

September 2018  
Six-Month Report



A Change, for Good.



  
**ARGUS**  
Our Interest is You.

**We are making a change, for good.**

Change that will make a short-term loss for long-term benefit. Change that supports our strategy of placing Argus on the global stage. Able to provide sustainable, quality solutions for the community and a strong return for partners, for all our futures.

# Contents

## Performance Measurements for the Six Months Ended September 30, 2018

**\$10.0m**

Net Income

**\$10.6m**

Operating Profit

**\$12.3m**

Combined Fee Income

**9.4%**

Half-year Return on Average Equity

**80.5%**

Combined Operating Ratio

**\$2.8m**

Operating Cash Flow

**4.6%**

Dividend Yield

**A- (Excellent)**

Financial Strength Rating

Welcome	2
Our Mission	4
Report to Shareholders	6
Governance and Leadership	10
Condensed Consolidated Balance Sheets	12
Condensed Consolidated Statements of Operations	13
Condensed Consolidated Statements of Comprehensive Income	14
Condensed Consolidated Statements of Changes in Equity	15
Condensed Consolidated Statements of Cash Flows	16
Notes to the Consolidated Financial Statements	17

---

# Welcome

Welcome to Argus.

We support our customers in providing financial security, physical well-being and peace of mind.

We do this through products and services in employee benefits, global property and casualty insurance and wealth management.

We are a business born in Bermuda, but we continue to grow internationally to ensure we are in the strongest position for sustainable value and growth.

## Argus Group

1950

Date of Foundation

229

Number of Employees

89%

Employee Engagement



---

## Our Mission

Our mission is to give more and more people the freedom to do what matters most to them.

We will accomplish this by: providing financial services that predict and protect for the future, leading the way with innovative forecasting tools to help our stakeholders avoid storms that may threaten their life, health or wealth, and striving to always deliver best-in-class products and processes to protect our stakeholders in those instances when storms are inevitable.

We aim to build strong, long-term, one-on-one relationships with our clients, customers and community, based on loyalty, service and trust. We'll do this through what we believe makes us truly different; our commitment to doing the right thing, for all, always, behaving with honesty, openness and fairness in everything we do.

## “Our Interest is You.”

This reinforces the fact that Argus puts people first. It communicates that we care deeply about our staff, our clients, our shareholders and our community. It affirms that we will always aim to do what is in everyone’s best interests, and not just our own. It is this innate desire to take care of people that makes Argus the unique company that it is.

# Report to Shareholders

## INTRODUCTION

The Argus Group has started the 2018/2019 fiscal year on a solid foundation. Our net earnings for the six months to September 30, 2018 of \$10.0 million have increased over the corresponding period in 2017 where a net loss of \$2.3 million was reported. This encouraging result is underpinned by the operational strength of all three of the Group's divisions of Employee Benefits, Property and Casualty and Wealth Management, combined with a strong investment performance.

## FINANCIAL RESULTS

The Group uses a combined operating ratio metric to track the overall performance of our underwriting operations, which compares premium income to the cost of claims and operating expenses. For the six months to September 30, 2018, the combined operating ratio for the insurance businesses within the Group was a healthy 80.5 percent compared with 93.6 percent for the corresponding period in 2017, and 90.6 percent for the year ended March 31, 2018. All of our Divisions have contributed to this strong underwriting result.

**Earnings/(Loss) Per Share**  
Net income/(loss) per share for the half year

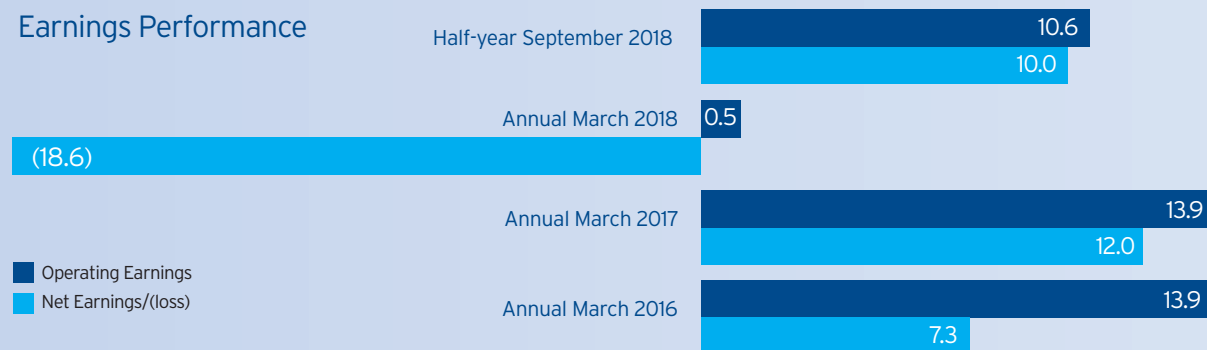
Sept. 2017: \$(0.11)  
Sept. 2016: \$0.39

**\$0.48**

**Annualised Dividend Yield**  
Based on annualised dividends declared during the fiscal year

March 2018: 4.5%  
March 2017: 4.2%

**4.6%**





Following a year of significant increases in the cost of claims within our health business, we are now seeing a return to more normal claim levels. As promised, we will continue our efforts to drive changes that will help to contain the cost of health claims without compromising quality of care. We remain concerned about the sustainability of the healthcare system in Bermuda and will continue to invest in our population health initiatives and work with key stakeholders as a way to influence change.

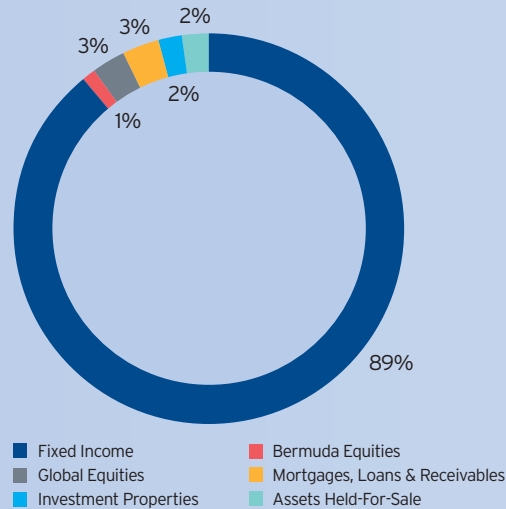
Our combined Property & Casualty division has reported an increase in net earnings when compared with last year. The absence of windstorms in Bermuda, in part offset by large motor losses in Europe, have resulted in these positive results. Fee income generated by our Employee Benefits, Wealth Management and insurance brokerage businesses of \$12.3 million remains stable.

During the year ended March 31, 2018, we took decisive short-term actions to improve the long-term profitability of the Group. We remain confident that these actions will lead to sustained earnings and growth in the long-term.

Net Operating Earnings by Division



Investment Assets As At September 30, 2018

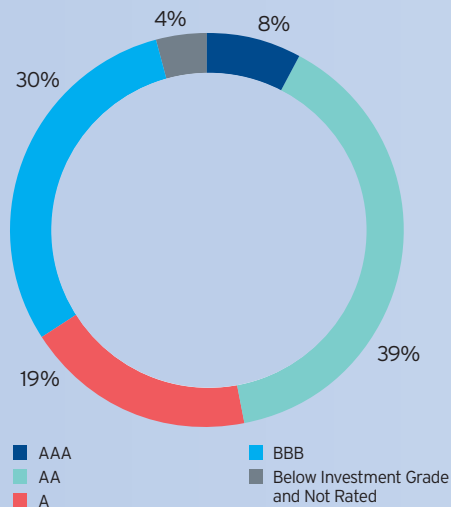


The Group's investment portfolio has generated positive returns of \$7.9 million during the six-month period to September 30, 2018, despite the events that impacted global investment markets, including rate increases by the Federal Reserve and tightening of credit spreads. We benefitted from a one-time realised gain of \$1.3 million from the sale of certain Bermuda equities.

As can be seen from the investment charts, 89 percent of the Group's investments are fixed income bonds of which 96 percent are classified as investment grade.

As disclosed in our annual report at March 31, 2018, a new asset class is presented, Assets Held-For-Sale. These are non-core assets, which do not align with the Group's goal of maximising risk-adjusted returns. The Group continues in its efforts to effect a sale of these assets.

Fixed Income Portfolio Ratings September 2018



Equity attributable to shareholders of the Company stands at \$107.9 million and remains well in excess of the capital required by regulators.

### AGM

At the AGM of the Company held on September 27, 2018, all the Directors were re-elected and all other resolutions were passed. At a meeting of the Board held immediately after the AGM, Ms. Sheila Nicoll was re-elected Chairman.

We are pleased to welcome Mr. Barclay E. Simmons back to the Argus Board. Mr. Simmons previously served on the Board for several years and brings a wealth of local and international experience to the Board.

### DIVIDEND

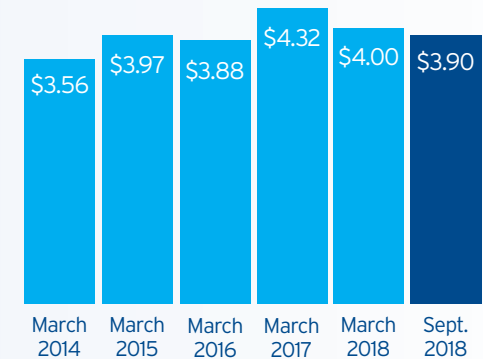
The Board has declared a dividend of nine cents per share payable on January 15, 2019, for shareholders of record on December 31, 2018.

On behalf of the Board and Management, we wish to thank our shareholders and clients for their continued support and our staff for their commitment.

*Alison Hill*  
 Chief Executive Officer

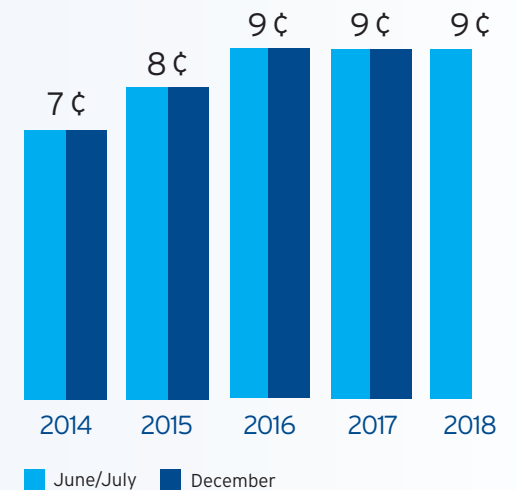
### Average Share Price

Share History 2014-2018



### Dividends

Total dividends declared per share (cents)



# Governance and Leadership

## Argus Group Holdings Limited Board

Our directors are dedicated to promoting collaboration and innovation throughout the Company. They are focused on the goal of ensuring exceptional service for our customers and are committed to setting Argus apart as a leader in the industry.

Sheila E. Nicoll, FCII  
 Keith W. Abercromby, FIA  
 Peter R. Burnim, MBA  
 Timothy C. Faries, BA, LLB, LLM  
 Alison S. Hill, FCMA, CGMA  
 Barbara J. Merry  
 Marcia B. Scheiner, MBA  
 Everard Barclay Simmons, MBA, LLB  
 Robert D. Steinhoff, FCPA, FCA, JP  
 Kim R. Wilkerson, JP, CPCU  
 Paul C. Wollmann, MBA CPCU, AR, ARM

## Argus Group Holdings Limited Officers

Sheila E. Nicoll, FCII (Chairman)  
 Robert D. Steinhoff, FCPA, FCA, JP (Deputy Chairman)  
 Alison S. Hill, FCMA, CGMA (Chief Executive Officer)  
 Peter J. Dunkerley, FCA (Chief Financial Officer)  
 George N. H. Jones, MBA, LLB (Group General Counsel & Company Secretary)

## Board Committees

### Risk

For the purpose of overseeing the Group's risk management, asset liability management, and financial investments.

Sheila E. Nicoll (Chairman)  
 Peter R. Burnim  
 Barbara J. Merry  
 Everard Barclay Simmons

### Audit

For the purpose of overseeing the accounting and financial reporting processes of the Company and the audit of its financial statements.

Robert D. Steinhoff (Chairman)  
 Keith W. Abercromby  
 Marcia B. Scheiner  
 Paul C. Wollmann

### People, Compensation and Governance

For the purpose of organising and overseeing the process by which individuals are nominated to become members of the Board, overseeing the roles and responsibilities of top executives.

Sheila E. Nicoll (Chairman)  
 Timothy C. Faries  
 Barbara J. Merry  
 Kim R. Wilkerson

## Business Unit Heads

Lauren M. Bell, FLMI, HIA, ACS  
*Executive Vice President – Life & Pensions*  
 Andrew H. Bickham, ACII  
*Executive Vice President – Broking*  
 Cindy F. Campbell, CPA, MBA  
*Executive Vice President – Interim Head of International Life*  
 John Doherty, CPCU, ARM, AR  
*Executive Vice President – Property & Casualty*  
 Tyrone Montovio, ACII  
*Chief Executive – Argus Insurance Company (Europe) Limited*  
 Lawrence Pavia, FCII, ACI Arb, MA  
*Managing Director – Island Insurance Brokers Limited*  
 Joel P. Schaefer, CFA  
*President & Chief Executive Officer – Argus Wealth Management Limited*

## Support Unit Heads

Simon Giffen, CFA, TEP  
*Group Investment Manager*  
 Onesimus Nzabalinda, MBA, MSc, CISA, CFE, CRISC  
*Head of Risk & Compliance*  
 Wanda E. Richardson, MA, SPHR  
*Executive Vice President – Client Solutions, Sales & Marketing*  
 Hannah Ross, FIA  
*Chief Actuary*  
 Nik Smale, BEng  
*Executive Vice President – Innovation & Technology*  
 Sheena M. Smith, CPA  
*Vice President – Financial Reporting*  
 Kellianne M. Smith, BA  
*Head of Global Human Resources & Organisational Development*

## Management Level Committees

### Asset Liability Management Committee

The Committee is appointed by the Board and tasked with the oversight of the management and control of all financial investments and corresponding liabilities, as defined in the Argus Group's Investment Policy.

### Executive Risk Management Committee

The Committee is appointed by the Board and tasked with establishing a sound and effective risk management framework, including developing policies, procedures, and internal controls promoting the identification, evaluation, mitigation, monitoring and reporting of material risks in line with the Insurance Code of Conduct, the Investment Business Act, and any and all other relevant legislation and/or advisories as applicable in each jurisdiction, reviewing on a regular basis the risk management techniques employed in light of changing operational, regulatory, and market developments to ensure continued effectiveness and adoption of international best practice, and assessing and evaluating on a regular basis, the Company's self assessment of compliance with regulatory requirements.

### Operational Risk Management Sub-Committee

The Sub-Committee is appointed by the Executive Risk Management Committee and tasked with reviewing and approving the risk management policies and procedures, and subsequent changes to them, providing a forum to review the various exposures to the business units and the strategies to mitigate material risks, overseeing of the development and implementation of the risk, compliance and internal controls framework for the Group, and reviewing management information systems reports, such as customer complaints, operational risk losses, and "near-miss" incidents.

### Data Privacy & Information Risk Sub-Committee

The Sub-Committee is appointed by the Executive Risk Management Committee and tasked with reviewing the classification and security of the Group's data, complying with data privacy regulations, preparing and monitoring the Group's Data Breach Response Plan, and general security awareness.

### Capital & Regulatory Risk Sub-Committee

The Sub-Committee is appointed by the Executive Risk Management Committee and tasked with reviewing the Group's Medium-Term Capital Plan and ongoing capital requirements, statutory returns and regulatory reporting, and general communication to and from regulators and rating agencies.

### Underwriting & Claims Risk (Property & Casualty) Sub-Committee

The Sub-Committee is appointed by the Executive Risk Management Committee and tasked on behalf of the Group's property and casualty businesses reviewing underwriting/claims policies, procedures and manuals, underwriting authority limits, rate reviews and pricing changes, new product development, business developments or opportunities, claims trends and large loss reporting, reinsurance renewals and changes to reinsurance programmes, and reserving.

### Underwriting & Claims Risk (Employee Benefits) Sub-Committee

The Sub-Committee is appointed by the Executive Risk Management Committee and tasked on behalf of the Group's employee benefits businesses reviewing underwriting/claims policies, procedures and manuals, underwriting authority limits, rate reviews and pricing changes, new product development, business developments or opportunities, claims trends and large-loss reporting, reinsurance renewals and changes to reinsurance programmes, and reserving.

## Principal Operating Subsidiaries

### Bermuda

Argus Insurance Company Limited Paul C. Wollmann (Chairman) John Doherty Peter J. Dunkerley Alison S. Hill Marcia B. Scheiner	Argus International Life Bermuda Limited Marcia B. Scheiner (Chairman) Peter R. Burnim Peter J. Dunkerley Paul C. Wollmann
--	---

Bermuda Life Insurance Company Limited Timothy C. Faries (Chairman) Lauren M. Bell Peter J. Dunkerley Alison S. Hill Sheila E. Nicoll Everard Barclay Simmons Kim R. Wilkerson	Argus International Life Insurance Limited Marcia B. Scheiner (Chairman) Peter R. Burnim Peter J. Dunkerley Alison S. Hill Paul C. Wollmann
--	---

Centurion Insurance Services Limited Alison S. Hill (Chairman) Andrew H. Bickham Peter J. Dunkerley	Bermuda Life Worldwide Limited Marcia B. Scheiner (Chairman) Peter R. Burnim Peter J. Dunkerley Alison S. Hill Paul C. Wollmann
---	--

Argus Wealth Management Limited  
Robert D. Steinhoff (Chairman)  
Peter R. Burnim  
Peter J. Dunkerley  
Timothy C. Faries

### Gibraltar

Argus Insurance Company  
(Europe) Limited  
Sheila E. Nicoll (Chairman)  
Keith W. Abercromby  
Peter R. Burnim  
Alison S. Hill  
Tyrone Montovio  
Michael Oliver

WestMed Insurance  
Services Limited  
Alison S. Hill (Chairman)  
Tyrone Montovio  
John L. Stagnetto

### Malta

Argus Insurance Agencies Limited  
Charles Farrugia (Chairman)  
Alison S. Hill  
Tyrone Montovio  
Sheila E. Nicoll

Island Insurance Brokers Limited  
Sheila E. Nicoll (Chairman)  
Dr. Carmel Cascun  
Peter J. Dunkerley  
Alison S. Hill  
Barbara J. Merry  
Lawrence Pavia

## Condensed Consolidated Balance Sheets

(In \$ thousands)	SEPTEMBER 30 2018 Note	MARCH 31 2018 (Audited)	(In \$ thousands)	SEPTEMBER 30 2018 Note	MARCH 31 2018 (Audited)
<b>Assets</b>			<b>Liabilities</b>		
Cash and short-term investments		38,627	Insurance contract liabilities		239,368
Interest and dividends receivable		2,688	Insurance balances payable		14,493
Assets held-for-sale	3	33,574	Payables arising from investment transactions		52,372
Investments	4.1	465,045	Investment contract liabilities		234,449
Receivable for investments sold		14,137	Liabilities held-for-sale	3	19,025
Insurance balances receivable		15,403	Taxes payable		487
Reinsurers' share of:			Accounts payable and accrued liabilities		16,922
Claims provisions		26,046	Post-employment benefit liabilities		3,027
Unearned premiums		11,454	<b>TOTAL GENERAL FUND LIABILITIES</b>		<b>580,143</b>
Other assets		7,679	Segregated fund liabilities held-for-sale	3	668,489
Deferred policy acquisition costs		1,183	Segregated fund liabilities from continuing operations	9	946,990
Investment properties		9,876	<b>TOTAL SEGREGATED FUND LIABILITIES</b>		<b>1,615,479</b>
Investment in associates		2,928	<b>TOTAL LIABILITIES</b>		<b>2,195,622</b>
Property and equipment		55,715			
Intangible assets		3,671			
<b>TOTAL GENERAL FUND ASSETS</b>		<b>688,026</b>			
Segregated fund assets held-for-sale	3	668,489	<b>Equity</b>		
Segregated fund assets from continuing operations	9	946,990	Attributable to shareholders of the Company		
<b>TOTAL SEGREGATED FUND ASSETS</b>		<b>1,615,479</b>	Share capital		16,836
<b>TOTAL ASSETS</b>		<b>2,303,505</b>	Contributed surplus		52,835
			Retained earnings		49,007
			Accumulated other comprehensive loss	11	(10,823)
			<b>TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY</b>		<b>107,855</b>
			Attributable to non-controlling interests		28
			<b>TOTAL EQUITY</b>		<b>107,883</b>
			<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,303,505</b>

The accompanying notes form part of these condensed consolidated financial statements.

## Condensed Consolidated Statements of Operations

<i>For the six months ended September 30 (In \$ thousands)</i>	Note	2018 <i>(Unaudited)</i>	2017 <i>(Unaudited)</i>
<b>Revenue</b>			
Gross premiums written		92,433	86,521
Reinsurance ceded		(21,941)	(21,149)
Net premiums written		70,492	65,372
Net change in unearned premiums		(1,830)	(1,857)
Net premiums earned		68,662	63,515
Investment income	4.2	7,715	7,683
Share of earnings of associates		162	168
Commissions, management fees and other	10	17,755	16,819
		<b>94,294</b>	<b>88,185</b>
<b>Expenses</b>			
Policy benefits		8,527	7,522
Claims and adjustment expenses		51,020	51,522
Reinsurance recoveries		(4,204)	(5,038)
Gross change in contract liabilities		(4,057)	11,362
Change in reinsurers' share of claims provisions		1,090	(4,385)
<b>NET BENEFITS AND CLAIMS</b>		<b>52,376</b>	<b>60,983</b>
Commission expenses		2,719	2,368
Operating expenses		26,270	24,554
Amortisation, depreciation and impairment		2,484	2,379
		<b>83,849</b>	<b>90,284</b>
<b>EARNINGS/(LOSS) BEFORE INCOME TAXES</b>		<b>10,445</b>	<b>(2,099)</b>
Income tax expense		424	70
<b>NET EARNINGS FOR THE PERIOD</b>		<b>10,021</b>	<b>(2,169)</b>
Attributable to:			
Shareholders of the Company		10,002	(2,309)
Non-controlling interests		19	140
		<b>10,021</b>	<b>(2,169)</b>
Earnings per share:			
Basic	8	0.48	(0.11)
Fully diluted		0.48	(0.11)

The accompanying notes form part of these condensed consolidated financial statements.

# Condensed Consolidated Statements of Comprehensive Income

For the six months ended September 30 (In \$ thousands)

	2018 (Unaudited)	2017 (Unaudited)
<b>Net Earnings/(loss) for the Period</b>	<b>10,021</b>	<b>(2,169)</b>
<b>OTHER COMPREHENSIVE (LOSS)/INCOME</b>		
Items that will not be reclassified to net earnings:		
Post-employment medical benefit obligation remeasurement	332	378
Items that are or may subsequently be reclassified to net earnings:		
Change in unrealised (losses)/gains on available-for-sale investments	(5,769)	6,425
Change in unrealised (losses)/gains on translating financial statements of foreign operations	(1,049)	981
Investment in associates	-	(12)
<b>OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD</b>	<b>(6,486)</b>	<b>7,772</b>
<b>COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>3,535</b>	<b>5,603</b>
<b>OTHER COMPREHENSIVE (LOSS)/INCOME ATTRIBUTABLE TO:</b>		
Shareholders of the Company	(6,486)	7,780
Non-controlling interests	-	(8)
	<b>(6,486)</b>	<b>7,772</b>
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>		
Shareholders of the Company	3,516	5,463
Non-controlling interests	19	140
	<b>3,535</b>	<b>5,603</b>

The accompanying notes form part of these condensed consolidated financial statements.



## Condensed Consolidated Statements of Changes in Equity

<i>For the six months ended September 30 (In \$ thousands)</i>	<b>2018</b> <i>(Unaudited)</i>	<b>2017</b> <i>(Unaudited)</i>
<b>Share Capital</b>		
Authorised:		
25,000,000 common shares of \$1.00 each (2017 – 25,000,000)	25,000	25,000
Issued and fully paid, beginning of period 21,901,634 shares (2017 – 21,728,151 shares)	21,902	21,728
Add: Shares issued under the dividend reinvestment plan 93,908 shares (2017 – 80,226 shares)	94	80
Deduct: Shares held in Treasury, at cost 902,593 shares (2017 – 719,584 shares)	(5,160)	(4,630)
<b>BALANCE, NET OF SHARES HELD IN TREASURY, END OF PERIOD</b>	<b>16,836</b>	<b>17,178</b>
<b>Contributed Surplus</b>		
Balance, beginning of period	52,629	53,183
Stock-based compensation expense	87	68
Treasury shares granted to employees	(164)	(176)
Shares issued under the dividend reinvestment plan	283	236
<b>BALANCE, END OF PERIOD</b>	<b>52,835</b>	<b>53,311</b>
<b>Retained Earnings</b>		
Balance, beginning of period	41,087	63,688
Net earnings for the period	10,002	(2,309)
Dividends	(1,892)	(1,892)
Loss on treasury shares granted to employees	(190)	(183)
<b>BALANCE, END OF PERIOD</b>	<b>49,007</b>	<b>59,304</b>
<b>Accumulated Other Comprehensive Loss</b>		
Balance, beginning of period	(4,337)	(3,589)
Other comprehensive loss	(6,486)	7,764
<b>BALANCE, END OF PERIOD</b>	<b>(10,823)</b>	<b>4,175</b>
<b>TOTAL ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY</b>	<b>107,855</b>	<b>133,968</b>
<b>Attributable to Non-controlling Interests</b>		
Balance, beginning of period	9	1,344
Net earnings for the period	19	140
Distributions to non-controlling interests	-	8
<b>TOTAL EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS</b>	<b>28</b>	<b>1,492</b>
<b>TOTAL EQUITY</b>	<b>107,883</b>	<b>135,460</b>

*The accompanying notes form part of these condensed consolidated financial statements.*

## Condensed Consolidated Statements of Cash Flows

<i>For the six months ended September 30 (In \$ thousands)</i>	Note	2018 (Unaudited)	2017 (Unaudited)	<i>For the six months ended September 30 (In \$ thousands)</i>	Note	2018 (Unaudited)	2017 (Unaudited)
<b>OPERATING ACTIVITIES</b>				<b>INVESTING ACTIVITIES</b>			
Earnings/(loss) before income taxes		10,445	(2,099)	Purchase of investments		(1,688,533)	(1,842,389)
<b>Adjustments to reconcile net earnings to cash basis</b>				Sale and maturity and paydown of investments		1,705,087	1,811,326
Interest income		(6,702)	(6,658)	Purchase of property and equipment		(3,055)	(264)
Dividend income		(591)	(778)	<b>CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES</b>			
Investment income related to Deposit administration pension plans		698	891			13,499	(31,327)
Net realised and unrealised gains on investments		(3,131)	(1,569)	<b>FINANCING ACTIVITIES</b>			
Amortisation of net premium of bonds		682	839	Dividends paid to shareholders		(1,971)	(1,640)
Share of earnings of associates		(162)	(168)	Acquisition of shares held in Treasury		(26)	(144)
Change in fair value of investment property		1,400	-	<b>CASH USED IN FINANCING ACTIVITIES</b>			
Amortisation, depreciation and impairment		2,484	2,379			(1,997)	(1,784)
Expense on vesting of stock-based compensation		87	68	<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND SHORT-TERM INVESTMENTS</b>			
		(5,235)	(4,996)			(947)	776
<b>Change in operating balances</b>				<b>NET INCREASE/(DECREASE) IN CASH AND SHORT-TERM INVESTMENTS</b>			
Insurance balances receivable		1,284	2,235			13,363	(24,157)
Reinsurers' share of:				<b>CASH AND SHORT-TERM INVESTMENTS, beginning of period</b>		39,805	55,778
Claims provisions		1,099	(4,301)	<b>CASH AND SHORT-TERM INVESTMENTS, end of period</b>		53,168	31,621
Unearned premiums		(2,264)	(2,747)	Cash and short-term investments from continuing operations		38,627	31,621
Other assets		(3,176)	2,061	Cash and short-term investments held for sale	3	14,541	-
Deferred policy acquisition costs		120	(102)			53,168	31,621
Insurance contract liabilities		857	16,282				
Insurance balances payable		(4,369)	1,445				
Investment contract liabilities		(2,400)	(3,504)				
Accounts payable and accrued liabilities		(52)	(2,449)				
Post employment benefit liability		20	229				
		(8,881)	9,149				
Interest income received		5,872	5,467				
Dividend income received		591	787				
Income tax recoveries/(paid)		16	(130)				
<b>CASH GENERATED FROM OPERATING ACTIVITIES</b>		<b>2,808</b>	<b>8,178</b>				

The accompanying notes form part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

September 30, 2018

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

## 1 Operations

Argus Group Holdings Limited (the Company) was incorporated in Bermuda with limited liability on May 26, 2005, as a holding company and has its registered office at the Argus Building, 14 Wesley Street, Hamilton HM 11, Bermuda. The Company's shares are traded on the Bermuda Stock Exchange. At September 30, 2018, it had 1,405 shareholders; 84.5 percent of whom were Bermudian, holding 89.5 percent of the issued shares.

The Company and its subsidiaries (the Group) operates predominantly in Bermuda, Gibraltar and Malta underwriting life, health, property and casualty insurance. The Group also provides investment, savings and retirement products, and administrative services.

### 1.1 GROUP COMPOSITION

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

Name	Country of incorporation and place of business	Nature of business	% of ownership interest held	% of ownership interest held by non-controlling interests <sup>(2)</sup>
Argus Wealth Management Limited	Bermuda	Investment management services	100%	-
Argus Insurance Agencies Limited	Malta	Insurance agency	100%	-
Argus Insurance Company Limited	Bermuda	Property and casualty insurance: Home and commercial property, contractors' all risks, liability, marine, motor and employer's indemnity	100%	-
Argus Insurance Company (Europe) Limited	Gibraltar	Property and casualty insurance: Home and commercial property, contractors' all risks, liability, marine and motor	100%	-
Argus International Life Bermuda Limited <sup>(1)</sup>	Bermuda	Individual life and annuities	100%	-
Argus International Life Insurance Limited <sup>(1)</sup>	Bermuda	Individual life and annuities	74%	26%
Argus Investment Nominees Limited	Bermuda	Nominee company	100%	-
Argus Management Services Limited	Bermuda	Financial and general management services	100%	-
Bermuda Life Insurance Company Limited	Bermuda	Pensions, group life and long-term disability insurance, individual life and annuities, group and individual health insurance	100%	-
Bermuda Life Worldwide Limited	Bermuda	Individual life and annuities	100%	-
Centurion Insurance Services Limited	Bermuda	Insurance agent and licensed broker	100%	-
NBHH (Keepsake) Limited	Bermuda	Property holding company	100%	-
Island Insurance Brokers Limited	Malta	Insurance broker	100%	-
Trott Property Limited	Bermuda	Property holding company	100%	-
Westmed Insurance Services Limited	Gibraltar	Insurance agent and licensed broker	100%	-

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

<sup>(2)</sup> Percentage held by shareholders and non-controlling interests are consistent with March 31, 2018.

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

## 2 Significant Accounting Policies

### 2.1 BASIS OF PRESENTATION

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

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

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

These condensed consolidated interim financial statements follow the same accounting policies and methods of their application as our March 31, 2018, audited financial statements and should be read in conjunction with the latter, except for any changes discussed in Note 2.2.

### 2.2 NEW AND REVISED ACCOUNTING POLICIES AND STANDARDS

#### 2.2.1 Application of new and revised standards effective April 1, 2018

There are amendments to existing standards and interpretations that are mandatory for the first time for financial periods beginning April 1, 2018, as discussed in the March 31, 2018, audited financial statements. However, these do not impact the condensed consolidated interim financial statements of the Group other than the adoption of IFRS 15, *Revenue from Contracts with Customers* as discussed below.

Effective April 1, 2018, the Group adopted IFRS 15. This standard requires revenue to be recognised when a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled.

Insurance contracts and revenues arising from those contracts are not within the scope of this standard. Revenues from service contracts and service components of investment contracts, which primarily arise from the Group's investment management, pensions and policyholder administration and brokerage businesses, are within the scope of IFRS 15.

The adoption of IFRS 15 did not result in transitional adjustments to the unaudited consolidated interim financial statements. IFRS 15 had consequential disclosure amendments to IAS 34. Refer to Note 10 for the additional disclosures required under IFRS 15.

#### 2.2.2 Policy Fees

The September 2017 comparatives for Gross premiums written and Commissions, management fees and other were restated to reclassify cost of insurance charges of \$1.3 million from certain variable universal life insurance contracts. As disclosed in Note 2.20.2(c) in the March 2018 annual report, the revised presentation of cost of insurance charges under Commissions, management fees and other better reflects the economics of the service component from these type of contracts.

### 2.3 SEASONALITY OF OPERATIONS

The Group underwrites a range of risks, some of which are subject to potential seasonal variation. The most material of these is the Group's exposure to North Atlantic hurricanes, which are largely concentrated in the second and third quarters of the fiscal year. In contrast, a majority of gross premium income written in the lines of business impacted occurs during the first quarter of the fiscal year. If any catastrophic events do occur, it is likely that the Group will share some of the market's losses, net of reinsurance. Details of the Group's recent exposures to these lines of business are disclosed in the March 2018 annual report.

### 3 Assets and Liabilities Held-for-Sale

In March 2018, Management committed to a plan to sell the International Life Division, including the related assets and liabilities. Management intends to sell this division in the next fiscal year (Note 13). The International Life Division was previously included within the Wealth Management operations (Note 6). The operations and cash flows of this division were clearly distinguished, operationally and for financial reporting purposes. Whilst separate, it did not represent a major line of business for the Group and was not separately disclosed as discontinued operations.

Management also committed to a plan for the settlement of an outstanding mortgage loan receivable which is fully collateralised via a first mortgage over a property in receivership and is situated in Bermuda. The settlement of the outstanding loan is dependent upon the sale of the collateral property, which is expected to be finalised in the next year.

The following table shows the assets and liabilities held-for-sale and are measured at carrying value.

	SEPTEMBER 30 2018	MARCH 31 2018
Cash and short-term investments	14,541	7,520
Insurance balances receivable	1,393	2,146
Investments	11,594	25,100
Reinsurers' share of:		
Claims provisions	3,032	3,151
Unearned premium	(2)	82
Other assets	2,151	7
Intangible assets	865	865
<b>Total General fund assets held-for-sale</b>	<b>33,574</b>	<b>38,871</b>
Due from related parties – net	456	4,603
Segregated fund assets	668,489	691,033
	<b>702,519</b>	<b>734,507</b>
<b>LIABILITIES</b>		
Life and annuity policy reserves	16,261	16,170
Insurance balances payable	2,331	3,597
Accounts payable and accrued liabilities	433	360
<b>Total General fund liabilities held-for-sale</b>	<b>19,025</b>	<b>20,127</b>
Segregated fund liabilities held-for-sale	668,489	691,033
	<b>687,514</b>	<b>711,160</b>

In accordance with the divestment plan, the Group took certain capital actions, which resulted in the decrease of the assets and liabilities held-for-sale during the period. The divestment plan also includes the settlement of the outstanding due from related parties prior to the closing date.

## 4 Investments

### 4.1 CARRYING VALUES AND ESTIMATED FAIR VALUES OF INVESTMENTS

	SEPTEMBER 30, 2018		MARCH 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Available-for-sale</b>				
Bonds	416,800	416,800	388,314	388,314
Equities	11,198	11,198	16,077	16,077
	<b>427,998</b>	<b>427,998</b>	<b>404,391</b>	<b>404,391</b>
<b>Investments at FVTPL <sup>(1)</sup></b>				
Bonds	14,036	14,036	19,359	19,359
Equities	5,738	5,738	6,857	6,857
	<b>19,774</b>	<b>19,774</b>	<b>26,216</b>	<b>26,216</b>
<b>Held-to-maturity</b>				
Bonds	651	679	701	743
	<b>651</b>	<b>679</b>	<b>701</b>	<b>743</b>
<b>Loans and receivables</b>				
Mortgages and loans	15,462	15,842	14,272	15,015
Policy loans	81	81	81	81
	<b>15,543</b>	<b>15,923</b>	<b>14,353</b>	<b>15,096</b>
<b>Derivatives</b>				
Other <sup>(2)</sup>	1,002	1,002	455	455
Foreign currency forward contracts	77	77	115	115
	<b>1,079</b>	<b>1,079</b>	<b>570</b>	<b>570</b>
<b>TOTAL INVESTMENTS</b>	<b>465,045</b>	<b>465,454</b>	<b>446,231</b>	<b>447,016</b>

(1) Fair value through profit or loss (FVTPL)

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

Included in Bonds are investments of \$150.0 million (March 2018 – \$152.7 million), which are maintained under the Interest Accumulator Separate Account. The separate account is set up to provide policyholders certain protection from creditors of the Group. These investments are included in the assets supporting the Group's deposit administration pension plans.

## 4.2 INVESTMENT INCOME

FOR THE SIX MONTHS ENDED SEPTEMBER 30	2018	2017
<b>Interest income</b>		
Bonds – available-for-sale	6,107	5,971
Bonds – at FVTPL	67	144
Bonds – held-to-maturity	17	16
Mortgages and loans	375	388
Cash and other	136	139
	<b>6,702</b>	<b>6,658</b>
<b>Dividend income</b>		
Equities – available-for-sale	517	590
Equities – at FVTPL	74	188
	<b>591</b>	<b>778</b>
<b>Net realised and unrealised (losses)/gains on investments</b>		
Bonds – available-for-sale	(392)	384
Bonds – at FVTPL	(227)	352
Equities – at FVTPL	1,884	808
Equities – available-for-sale	1,643	(3)
Derivative financial instruments	223	28
Investment properties	(1,400)	-
	<b>1,731</b>	<b>1,569</b>
<b>Other</b>		
Amortisation of premium on bonds	(682)	(839)
Rental income and other	71	408
	<b>(611)</b>	<b>(431)</b>
<b>INVESTMENT INCOME BEFORE DEDUCTIONS</b>	<b>8,413</b>	<b>8,574</b>
<b>Deductions</b>		
Investment income relating to Deposit Administration Pension Plans	(698)	(891)
<b>INVESTMENT INCOME</b>	<b>7,715</b>	<b>7,683</b>

## 4.3 INVESTMENT REDESIGNATION

Effective April 1, 2016, the Group redesignated certain fixed income investments with a carrying value and fair value of \$318.6 million from the held-for-trading to the available-for-sale category. The valuation of these investments is based on Level 2 and 3 inputs in the fair value hierarchy, as defined in Note 5.

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

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

The carrying value of the redesignated investments as of September 30, 2018 is \$86.4 million (March 31, 2018 – \$110.4 million). The table below sets out the amounts recognised as Investment income on the Consolidated Statement of Operations and Other comprehensive income in respect of investments redesignated out of the held-for-trading category.

FOR THE SIX MONTHS ENDED SEPTEMBER 30	2018		2017	
	Consolidated Statement of Operations	Other Comprehensive Loss	Consolidated Statement of Operations	Other Comprehensive Income
Investment income	2,065	-	3,446	-
Net unrealised (losses)/gains on investments	-	(1,227)	-	3,089
	2,065	(1,227)	3,446	3,089

If the investments had not been redesignated, \$1.2 million of unrealised losses (2017 – \$3.1 million of unrealised gains) would have been recognised in Investment income on the Consolidated Statement of Operations.

The effective interest rates on trading investments redesignated as available-for-sale ranged from 4.48 percent to 6.92 percent (2017 – 4.93 percent to 4.10 percent), with expected recoverable cashflows of \$131.6 million (2017 – \$212.2 million).

## 5 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 determines the estimated fair value of each individual security utilising the highest level inputs available. Prices for the majority of the Group's investment portfolio are provided by a third-party investment accounting firm whose pricing processes and the controls thereon are subject to an annual audit on both the operation and the effectiveness of those controls. The audit reports are available to clients of the firm and the report is reviewed annually by Management. In accordance with their pricing policy, various reputable pricing sources are used including broker-dealers and pricing vendors. The pricing sources use bid prices where available, otherwise indicative prices are quoted based on observable market trade data. The prices provided are compared to the investment managers' pricing. The Group has not made adjustments to any pricing provided by independent pricing services or its third-party investment managers for either period ending September 30, 2018, and March 31, 2018.

Level 1 investments are securities with quoted prices in active markets. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. The Group determines securities classified as Level 1 to include highly liquid U.S. treasuries, certain highly liquid short-term investments and quoted equity securities.

Level 2 investments are securities with quoted prices in active markets for similar assets or liabilities or securities valued using other valuation techniques for which all significant inputs are based on observable market data. Instruments included in Level 2 are valued via independent external sources using modelled or other valuation methods. Such methods are typically industry accepted standard and include:

- broker-dealer quotes;
- pricing models or matrix pricing;
- present values;



- future cash flows;
- yield curves;
- interest rates;
- prepayment speeds; and
- default rates.

Other similar quoted instruments or market transactions may be used.

The Group determines securities classified as Level 2 to include short-term and fixed maturity investments and certain derivatives such as:

- U.S. corporate bonds;
- Municipal, other government and agency bonds;
- Foreign corporate bonds;
- Mortgage/asset-backed securities;
- Bond and equity funds with listed underlying assets; and
- Derivatives, such as options, forward foreign exchange contracts, interest rate swaps and credit default swaps.

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. These assets are classified as Level 2.

Fair value of the Investment contract liabilities (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 carrying values of certain short-term assets and liabilities approximate fair value and are classified as Level 2.

Level 3 investments are securities for which valuation techniques are not based on observable market data. The Group classifies hard-to-value assets and unquoted equities as Level 3 assets as the valuation technique incorporates both observable and unobservable inputs. 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 value as a reasonable approximate of fair value.

The fair value of investments for accounts of segregated fund holders is based on net asset values reported by third parties, such as investment managers and fund administrators. The fair value hierarchy of direct investments within investments for accounts of segregated fund holders, such as short-term securities, local equities and corporate debt securities, is determined according to valuation methodologies and inputs described above in the respective asset type sections.

The Group determines whether transfers have occurred between levels of the fair value hierarchy by re-assessing the categorisation at the end of each reporting period based on the lowest level input that is significant to the fair value measurement as a whole.

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

## 5.1 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

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

SEPTEMBER 30, 2018	Level 1	Level 2	Level 3	Total Fair Value
Cash and short-term investments	38,627	-	-	38,627
Interest and dividends receivable	-	2,688	-	2,688
Available-for-sale investments				
Bonds				
U.S. government	94,227	-	-	94,227
U.S. corporates	-	187,064	-	187,064
Municipal, other government and agency	-	23,832	-	23,832
Foreign corporates	-	10,390	-	10,390
Mortgage/asset-backed securities	-	69,605	-	69,605
Other <sup>(1)</sup>	-	31,682	-	31,682
Total Available-for-sale bonds	94,227	322,573	-	416,800
Equities				
Global listed equities	1,322	-	-	1,322
Investment in equity funds	-	7,574	-	7,574
Private equity funds and unquoted equities	-	-	2,302	2,302
Total Available-for-sale equities	1,322	7,574	2,302	11,198
TOTAL AVAILABLE-FOR-SALE INVESTMENTS	95,549	330,147	2,302	427,998
Investments at FVTPL				
Bonds				
U.S. government	14,036	-	-	14,036
Total Bonds at FVTPL	14,036	-	-	14,036
Equities				
Bermuda listed equities	1,488	-	-	1,488
Global listed equities	2,374	-	-	2,374
Private equity funds and unquoted equities	-	-	1,876	1,876
Total Equities at FVTPL	3,862	-	1,876	5,738
TOTAL INVESTMENTS AT FVTPL	17,898	-	1,876	19,774
Derivatives	-	1,079	-	1,079
Receivable for investments sold	-	14,137	-	14,137
Other financial assets under Other assets	-	4,567	-	4,567
Investment properties	-	9,876	-	9,876
TOTAL ASSETS AT FAIR VALUE	152,074	362,494	4,178	518,746
Investment contract liabilities (Deposit accounted annuity policies)	-	1,183	-	1,183
Payables arising from investment transactions	-	52,372	-	52,372
Accounts payable and accrued liabilities	-	16,922	-	16,922
TOTAL LIABILITIES AT FAIR VALUE	-	70,477	-	70,477
SEGREGATED FUNDS	43,492	1,433,423	138,564	1,615,479

<sup>(1)</sup> Investment in bond funds

As at September 30, 2018, segregated funds include certain segregated funds held-for-sale, which were classified as Level 1 – \$41.8 million, Level 2 – \$489.4 million and Level 3 – \$137.2 million.

MARCH 31, 2018	Level 1	Level 2	Level 3	Total Fair Value
Cash and short-term investments	32,285	-	-	32,285
Interest and dividends receivable	-	2,570	-	2,570
Available-for-sale investments				
Bonds				
U.S. government	75,952	-	-	75,952
U.S. corporates	-	178,075	-	178,075
Municipal, other government and agency	-	23,928	-	23,928
Foreign corporates	-	7,855	-	7,855
Mortgage/asset-backed securities	-	70,736	-	70,736
Other <sup>(1)</sup>	-	31,768	-	31,768
Total Available-for-sale bonds	75,952	312,362	-	388,314
Equities				
Global listed equities	1,127	-	-	1,127
Investment in equity funds	-	12,773	-	12,773
Private equity funds and unquoted equities	-	-	2,177	2,177
Total Available-for-sale equities	1,127	12,773	2,177	16,077
<b>TOTAL AVAILABLE-FOR-SALE INVESTMENTS</b>	<b>77,079</b>	<b>325,135</b>	<b>2,177</b>	<b>404,391</b>
Investments at FVTPL				
Bonds				
U.S. government	19,359	-	-	19,359
Other <sup>(1)</sup>	-	-	-	-
Total Bonds at FVTPL	19,359	-	-	19,359
Equities				
Bermuda listed equities	2,500	-	1,795	4,295
Global listed equities	2,411	-	-	2,411
Private equity funds and unquoted equities	-	-	151	151
Total Equities at FVTPL	4,911	-	1,946	6,857
<b>TOTAL INVESTMENTS AT FVTPL</b>	<b>24,270</b>	<b>-</b>	<b>1,946</b>	<b>26,216</b>
Derivatives	-	570	-	570
Receivable for investments sold	-	14,832	-	14,832
Other financial assets under Other assets	-	3,056	-	3,056
Investment properties	-	11,476	-	11,476
<b>TOTAL ASSETS AT FAIR VALUE</b>	<b>133,634</b>	<b>357,639</b>	<b>4,123</b>	<b>495,396</b>
LIABILITIES				
Investment contract liabilities (Deposit accounted annuity policies)	-	2,516	-	2,516
Payables arising from investment transactions	-	26,900	-	26,900
Accounts payable and accrued liabilities	-	17,805	-	17,805
<b>TOTAL LIABILITIES AT FAIR VALUE</b>	<b>-</b>	<b>47,221</b>	<b>-</b>	<b>47,221</b>
<b>SEGREGATED FUNDS</b>	<b>33,108</b>	<b>1,476,006</b>	<b>101,358</b>	<b>1,610,472</b>

<sup>(1)</sup> Investment in bond funds

As at March 31, 2018, segregated funds include certain segregated funds held-for-sale, which were classified as Level 1 – \$31.5 million, Level 2 – \$558.1 million and Level 3 – \$101.4 million.

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

FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2018	Available-for-sale Bonds	Available-for-sale Equities	At FVTPL Equities	Total
Balance, beginning of period	-	2,177	1,946	4,123
Included in Investment income	-	-	(70)	(70)
Included in Other comprehensive income	-	125	-	125
	-	2,302	1,876	4,178
<hr/>				
FOR THE YEAR ENDED MARCH 31, 2018	Available-for-sale Bonds	Available-for-sale Equities	At FVTPL Equities	Total
Balance, beginning of year	3,199	2,290	151	5,640
Included in Investment income	-	10	-	10
Included in Other comprehensive income	6	39	-	45
Transfer from Investment in associates to Level 3 investments	-	-	1,795	1,795
Redesignation of investments	(1,667)	-	-	(1,667)
Sales/Write Off	(1,538)	(162)	-	(1,700)
	-	2,177	1,946	4,123

## 5.2 ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE

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

SEPTEMBER 30, 2018	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value
<b>ASSETS</b>					
Held-to-maturity bonds <sup>(1)</sup>	-	679	-	679	651
Mortgages and loans <sup>(2)</sup>	-	15,842	-	15,842	15,462
Policy loans	-	81	-	81	81
<b>TOTAL ASSETS DISCLOSED AT FAIR VALUE</b>	-	16,602	-	16,602	16,194
<b>LIABILITIES</b>					
Investment contract liabilities <sup>(3)</sup>	-	222,614	-	222,614	233,266
<b>TOTAL LIABILITIES DISCLOSED AT FAIR VALUE</b>	-	222,614	-	222,614	233,266

MARCH 31, 2018	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value
<b>ASSETS</b>					
Held-to-maturity bonds <sup>(1)</sup>	-	743	-	743	701
Mortgages and loans <sup>(2)</sup>	-	15,015	-	15,015	14,272
Policy loans	-	81	-	81	81
<b>TOTAL ASSETS DISCLOSED AT FAIR VALUE</b>	-	15,839	-	15,839	15,054
<b>LIABILITIES</b>					
Investment contract liabilities <sup>(3)</sup>	-	224,559	-	224,559	234,333
<b>TOTAL LIABILITIES DISCLOSED AT FAIR VALUE</b>	-	224,559	-	224,559	234,333

(1) Fair value of bonds – see Note 5.1 for valuation techniques used to measure fair value.

(2) Fair value of mortgages and loans is determined by discounting expected future cash flows using current market rates.

(3) Fair value of Investment contract liabilities is based on the following methods:

- Deposit administration pension plans – based on a discounted cash flow method. Factors considered in the valuation include current yield curve, plus appropriate spreads that 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.

### 5.3 TRANSFERS OF ASSETS AND LIABILITIES WITHIN THE FAIR VALUE HIERARCHY

The Group's policy is to record transfers of assets and liabilities between levels at their fair values as at the end of each reporting period, consistent with the date of determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. There were no transfers between Levels 1 and 2 during the period ended September 30, 2018 and 2017.

Transfers out of Level 3 of \$nil (March 2018 – \$1.7 million), as shown on the previous page, relate to fixed income investments, which were transferred to Level 2 as observable inputs became available.

## 6 Operating Segments

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

The Group's reportable segments are as follows:

- Employee benefits – comprised of health insurance, pensions, annuities, local life and long-term disability insurance;
- Wealth management – including asset management and financial planning;
- Property and casualty insurance – including fire and windstorm (home and commercial property), all risks, liability, marine, motor coverage and employer's indemnity coverage in Bermuda, Gibraltar and Malta. This segment also includes brokerage income;
- All other – representing the combined operations of the remaining components of the Group comprising management companies and a holding company; and
- Disposal groups – refer to certain groups of assets and liabilities which are held-for-sale (Note 3).

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

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.

## 6.1 RESULTS BY SEGMENT

FOR THE SIX MONTHS ENDED SEPTEMBER 30		Employee Benefits	Wealth Management	Property & Casualty	All Other	Disposal Groups	Elimination	Total
Segment revenues	2018	66,445	1,995	18,265	13	1,139	(1,440)	86,417
	2017	61,676	2,979	17,041	13	-	(1,375)	80,334
Investment income	2018	8,451	20	(574)	21	640	(843)	7,715
	2017	7,598	621	348	(8)	-	(876)	7,683
Share of earnings of associates	2018	-	-	162	-	-	-	162
	2017	-	102	54	12	-	-	168
<b>TOTAL SEGMENT REVENUES</b>	2018	<b>74,896</b>	<b>2,015</b>	<b>17,853</b>	<b>34</b>	<b>1,779</b>	<b>(2,283)</b>	<b>94,294</b>
	2017	69,274	3,702	17,443	17	-	(2,251)	88,185
Amortisation, depreciation and impairment	2018	1,292	2	510	445	-	234	2,483
	2017	1,228	132	610	175	-	234	2,379
Income tax expense	2018	-	-	424	-	-	-	424
	2017	-	-	70	-	-	-	70
Reportable segment earnings attributable to shareholders, after tax	2018	11,481	246	2,239	(3,017)	(574)	(373)	10,002
	2017	(1,561)	(5)	1,615	(1,910)	-	(448)	(2,309)

## GEOGRAPHIC INFORMATION ON SEGMENT REVENUES:

FOR THE SIX MONTHS ENDED SEPTEMBER 30		Bermuda	Europe	Total
Segment revenues	2018	84,295	9,999	94,294
	2017	79,614	8,571	88,185

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

## 6.2 ASSETS AND LIABILITIES BY SEGMENT

	Employee Benefits	Wealth Management	Property & Casualty	All Other	Disposal Groups	Elimination	Total
<b>SEPTEMBER 30, 2018:</b>							
General fund assets	514,335	1,407	115,313	163,565	33,574	(140,168)	688,026
Segregated fund assets	946,990	-	-	-	668,489	-	1,615,479
General fund liabilities	477,482	424	71,413	12,515	19,025	(716)	580,143
Segregated fund liabilities	946,990	-	-	-	668,489	-	1,615,479
<b>MARCH 31, 2018:</b>							
General fund assets	488,343	7,162	115,604	167,378	38,871	(147,035)	670,323
Segregated fund assets	919,439	-	-	-	691,033	-	1,610,472
General fund liabilities	458,192	335	72,645	14,735	20,127	(1,593)	564,441
Segregated fund liabilities	919,439	-	-	-	691,033	-	1,610,472

## 7 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 Group 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 and healthcare cost inflation risks. Responsibility for governance of the plan lies with the Company. Risks are managed through plan design and eligibility changes, which limit the size and growth of the defined benefit obligation.

The movement in the defined benefit liability is as follows:

	For the six months ended September 30 2018	For the year ended March 31 2018
Balance, beginning of period/year	3,339	3,414
Movements during the period/year recognised in Operating expense:		
Current service cost	20	54
Interest cost on benefit liability	68	126
	88	180
Remeasurement during the period/year included in Other comprehensive income:		
Actuarial gain arising from experience adjustment	(332)	(123)
Benefit payments	(68)	(132)
<b>BALANCE, END OF PERIOD/YEAR</b>	<b>3,027</b>	<b>3,339</b>

As at September 30, 2018, the present value of the defined benefit obligation was comprised of \$0.9 million (March 2018 – \$1.2 million) relating to active employees and \$2.1 million (March 2018 – \$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 period. 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:

	SEPTEMBER 30 2018	MARCH 31 2018
Discount rate	4.5%	3.8%
Healthcare cost trend rate	5.5%	5.5%

## 8 Earnings Per Share

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

FOR THE SIX MONTHS ENDED SEPTEMBER 30 (in \$000's)	2018	2017
Net earnings/(loss) for the period	10,002	(2,309)

AS AT SEPTEMBER 30	2018	2017 (Restated)
Common shares and common share equivalents	21,092,949	21,088,793
Weighted average outstanding common shares	21,022,646	21,025,226

## 9 Segregated Funds

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 are as follows:

	SEPTEMBER 30 2018	MARCH 31 2018 (Restated)
	Note	
ADDITIONS TO SEGREGATED FUNDS:		
Premiums, contributions and transfers	38,800	136,298
Return on investments	23,855	145,777
Segregated funds acquired	16	406
	62,671	282,481
DEDUCTIONS FROM SEGREGATED FUNDS:		
Withdrawals, benefits paid and transfers to the General funds	50,816	157,569
Operating expenses	6,848	20,368
	57,664	177,937
Net additions to Segregated funds for the period/year	5,007	104,544
Segregated funds, beginning of period/year	1,610,472	1,505,928
Segregated funds, end of period/year	1,615,479	1,610,472
Segregated funds classified under held-for-sale, end of period/year	3 (668,489)	(691,033)
Segregated funds from continuing operations, end of period/year	946,990	919,439



## 10 Commissions, Management Fees and Other

Commissions, Management Fees and Other recognised during the period are as follows:

FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2018	Employee Benefits	Wealth Management	Property & Casualty	Disposal Groups	Total
Fee income from service contracts					
Pensions and policyholder administration	6,500	-	-	2,424	8,924
Investment management	-	1,745	-	-	1,745
Brokerage income	-	-	1,616	-	1,616
Total fee income from service contracts	6,500	1,745	1,616	2,424	12,285
Reinsurance commission income	1,128	-	4,342	-	5,470
	7,628	1,745	5,958	2,424	17,755
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2017	Employee Benefits	Wealth Management	Property & Casualty	Disposal Groups	Total
Fee income from service contracts					
Pensions and policyholder administration	6,550	2,211	-	-	8,761
Investment management	-	1,605	-	-	1,605
Brokerage income	-	-	1,644	-	1,644
Total fee income from service contracts	6,550	3,816	1,644	-	12,010
Reinsurance commission income	654	-	4,155	-	4,809
	7,204	3,816	5,799	-	16,819

The Group's accounting policy under IFRS 15 is discussed in the following paragraphs:

Fee income from service contracts is typically recognised as revenue when services are rendered at either a point in time or over time. The Group's performance obligations are generally satisfied over time as the customer simultaneously receives and consumes the benefits of the services rendered.

Fee income from pensions administration, policyholder administration under segregated fund arrangement and investment management services are generally based on a percentage of assets under management or another variable metric. Asset-based fees vary with assets under management, which are subject to market conditions and investor behaviors beyond the Group's control.

Certain service contracts in the Group's brokerage business include profit commission which is based on the underlying performance of the covered policies at the end of the underwriting cycle. Revenue is recognised when it is highly probable that a significant reversal in the amount of the revenue recognised will not occur.

## 11 Components of Accumulated Other Comprehensive Loss

	SEPTEMBER 30 2018	MARCH 31 2018
Remeasurement of post-employment medical benefit obligation	(291)	(623)
Available-for-sale investments	(7,155)	(1,386)
Translation of financial statements of foreign operations	(3,377)	(2,328)
<b>TOTAL ACCUMULATED OTHER COMPREHENSIVE LOSS</b>	<b>(10,823)</b>	<b>(4,337)</b>

As at September 30, 2018, the accumulated other comprehensive income from the International Life Division was \$nil (March 2018 – \$0.6 million)

## 12 Directors and Officers Holdings and Restricted Stock

At September 30, 2018 the Directors and Officers of the Company had combined interests totalling 76,241 shares out of 21,995,542 shares in issue on that date.

In the six-month period ended September 30, 2018 there were 12,201 (2017 – 13,467) restricted shares granted to Directors and Officers.

## 13 Subsequent Events

### 13.1 DIVIDENDS

The Board has declared a final dividend of nine cents per share based upon the audited financial statements of the Group for the year ended March 31, 2018. This is payable on January 15, 2019 for shareholders of record on December 31, 2018.

### 13.1 DIVESTMENT

Subsequent to September 30, 2018, discussions regarding the sale of the International Life Division remain ongoing.

## 14 Comparative Figures

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



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 waste water  
18% less solid waste

Registered Office

The Argus Building, 14 Wesley Street, Hamilton HM 11, Bermuda  
T (441) 295-2021 F (441) 292-6763

Mailing Address

P.O. Box HM 1064, Hamilton HM EX, Bermuda

Customer Service Centre

T (441) 298-0888  
insurance@argus.bm  
argus.bm

