOR THE YEARS ENDED MARCH 31		2014			2013	
	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	33,722	(6,059)	27,663	29,048	(4,392)	24,656
Claims and adjustment expenses incurred						
Current year	91,513	(8,487)	83,026	95,156	(6,104)	89,052
Prior years	(1,331)	(954)	(2,285)	(1,575)	(217)	(1,792)
Foreign exchange adjustments	1,131	(329)	802	(656)	167	(489)
Total Claims and adjustment expenses incurred	91,313	(9,770)	81,543	92,925	(6,154)	86,771
Claims and adjustment expenses paid						
Current year	(70,633)	6,516	(64,117)	(72,105)	3,317	(68,788)
Prior years	(20,469)	2,653	(17,816)	(16,146)	1,170	(14,976)
Total Claims and adjustment expenses paid	(91,102)	9,169	(81,933)	(88,251)	4,487	(83,764)
BALANCE, END OF YEAR	33,933	(6,660)	27,273	33,722	(6,059)	27,663

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

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 and prior	2009	2010	2011	2012	2013	2014	Total
Estimate of ultimate liability [1]								
as at end of accident year	86,146	20,484	24,211	26,640	27,060	30,719	30,746	-
one year later	93,266	23,307	23,984	26,322	27,042	28,045	-	-
two years later	92,759	24,842	23,654	26,603	26,848	-	-	-
three years later	93,600	24,397	23,669	26,501	-	-	-	-
four years later	93,973	24,213	23,958	-	-	-	-	-
five years later	94,564	25,077	-	-	-	-	-	-
six years later	94,287	-	-	-	-	-	-	-
Current estimate of cumulative liability	94,287	25,077	23,958	26,501	26,848	28,045	30,746	**255,462**
Cumulative payments to date	(93,453)	(24,423)	(22,328)	(25,309)	(24,354)	(22,621)	(9,041)	**(221,529)**
TOTAL GROSS LIABILITY	834	654	1,630	1,192	2,494	5,424	21,705	**33,933**

Net claims:

Accident year:	2008 and prior	2009	2010	2011	2012	2013	2014	Total
Estimate of net ultimate liability [1]								
as at end of accident year	52,720	17,672	21,657	22,844	23,691	26,450	24,927	-
one year later	60,797	20,625	21,330	22,564	23,440	24,022	-	-
two years later	60,361	20,448	20,607	22,916	23,205	-	-	-
three years later	60,612	20,311	20,607	22,778	-	-	-	-
four years later	60,745	20,364	20,887	-	-	-	-	
five years later	61,202	20,459	-	-	-	-	-	-
six years later	61,226	-	-	-	-	-	-	-
Current estimate of net cumulative liability	61,226	20,459	20,887	22,778	23,205	24,022	24,927	**197,504**
Cumulative payments to date	(60,871)	(20,178)	(19,994)	(21,906)	(21,267)	(20,357)	(5,658)	**(170,231)**
TOTAL NET LIABILITY	355	281	893	872	1,938	3,665	19,269	**27,273**

[1] Adjusted for revaluation of foreign currencies at the exchange rate as at year end.

12.3 UNEARNED PREMIUMS

FOR THE YEARS ENDED MARCH 31	2014			2013		
	Unearned premiums	Reinsurer's share of Unearned premiums	Net	Unearned premiums	Reinsurer's share of Unearned premiums	Net
Balance, beginning of year	**17,691**	**10,202**	**7,489**	19,559	10,860	8,699
Premiums written during the year	**166,885**	**41,871**	**125,014**	162,167	40,179	121,988
Premiums earned during the year	**(166,965)**	**(42,651)**	**(124,314)**	(164,035)	(40,837)	(123,198)
BALANCE, END OF YEAR	**17,611**	**9,422**	**8,189**	17,691	10,202	7,489

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, 2014 or 2013.

13 INVESTMENT CONTRACT LIABILITIES

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

FOR THE YEARS ENDED MARCH 31	2014		2013	
	Carrying value	Fair value	Carrying value	Fair value
At amortised cost:				
Deposit administration pension plans	71,740	68,878	72,522	71,311
Self-funded group health policies	11,451	11,451	8,623	8,623
	83,191	80,329	81,145	79,934
At FVTPL:				
Deposit accounted annuity policies	3,222	3,222	2,787	2,787
TOTAL INVESTMENT CONTRACT LIABILITIES	86,413	83,551	83,932	82,721

13.1 INVESTMENT CONTRACT LIABILITIES AT AMORTISED COST

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

FOR THE YEARS ENDED MARCH 31	2014	2013
Balance, beginning of year	81,145	66,902
Deposits	69,717	68,954
Withdrawals	(61,569)	(54,072)
Fees deducted	(4,333)	(4,165)
Interest	784	838
Other	(2,553)	2,688
BALANCE, END OF YEAR	83,191	81,145

For the year ended March 31, 2014, the net loss relating to investment contracts measured at amortised cost is $242,000 (2013 – net loss of $177,000).

13.2 INVESTMENT CONTRACT LIABILITIES AT FVTPL

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

FOR THE YEARS ENDED MARCH 31	2014	2013
Balance, beginning of year	2,787	2,862
Included in net income (1)	(137)	(82)
Deposits	3,085	2,695
Withdrawals	(2,513)	(2,688)
BALANCE, END OF YEAR	3,222	2,787

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

For the year ended March 31, 2014, the net gain relating to Investment contract liabilities at FVTPL is $137,000 (2013 – gain of $82,000) and is recorded in Gross change in contract liabilities on the Consolidated Statement of Operations.

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. 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, limit structure to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements.

14.2 OPERATIONAL RISK AND CAPITAL MANAGEMENT

14.2.1 Operational Risk

The Group adopted the Bermuda Solvency Capital Requirement (BSCR)'s definition of operational risk. It is defined as the risk of loss or reputation damage resulting from inadequate or failed processes or systems, people (human factors) or external events. 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 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.

Management monitors the adequacy of the Group and its operating subsidiaries' capital from the perspective of Bermuda, Gibraltar and Malta statutory requirements. The Group maintained levels above the minimum local regulatory requirements at March 31, 2014 and 2013 as further described below. The Group's capital base consists of Share capital, Contributed surplus, Retained earnings and Accumulated other comprehensive loss as disclosed on the Consolidated Balance Sheet.

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

The Bermuda Insurance Act 1978 and Related Regulations, the Gibraltar Insurance Companies Act 1987 and the Malta Insurance Intermediaries Act 2006 (the Acts) require the Group's insurance subsidiaries to file an 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. The significant increase in the minimum solvency margin during the year is a result of the change in the registration of Bermuda Life Insurance Company Limited from Class D Long term licence to Composite Class 3B General and Class C Long term licence.

MARCH 31, 2014	Bermuda	Europe	Total
Statutory capital and surplus	116,077	9,237	125,314
Minimum solvency margin	27,836	5,245	33,081

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

The prescribed form of capital and solvency return in Bermuda, which was revised under new legislation enacted in 2008, comprises the BSCR model, a schedule of fixed income investments by rating category, a schedule of net loss and loss expense provision by line of business, a schedule of premiums written by line of business, a schedule of risk management and a schedule of fixed income securities by security type. 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 Bermuda Monetary Authority (BMA) requires all Class 3A, 3B and 4 insurers to maintain their capital at a target level which is 120 percent of the amount calculated in accordance with the BSCR.

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.

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 risks. The following describe how the Group manages these risks:

- Investment portfolios are monitored and reviewed regularly for investment quality with the Board of Directors and the Risk Committee of the Board;
- Credit ratings as determined by recognised external credit rating agencies are regularly monitored to ensure these meet the Group's Investment 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 perceived financial strength or be unable to pay amounts in full when due.

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

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.

FOR THE YEARS ENDED MARCH 31	Note	2014	2013
Cash and short-term investments		31,340	30,326
Interest and dividends receivable		3,930	2,706
Bonds – at FVTPL and Held-to-maturity	3.1	163,846	156,485
Mortgages and loans	3.1	41,485	41,236
Policy loans	3.1	73	66
Derivative financial instruments	3.1	17	(22)
Other financial assets included in Other assets	8	6,668	6,043
Insurance balances receivable	6	13,057	18,469
Reinsurers' share of claims provisions	12	13,992	14,001
TOTAL CONSOLIDATED BALANCE SHEET MAXIMUM CREDIT EXPOSURE		274,408	269,310

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 in that they operate in the same geographic region or in similar industries. The characteristics are similar in that changes in economic or political environments may impact their ability to meet obligations as they come due.

The following tables provide details of the carrying value of bonds and derivative financial instruments by industry sector and geographic distribution.

FOR THE YEARS ENDED MARCH 31	2014	2013
Bonds issued or guaranteed by:		
Government and agency	47,403	34,856
Banking and finance	32,662	32,051
Asset-backed securities	6,559	13,331
Communications	8,397	5,831
Oil and gas	7,050	5,353
Utilities and energy	5,156	4,820
Manufacturing	2,586	4,695
Pharmaceutical	4,769	3,429
Transportation	3,566	2,970
Mining	1,786	2,559
Insurance	252	1,862
Agency	-	1,525
Supra National	915	890
Other [1]	42,745	42,313
TOTAL BONDS	163,846	156,485
Derivative financial instruments issued or guaranteed by:		
U.S. federal government	33	5
Other	(16)	(27)
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS	17	(22)

[1] Includes Investment in bond funds of $20.9 million (2013 – $19.4 million).

FOR THE YEARS ENDED MARCH 31	2014	2013
Geographical distribution of bonds is as follows:		
United States of America	109,463	108,026
United Kingdom	7,726	7,168
Australia	2,403	2,724
Bermuda	2,518	2,495
France	1,973	2,014
Netherlands	1,016	1,806
Luxembourg	2,907	1,760
Canada	1,221	1,703
Sweden	646	1,682
Brazil	1,444	1,307
Russia	1,060	1,163
Norway	1,093	1,137
Cayman Islands	1,036	405
Other (1)	29,340	23,095
TOTAL BONDS	163,846	156,485
Geographical distribution of derivative financial instruments is as follows:		
United States of America	17	(22)
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS	17	(22)

(1) Includes Investment in bond funds of $20.9 million (2013 – $19.4 million).

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

FOR THE YEARS ENDED MARCH 31	2014	2013
Residential	10,808	9,489
Non-residential	30,677	31,747
TOTAL MORTGAGES AND LOANS	41,485	41,236

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.

FOR THE YEARS ENDED MARCH 31	2014	2013
Bond portfolio quality:		
AAA	54,574	49,331
AA	22,151	24,664
A+	8,459	10,472
A	38,731	40,542
BBB	27,193	22,382
BB	7,436	5,804
B	539	556
Not rated	4,763	2,734
TOTAL BONDS	163,846	156,485
Derivative financial instruments quality:		
AAA	-	(5)
A+	347	-
A	(93)	-
BAA+	(221)	-
Not rated	(16)	(27)
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS	17	(22)

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:

FOR THE YEARS ENDED MARCH 31	2014	2013
Balance, beginning of year	3,374	25,458
Net provision made in year – Mortgages	398	2,823
Write-off of unrecoverable provision	-	(24,907)
BALANCE, END OF YEAR	3,772	3,374

A write-off of the unrecoverable provision of $nil (2013 – $24.9 million) was made during the year due to the absence of any realistic prospect of recovery.

Held-to-maturity bonds

During the year, the Group recognised $101,000 of recovery of previously recognised impairment loss (2013 – $208,000 of recovery) on a bond portfolio classified as held-to-maturity.

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

MARCH 31, 2014	Past due but not impaired				
	Less than 90 days	90 to 179 days	180 days or more	Total	Total impaired
Mortgage and loans	410	484	605	1,499	398
Other receivables included in Other assets	47	22	495	564	-
TOTAL	457	506	1,100	2,063	398

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

Past due financial assets of $2.1 million at March 31, 2014, (2013 – $178,000) do not have an allowance for losses because at a minimum, either the fair value of the collateral or the expected future cash flows exceed the carrying value of these financial assets.

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 potential funding requirements. The Group invests in various types of assets with a view to matching them with its liabilities. To strengthen its liquidity further, the Group actively manages and monitors its capital and asset levels, diversification and credit quality of its investments and cash forecasts and actual amounts against established targets.

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

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

Liability maturity profile:

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

MARCH 31, 2014	Within 1 year	2-5 years	6-10 years	Over 10 years	Total
Life and annuity policy reserves – net of reinsurance	11,392	43,305	46,790	105,695	207,182 (1)
Provision for unpaid and unreported claims – net of reinsurance	27,273	-	-	-	27,273
Insurance balances payable	14,185	-	-	-	14,185
Payable for Investments purchased	558	-	-	-	558
Investment contract liabilities	3,993	17,238	8,542	56,773	86,546 (1)
Tax payable	66	-	-	-	66
Accounts payable and accrued liabilities	15,444	-	-	-	15,444
Post-employment benefit liability	128	632	950	2,971	4,681 (1)
TOTAL FROM GENERAL FUND LIABILITIES	73,039	61,175	56,282	165,439	355,935

(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, 2013	Within 1 year	2-5 years	6-10 years	Over 10 years	Total
Life and annuity policy reserves					
– net of reinsurance	11,043	42,154	45,986	106,835	206,018[(1)]
Provision for unpaid and unreported claims					
– net of reinsurance	27,663	-	-	-	27,663
Insurance balances payable	10,772	-	-	-	10,772
Payable for Investments purchased	21,530	-	-	-	21,530
Investment contract liabilities	4,105	15,120	9,516	55,318	84,059[(1)]
Tax payable	61	-	-	-	61
Accounts payable and accrued liabilities	16,580	-	-	-	16,580
Post-employment benefit liability	120	609	984	3,231	4,944[(1)]
TOTAL FROM GENERAL FUND LIABILITIES	91,874	57,883	56,486	165,384	371,627

(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 the functional currency. The net currency exposure arising from the net equity within these operations amounts to £10.1 million and €1.5 million (2013 – £9.7 million and €1.2 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 key variables with all other variables held constant. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis.

FOR THE YEARS ENDED MARCH 31		2014	2013
Currency	Change in variables	Impact on equity	Impact on equity
Sterling	+/- 10%	1,005	+/- 969
Euro	+/- 10%	147	-/+ 116

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 the new investment may be significantly different from the returns previously achieved. The Group manages these risks through:

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

The impact of interest rate risk for the Group's actuarial liabilities and the assets supporting those liabilities is included in Note 12.

The Group issues unit-linked investment policies with and without a guaranteed return in a number of its operations. For unit-linked policies without a guaranteed return under Segregated Funds, the policyholder bears the investment risk on the assets held in the unit-linked fund. The value of the policy benefits is directly linked to the value of the assets in the fund. The Group's exposure to market risk on this business is limited to the extent that income arising from asset management charges is based on the value of assets in the fund.

For unit-linked policies with a guaranteed return under the General Funds and Segregated Funds, the Group bears the investment risk to the extent that the actual rate of return of the unit-linked funds falls below the guaranteed rate of return. If the interest yield on the assets supporting the unit-linked funds with guaranteed return was one percent higher, profit would have been $6.9 million lower (2013 – $6.3 million lower) and if one percent lower, profit would have been $7.2 million higher (2013 – $6.6 million higher). For these types of policies, the Group ensures that (i) the liabilities and asset cash flows are closely matched and (ii) the valuation of the liabilities and assets are monitored regularly.

14.3.3(c) Equity Risk

The majority of the equities are held to back long-term liabilities or those where it is expected that the liabilities will renew at maturity at then current market rates. Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. If actual returns are lower than the expected returns, the Group's Life and annuity policy reserves will increase and will reduce the Group's net earnings. Overall, it is expected that the impact of an immediate ten percent increase in value across all equity markets would be an increase in Net Earnings and Other comprehensive income of $5.1 million (2013 – $5.1 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.

14.3.5 Master Netting or Similar Agreements

The following financial assets are subject to offsetting, enforceable master netting arrangements and similar agreements.

MARCH 31, 2014	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the consolidated balance sheet	Net amounts of financial assets presented in the consolidated balance sheet
Cash and short-term investments	32,585	(1,245)	31,340
Derivative financial assets	389	(372)	17
	32,974	(1,617)	31,357

MARCH 31, 2013	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the consolidated balance sheet	Net amounts of financial assets presented in the consolidated balance sheet
Cash and short-term investments	32,427	(2,101)	30,326
Derivative financial assets	25	(47)	(22)
	32,452	(2,148)	30,304

For the financial assets subject to enforceable master netting arrangements or similar arrangements above, each agreement between the Group and the counterparty allows for net settlement of the relevant financial assets when both elect to settle on a net basis. In the absence of such an election, financial assets will be settled on a gross basis; however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party. Per the terms of each agreement, an event of default includes failure by a party to make payment when due; failure by a party to perform any obligation required by the agreement (other than payment); or bankruptcy.

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 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 actuarial risks, such as longevity risk, interest rate risk, market risk and health care 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:

FOR THE YEARS ENDED MARCH 31	2014	2013
Balance, beginning of year	4,524	4,078
Movements during the year recognised in Operating expense:		
Current service cost	106	126
Interest cost on benefit liability	192	159
	298	285
Remeasurement during the year included in Other comprehensive income:		
Actuarial (gain)/loss arising from		
– experience adjustment	(492)	263
Benefit payments	(112)	(102)
BALANCE, END OF YEAR	4,218	4,524

As at March 31, 2014, the present value of the defined benefit obligation was comprised of $2.1 million relating to active employees and $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:

FOR THE YEARS ENDED MARCH 31	2014	2013
Discount rate	4.3%	4.0%
Healthcare cost trend rate	7.5%	7.5%

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 $524,000 (2013 – $600,000).

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

FOR THE YEARS ENDED MARCH 31	2014		2013	
	Increase	Decrease	Increase	Decrease
Aggregate of current service cost and interest cost	19	(16)	23	(20)
Accrued benefit liability	626	(504)	693	(575)

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

16 INSURANCE BALANCES PAYABLE

Insurance balances payable is comprised of:

MARCH 31, 2014	Insured employee benefits	Life and pensions	Property and casualty	Total
Due to policyholders, agents and brokers	104	3,916	1,621	5,641
Due to reinsurers	2,073	1,189	2,360	5,622
Deferred commission income	-	-	2,922	2,922
TOTAL INSURANCE BALANCES PAYABLE	2,177	5,105	6,903	14,185

MARCH 31, 2013	Insured employee benefits	Life and pensions	Property and casualty	Total
Due to policyholders, agents and brokers	98	1,045	2,999	4,142
Due to reinsurers	758	1,172	2,265	4,195
Deferred commission income	-	-	2,435	2,435
TOTAL INSURANCE BALANCES PAYABLE	856	2,217	7,699	10,772

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

FOR THE YEARS ENDED MARCH 31	2014	2013
Balance, beginning of year	2,435	2,472
Deferral during the year	11,642	11,520
Income for the year	(11,207)	(11,531)
Foreign exchange rate movements	52	(26)
BALANCE, END OF YEAR	2,922	2,435

17 GROUP COMPOSITION

17.1 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 2014 & 2013	% of ownership interest held by non-controlling interests 2014 & 2013
AFL Investments Limited	Bermuda	Investment management services	60%	40%
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%	-
Argus Insurance Agencies Limited (formerly Fogg Insurance Agencies Limited)	Malta	Insurance agency	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% 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.

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

17.2 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 as follows:

FOR THE YEARS ENDED MARCH 31	2014	2013
General fund assets	389,838	389,673
General fund liabilities	308,254	319,320

17.3 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

The Group acts as investment manager to 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 $3.7 million of investment management fees income during the year (2013 – $3.0 million). 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 as at March 31, 2014:

	Assets	Liabilities	Equity	Argus investments (1) & (3)	Maximum exposure to loss (2)
Investment fund	520,856	1,103	519,753	28,283	28,283

(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 – $465.1 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 28 for Segregated Funds disclosures.
- Funds held by third parties – $26.4 million

18 DIVIDENDS

FOR THE YEAR ENDED MARCH 31	2014			
	Per share amount	Amount of dividends	Record date	Payment date
Interim dividend	0.06	1,290	July 15, 2013	September 9, 2013
Final dividend	0.06	1,290	January 15, 2014	February 28, 2014
	0.12	2,580		

At the Company's annual general meeting on September 27, 2013, shareholders approved the introduction of a Dividend Reinvestment Plan through which shareholders can make a revocable election to reinvest cash dividends by purchasing additional shares on the dividend payment date.

As a result of the Dividend Reinvestment Plan, the Company issued $13,996 of share capital during the year. The cash value of residual fractional amounts not reinvested is $216 and is shown under Accounts payable and accrued liabilities. This amount will be carried forward and combined with subsequent dividend payments.

19 EARNINGS PER SHARE

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

FOR THE YEARS ENDED MARCH 31	2014	2013
Net earnings for the year	13,245	12,839
Weighted average outstanding common shares	21,044	21,001
Common shares and common share equivalents	21,056	21,001

20 NET CHANGE IN UNEARNED PREMIUMS

FOR THE YEARS ENDED MARCH 31	2014	2013
Gross change in unearned premiums	80	1,868
Change in unearned premiums on premiums ceded	(780)	(658)
NET CHANGE IN UNEARNED PREMIUMS	(700)	1,210

21 REINSURANCE RECOVERIES

FOR THE YEARS ENDED MARCH 31	2014	2013
Claims and adjustment expenses recovered from reinsurers	9,078	4,487
Policy benefits recovered from reinsurers	2,545	1,403
TOTAL REINSURANCE RECOVERIES	11,623	5,890

22 NET CHANGE IN CONTRACT LIABILITIES

FOR THE YEARS ENDED MARCH 31	2014	2013
Gross change in contract liabilities:		
Insurance contracts	1,443	9,731
Investment contracts	137	(82)
	1,580	9,649
Change in reinsurers' share of claims provisions:		
Insurance contract liabilities	342	(2,595)
NET CHANGE IN CONTRACT LIABILITIES	1,922	7,054

23 COMMISSIONS, MANAGEMENT FEES AND OTHER

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

FOR THE YEARS ENDED MARCH 31	2014	2013
Policyholder administration	16,607	15,378
Investment management services	4,802	4,832
Reinsurance commission income	9,641	11,446
Other income	172	207
TOTAL COMMISSIONS, MANAGEMENT FEES AND OTHER	31,222	31,863

24 OPERATING EXPENSES

Operating expenses incurred during the year are as follows:

FOR THE YEARS ENDED MARCH 31	2014	2013
Employee benefits expense (see table below)	26,139	25,477
Professional fees	3,814	4,315
Marketing expenses	1,408	1,100
IT related expenses	2,444	2,812
Building related expenses	2,916	2,874
General and corporate expenses	2,194	3,364
Other expenses	3,664	3,787
TOTAL OPERATING EXPENSES	42,579	43,729

Employee benefits expense during the year is comprised of:

FOR THE YEARS ENDED MARCH 31	Note	2014	2013
Salaries and other short-term benefits		24,520	24,014
Pension costs [1]		1,346	1,236
Post-employment medical benefits	15	186	183
Stock-based compensation	25	87	44
TOTAL EMPLOYEE BENEFITS EXPENSE		26,139	25,477

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

25 STOCK-BASED COMPENSATION

As at March 31, 2014, the Group has two stock-based compensation plans, which are described below.

25.1 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 these awards is recognised over the applicable vesting period as Employee benefits expense and Contributed surplus. The fair value of options on the date of grant was determined using the Black-Scholes option pricing model.

At the Annual General Meeting of Shareholders held on July 26, 2007, the Directors were granted authority to cease issuing further stock options under the Group's 2004 Stock Option Plan and, in its stead, adopted the 2007 Restricted Stock Plan as described in Note 25.2 below. Stock options granted prior to this date remain valid and the terms and conditions of the 2004 Stock Option Plan continue to apply thereto until expiration. There have been no stock options granted since 2007.

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

FOR THE YEARS ENDED MARCH 31	2014		2013	
	Total number of shares under option	Weighted average exercise price	Total number of shares under option	Weighted average exercise price
Outstanding, beginning of year	245,927	$9.28	362,952	$8.90
Changes during the year:				
Expired	(44,401)	$5.95	(59,617)	$7.20
Forfeited	-	-	(57,408)	$12.06
OUTSTANDING AND EXERCISABLE, END OF YEAR	201,526	$10.02	245,927	$9.28

The weighted average remaining contractual life of options outstanding is 1.3 years (2013 – 1.9 years). The range of fair values of options outstanding is $2.16 to $5.17. The Groups's stock options were fully vested on March 31, 2011.

The characteristics as at March 31, 2014, of options granted in earlier years are as follows:

Fiscal year	Exercise price	Number of Outstanding	Shares Exercisable
2005	$8.95	62,435	62,435
2006	$9.04	65,030	65,030
2007	$11.78	74,061	74,061
	$10.02	201,526	201,526

25.2 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:

FOR THE YEARS ENDED MARCH 31	2014	2013
Number of shares granted	50,200	47,300
Fair value per share	$4.00	$3.75
Number of shares forfeited	3,067	900

The following table summarises information about the outstanding stock grants:

Restricted shares vesting	Number of shares
June 2014	14,967
October 2014	16,433
June 2015	13,900
October 2015	16,433
October 2016	16,433
TOTAL	78,166

26 RELATED PARTY TRANSACTIONS

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

26.1 TRANSACTIONS WITH SIGNIFICANTLY INFLUENCED INVESTEES

26.1.1 The Group provided insurance-related products and services to various significantly influenced investees. The premiums and fees received from these transactions totalled $736,000 in the year and are shown as Gross premium written and Commission, management fees and other on the Consolidated Statement of Operations (2013 – $634,000).

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

FOR THE YEARS ENDED MARCH 31	2014	2013
Insurance balances receivable	25	31
(Payable to)/Receivable from self-funded group health policies (1)	(79)	279
Accounts receivable/(payable) arising from administration of the defined benefit pension plans (2)	58	(5)

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

26.1.2 The Group rented office premises from a significantly influenced investee paying a total of $329,000 in rent and service charges in the year which are shown in Operating expenses in the Consolidated Statement of Operations (2013 – $329,000).

26.1.3 The Group received facilities management services from a significantly influenced investee for the consideration amount of $1.3 million which is shown net of Investment income on the Consolidated Statement of Operations (2013 – $1.1 million).

26.2 COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

FOR THE YEARS ENDED MARCH 31	2014	2013
Salaries and other short-term benefits	2,270	2,242
Post-employment benefits (1)	113	117
Stock-based compensation	12	6
TOTAL KEY MANAGEMENT PERSONNEL COMPENSATION	2,395	2,365

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

26.3 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, 2014, was 372,814 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.

27 INCOME TAXES

Bermuda

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

Europe

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

The subsidiary domiciled in Malta is subject to normal 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.

27.1 INCOME TAXES FOR THE YEAR

FOR THE YEARS ENDED MARCH 31	2014	2013
Income taxes for the year	61	8
Adjustments in respect of prior year income taxes	(1)	-
Total current income taxes	60	8
Deferred taxes	-	-
TOTAL INCOME TAXES	60	8

27.2 CURRENT INCOME TAXES RECONCILIATION

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

FOR THE YEARS ENDED MARCH 31	2014	2013
Earnings before income taxes	13,710	13,197
Less: Earnings not subject to taxes	13,465	16,234
EARNINGS/(LOSS) SUBJECT TO TAXES	245	(3,037)
Income taxes at the application rate	(65)	(379)
Tax effect of:		
Expenses not deductible for tax purposes	8	20
Difference between depreciation and capital allowances	26	30
Income not taxable	(33)	(140)
Effect of tax losses	-	371
Adjustments to tax charge in respect of previous period	(1)	-
Unrecognised temporary difference	125	106
TOTAL CURRENT INCOME TAXES	60	8

27.3 DEFERRED TAXES

	MARCH 31 2014	Foreign exchange adjustment	MARCH 31 2013
Deferred tax liability arising on Property and equipment (1)	(11)	(1)	(10)
NET DEFERRED TAXES	(11)	(1)	(10)

(1) Included in Taxes payable

	March 31 2013	Foreign exchange adjustment	March 31 2012
Deferred tax liability arising on Property and equipment (1)	(10)	1	(11)
NET DEFERRED TAXES	(10)	1	(11)

(1) Included in Taxes payable

27.4 UNRECOGNISED DEFERRED TAX ASSETS

As at March 31, 2014, the Group has net operating loss carryforwards of $4.3 million originating in 2007 through 2014. Of the total net operating loss carryforwards of the Group, $724,000 is subject to limitations under IRC section 382.

$3.9 million of the Group's net operating loss carryforwards will expire in 2027 through 2033 under the current U.S. tax legislation. The remaining $443,000 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.

FOR THE YEARS ENDED MARCH 31	2014	2013
Tax losses carried forward	1,473	1,358
Capital allowances carried forward	52	23
Deductible temporary differences	19	29
NET UNRECOGNISED DEFERRED TAX ASSETS	1,544	1,410

28 SEGREGATED FUNDS AND SEPARATE ACCOUNTS

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

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

FOR THE YEARS ENDED MARCH 31	2014	2013
Additions to Segregated Funds		
Premiums, contributions and transfers	260,709	238,200
Net investment income	5,326	4,520
Net increase/(decrease) in fair value of investments	106,246	146,986
Segregated funds acquired	472	151
	372,753	389,857
Deductions from Segregated Funds		
Withdrawals, benefit payments and transfers to the General Fund	178,228	234,276
Operating expenses	13,392	13,589
	191,620	247,865
Net additions to Segregated Funds for the year	181,133	141,992
Segregated Funds, beginning of year	1,476,685	1,334,693
SEGREGATED FUNDS, END OF YEAR	1,657,818	1,476,685
Consisting of:		
Segregated funds with a guaranteed return		
Bonds	143,570	140,575
TOTAL SEGREGATED FUNDS WITH A GUARANTEED RETURN	143,570	140,575
Segregated funds without a guaranteed return		
Bonds	89,559	22,114
Stocks and other investments	1,251,409	1,093,386
Policy loans	106,012	106,931
Cash and short-term investments	65,985	111,865
Other assets	1,283	1,814
TOTAL SEGREGATED FUNDS WITHOUT A GUARANTEED RETURN	1,514,248	1,336,110
TOTAL SEGREGATED FUNDS	1,657,818	1,476,685

29 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.

29.1 RESULTS BY SEGMENT

FOR THE YEARS ENDED MARCH 31		Group insurance	Life and pensions	Property and casualty	All other	Total
Segment operating revenues	**2014**	**103,017**	**18,115**	**29,733**	**4,671**	**155,536**
	2013	103,541	15,954	30,606	4,960	155,061
Investment income	**2014**	**306**	**5,391**	**1,151**	**39**	**6,887**
	2013	1,265	12,744	3,083	(1,293)	15,799
Share of earnings of associates	**2014**	**-**	**218**	**-**	**516**	**734**
	2013	-	413	-	301	714
TOTAL SEGMENT REVENUES	**2014**	**103,323**	**23,724**	**30,884**	**5,226**	**163,157**
	2013	104,806	29,111	33,689	3,968	171,574
Amortisation,	**2014**	**555**	**1,809**	**2,257**	**2,106**	**6,727**
depreciation and impairment	2013	1,189	1,764	2,312	1,562	6,827
Income tax expense	**2014**	**-**	**-**	**60**	**-**	**60**
	2013	-	-	8	-	8
Reportable segment earnings/(loss) attributable	**2014**	**18,747**	**(3,154)**	**3,449**	**(5,797)**	**13,245**
to shareholders, after tax	2013	14,900	969	2,368	(5,398)	12,839

GEOGRAPHIC INFORMATION ON SEGMENT REVENUES:

FOR THE YEARS ENDED MARCH 31		Bermuda	Europe	Total
Segment revenues	**2014**	**146,836**	**16,321**	**163,157**
	2013	154,429	17,145	171,574

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

29.2 ASSETS AND LIABILITIES BY SEGMENT:

	Group insurance	Life and pensions	Property and casualty	All other	Total
MARCH 31, 2014:					
Total General Fund Assets	**19,626**	**274,026**	**96,186**	**40,252**	**430,090**
Segregated Fund Assets	**-**	**1,657,818**	**-**	**-**	**1,657,818**
Total General Fund Liabilities	**26,676**	**235,950**	**45,628**	**13,540**	**321,794**
Segregated Fund Liabilities	**-**	**1,657,818**	**-**	**-**	**1,657,818**
MARCH 31, 2013:					
Total General Fund Assets	26,327	295,162	68,184	41,718	431,391
Segregated Fund Assets	-	1,476,685	-	-	1,476,685
Total General Fund Liabilities	22,570	250,137	46,613	16,223	335,543
Segregated Fund Liabilities	-	1,476,685	-	-	1,476,685

30 COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS

FOR THE YEARS ENDED MARCH 31	2014	2013
Remeasurement of post-employment medical benefit obligation	**(1,889)**	(225)
Available-for-sale investments	**249**	(1,057)
Investment in associates	**(1,090)**	(1,919)
Translation of financial statements of foreign operations	**(1,090)**	(2,232)
TOTAL ACCUMULATED OTHER COMPREHENSIVE LOSS	**(3,820)**	(5,433)

31 COMMITMENTS AND CONTINGENCIES

31.1 OPERATING LEASES

31.1.1 Group as a lessor

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

Future annual minimum lease rentals receivable under non-cancellable operating leases as at March 31, 2014, are as follows:

FOR THE YEARS ENDED MARCH 31	2014	2013
Within one year	**1,737**	1,660
After one year but not more than five years	**3,194**	2,019

31.1.2 Group as a lessee

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

During the year ended March 31, 2014 and 2013, an amount of $1.9 million and $1.8 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, 2014, are as follows:

FOR THE YEARS ENDED MARCH 31	2014	2013
Within one year	**769**	722
After one year but not more than five years	**1,549**	1,687
More than five years	**399**	709

31.2 CONTINGENCIES

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

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

32 COMPARATIVE FIGURES

Certain of the 2013 comparative figures have been reclassified to conform to the presentation adopted for 2014.

33 SUBSEQUENT EVENTS

Based upon the audited financial results of the Group for the year ended March 31, 2014, the Group has declared an interim dividend of seven cents per share payable on September 15, 2014 for shareholders of record on August 11, 2014.

DIRECTORS OF PRINCIPAL OPERATING SUBSIDIARIES

ARGUS INSURANCE COMPANY LIMITED

Reginald S. Minors
Chairman

Wendall S. F. Brown
Deputy Chairman

John Doherty

Alison S. Hill

David W. Pugh

Paul C. Wollmann

CENTURION INSURANCE SERVICES LIMITED

Reginald S. Minors
Chairman

Wendall S. F. Brown
Deputy Chairman

Andrew H. Bickham

Alison S. Hill

David W. Pugh

Paul C. Wollmann

ARGUS INSURANCE COMPANY (EUROPE) LIMITED, *Gibraltar/Malta*

Sheila E. Nicoll
Chairman

David Crowhurst
Deputy Chairman

Andrew H. Bickham

Peter R. Burnim

Alison S. Hill

Tyrone Montovio

David W. Pugh

BERMUDA LIFE INSURANCE COMPANY LIMITED

Sheila E. Nicoll
Chairman

James S. Jardine
Deputy Chairman

Lauren M. Bell

Alison S. Hill

Michelle A. Jackson

David W. Pugh

Alan R. Thomson

ARGUS INTERNATIONAL LIFE BERMUDA LIMITED

John D. Campbell
Chairman

Robert D. Steinhoff
Deputy Chairman

Peter R. Burnim

David W. Pugh

E. Barclay Simmons

Lynne Woolridge

AFL INVESTMENTS LIMITED

E. Barclay Simmons
Chairman

Craig Rimer
Deputy Chairman

James M. Keyes

Henry R. Perren

David W. Pugh

James S. Jardine

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