BERMUDA LIFE INSURANCE COMPANY LIMITED

Consolidated financial statements
(With Independent Auditor's Report Thereon)

March 31, 2020

KPMG Audit Limited
Crown House
4 Par-la-Ville Road
Hamilton
HM 08
Bermuda

Telephone +1 441 295 5063
Fax +1 441 295 8280
Internet www.kpmg.bm

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Bermuda Life Insurance Company Limited

We have audited the accompanying consolidated financial statements of Bermuda Life Insurance Company Limited and its subsidiaries (the "Company"), which comprise the consolidated Balance Sheets as of March 31, 2020 and 2019, and the related Consolidated Statements of Comprehensive Income/(Loss), Changes in Equity, and Cash Flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company'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 Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements and subsidiaries referred to above present fairly, in all material respects, the financial position of Bermuda Life Insurance Company Limited and its subsidiaries as of March 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
July 29, 2020

BERMUDA LIFE INSURANCE COMPANY LIMITED

Consolidated Balance Sheets

March 31, 2020 and 2019
(Expressed in thousands of Bermuda Dollars)

	Note	2020	2019
Assets			
Cash and short-term investments	3	$ 31,733	$ 18,043
Interest and dividends receivable		2,538	2,870
Investments	5, 6	404,997	425,457
Receivable for investments sold		74	29,078
Insurance balances receivable	8	6,055	5,257
Reinsurers' share of:			
Claims provisions	11	3,110	5,433
Unearned premiums	11	184	200
Assets held-for-sale	4	7,700	11,556
Other assets	9	2,867	4,009
Due from parent	21	16,152	5,276
Investment property	7	500	575
Property and equipment	10	38,833	40,140
Total general fund assets		514,743	547,894
Segregated fund assets	25	866,100	936,444
Total assets		**$ 1,380,843**	**$ 1,484,338**
Liabilities			
Insurance balances payable	14	$ 4,496	$ 2,614
Payables arising from investment transactions	15	3,546	56,545
Accounts payable and accrued liabilities		7,851	7,357
Insurance contract liabilities	11	182,808	185,184
Investment contract liabilities	12	253,752	242,222
Total general fund liabilities		452,453	493,922
Segregated fund liabilities	25	866,100	936,444
Total liabilities		**$ 1,318,553**	**$ 1,430,366**
Equity			
Share capital		$ 252	$ 252
Contributed surplus	22	28,977	28,977
Retained earnings		38,429	23,143
Accumulated other comprehensive income/(loss)	24	(5,368)	1,600
Total equity attributable to the shareholder of the Group		$ 62,290	$ 53,972
Total equity and liabilities		**$ 1,380,843**	**$ 1,484,338**

The accompanying notes form part of these consolidated financial statements.

Signed on behalf of the Board

_______________ Director   _______________ Director

BERMUDA LIFE INSURANCE COMPANY LIMITED

Consolidated Statements of Comprehensive Income/(Loss)

Years ended March 31, 2020 and 2019
(Expressed in thousands of Bermuda Dollars)

	Note	2020	2019
Revenue			
Gross premiums written		$ 108,911	$ 127,232
Reinsurance ceded		(6,673)	(7,504)
Net premiums written		102,238	119,728
Net change in unearned premiums	16	16	(152)
Net premiums earned		102,254	119,576
Investment income	5, 7	21,676	15,152
Commissions, management fees and other	17	14,339	14,874
Total revenue		138,269	149,602
Expenses			
Policy benefits		15,656	15,378
Claims and adjustment expenses		71,953	86,447
Reinsurance recoveries	18	(2,849)	(3,672)
Gross change in contract liabilities	19	(2,353)	2,851
Change in reinsurers' share of claims provisions	19	2,323	(390)
Net benefits and claims		84,730	100,614
Commission expenses		542	514
Operating expenses	20	24,010	31,503
Depreciation and impairment of property and equipment	10	1,582	1,579
Total expenses		110,864	134,210
Net earnings for the year		27,405	15,392
Items that will not be reclassified to net earnings:			
Re-measurement of post-employment medical benefit obligation		240	193
Items that may subsequently be reclassified to net earnings:			
Change in unrealised gains (losses) on available-for-sale investments		(7,208)	3,836
Other comprehensive income/(loss) for the year		(6,968)	4,029
Total comprehensive income/(loss) for the year		**$ 20,437**	**$ 19,421**

The accompanying notes form part of these consolidated financial statements.

BERMUDA LIFE INSURANCE COMPANY LIMITED

Consolidated Statements of Changes in Equity

Years ended March 31, 2020 and 2019
(Expressed in thousands of Bermuda dollars, except the number of shares)

	Note	2020	2019
Share capital			
Authorised, issued and fully paid:			
105,000 common shares of $2.40 each (2019 - 105,000)		$ 252	$ 252
Contributed surplus			
Balance, beginning of year		28,977	30,377
Return of capital to Parent	22	-	(1,400)
Balance, end of the year		28,977	28,977
Retained earnings			
Balance, beginning of year		23,143	12,776
Impact of data validation and reconciliation adjustment	11	-	1,975
Dividends paid to Parent	22	(12,119)	(7,000)
Net earnings for the year		27,405	15,392
Balance, end of year		38,429	23,143
Accumulated other comprehensive income/(loss)			
Balance, beginning of year		1,600	(2,429)
Other comprehensive income/(loss) for the year		(6,968)	4,029
Balance, end of year		(5,368)	1,600
Total equity		**$ 62,290**	**$ 53,972**

See accompanying notes to the consolidated financial statements.

BERMUDA LIFE INSURANCE COMPANY LIMITED

Consolidated Statements of Cash Flows

Years ended March 31, 2020 and 2019
(Expressed in thousands of Bermuda Dollars)

		2020		2019
Operating activities				
Net earnings for the year	$	27,405	$	15,392
Adjustments to reconcile net earnings to cash basis (Footnote (i) below)		(17,055)		(10,628)
Change in operating balances (Footnote (ii) below)		2,807		(2,542)
Dividend income received		142		187
Interest income received		11,875		10,915
Cash generated from operating activities		25,174		13,324
Investing activities				
Purchase of investments		(903,688)		(1,636,198)
Sale of investments		904,598		1,638,366
Purchase of property and equipment		(275)		-
Cash generated from investing activities		635		2,168
Financing activities				
Dividends paid to parent		(12,119)		(7,000)
Return of capital to parent		-		(1,400)
Cash used in financing activities		(12,119)		(8,400)
Net increase in cash and short-term investments		13,690		7,092
Cash and short-term investments, beginning of year		18,043		10,951
Cash and short-term investments, end of year	**$**	**31,733**	**$**	**18,043**

Footnotes

		2020		2019
(i) Provision for bad debts	$	773		856
Dividend income		(143)	$	(187)
Interest income		(13,309)		(12,960)
Investment income related to deposit administration pension plans		1,765		1,713
Net realised and unrealised (gains)/loss on investments and investment property		(9,915)		(2,606)
Amortisation of premiums on bonds		1,046		1,125
Depreciation and impairment of property and equipment		1,582		1,579
Impairment charges (reversal) on mortgages and loans		1,146		(148)
	$	(17,055)	$	(10,628)
(ii) Insurance balances receivable	$	(1,569)	$	446
Reinsurers' share of:				
Claims provision		2,323		420
Unearned premiums		16		151
Other assets		1,141		690
Due from parent		(10,876)		(9,076)
Insurance balances payable		1,882		(1,582)
Accounts payable and accrued liabilities		736		(258)
Insurance contract liabilities		(2,376)		1,761
Investment contract liabilities		11,530		4,906
	$	2,807	$	(2,542)

See accompanying notes to the consolidated financial statements

1. OPERATIONS

Bermuda Life Insurance Company Limited (the "Group"), was incorporated on June 3, 1957 and has its registered office at The Argus Building, 14 Wesley Street, Hamilton, HM 11, Bermuda. The Group is a wholly-owned subsidiary of Argus Group Holdings Limited (the "Parent"), a Bermuda public company with no controlling interest vested in any one person or persons. The Group operates predominantly in Bermuda, underwriting life and health insurance. The Group also provides investment, savings and retirement products.

The Group has two wholly owned dormant subsidiaries, namely: (a) Succession Strategies (Bermuda) Limited and (b) C&S (Bermuda) Limited. All subsidiaries are included in the Group's consolidated financial statements. The Group's voting rights percentages are the same as the ownership percentages.

The consolidated financial statements as at and for the year ended March 31, 2020 were authorized for issue by the Board of Directors on July 29, 2020.

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 a going concern basis and prepared on the historical cost basis except for the following items on the Consolidated Balance Sheets:

- Financial assets 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; and
- Segregated fund assets and liabilities are measured at fair value based on net assets values of the investment funds as reported by third parties, such as fund managers or independent custodians.

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

2.2.2 Presentation currency

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of presentation (continued)

2.2.3 Use of critical estimates, judgments and assumptions

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 will 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 on the consolidated financial statements is included in the following notes:

Note 2.8 – Insurance, investment and service contracts;
Note 2.9 and Note 7 – Investment properties
Note 4 – Assets and liabilities held-for-sale

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 6 – Fair value measurement;
Note 11 – Insurance contract liabilities; and
Notes 5 and 12 – Investments and Investment 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 definition of assets and liabilities in accordance with the IASB's Framework for Preparation and Presentation of Financial Statements.

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

Amalgamation transactions

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

2.3.2 Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The results and financial position of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The Group consolidated financial statements include the financial statements of the Company and its subsidiaries after all intercompany accounts and transactions have been eliminated. The accounting policies of subsidiaries have been changed where necessary to align them with the policies adopted by the Group.

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

2.4 Cash and short-term investments

Cash and short-term investments include cash balances, cash equivalents, time deposits and other short-term highly liquid financial assets with original maturities of three months or less.

Interest on these balances is recorded on the accrual basis and included in Investment income.

2.5 Assets and Liabilities Held-for-Sale

Disposal groups, which comprise of assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale.

The sale is highly likely if, on the reporting date, Management has committed to detailed sale plans, is actively looking for a buyer, has set a reasonable selling price, and the sale is likely to occur within a year. Disposal groups are measured at the lower of their carrying value and fair value less costs to sell, except for assets and liabilities arising from insurance contracts which are measured on the same basis as the insurance assets and liabilities from continuing operations. Once classified as held-for-sale these assets will no longer be depreciated. See Note 4 Asset and liabilities held-for-sale.

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) available-for-sale financial assets, and (iii) loans and receivables. Management determines the classification of financial assets at initial recognition and is dependent on the nature of the assets and the purpose for which the assets were acquired.

All financial assets are required to be measured at fair value with the exception of loans and receivables and Available-for-sale equity instruments whose fair value cannot be reliably measured. The Group recognises loans and receivables at their date of inception. All other financial assets (including assets designated at FVTPL) are recognised on the trade date at which the Company becomes a party to the contractual provisions of the instrument. Balances pending settlement as a result of sales and purchases are reflected on the Consolidated Balance Sheets as Receivable for investments sold and Payable arising from investment transactions.

(i) Financial assets at FVTPL

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

Attributable transaction costs upon initial recognition are recognised in Investment income on the Consolidated Statements of Comprehensive Income/(Loss) as incurred. FVTPL financial instruments are measured at fair value, and changes therein are recognised in Investment income on the Consolidated Statements of Comprehensive Income/(Loss). Interest or dividend income earned from these financials assets is recorded in Investment income on the Consolidated Statements of Comprehensive Income/(Loss). Interest income is net of investment management fees.

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

2.6 **Financial instruments** (continued)

2.6.1 Financial assets (continued)

2.6.1(a) Classification and recognition of financial assets (continued)

(ii) *Available-for-sale financial assets*

Available-for-sale financial assets include equity investments and debt securities. Equity securities classified as available-for-sale are carried at fair value except unquoted equities, which are carried at cost. Debt securities in this category are carried at fair value and are intended to be held for an indefinite period of time and it may be sold in response to needs for liquidity, in response to changes in market conditions or in response to complying with investment guidelines.

After initial measurement, Available-for-sale financial assets are subsequently measured at fair value with unrealised gains or losses recognised in Other comprehensive income and presented on the Consolidated Statements of Comprehensive Income/(Loss). When an investment is derecognised, the cumulative gain or loss in Other comprehensive income is transferred to Investment income on the Consolidated Statements of Comprehensive Income/(Loss).

Amortisation and accretion of premiums and discounts and interest income on Available-for-sale debt securities are calculated using the effective interest rate method and are recognised Investment income. Interest income is recognised using the effective interest rate method. The carrying value of accrued interest income approximates estimated fair value due to its short term nature and high-liquidity. Interest income is net of investment management fees. Dividends on equity securities are recorded as investment income on the date the dividends become payable to the holders of record.

(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, receivables are measured at amortised cost using the effective interest method, less any impairment losses. Amortisation of interest is included in Investment income on the Consolidated Statements of Comprehensive Income/(Loss). For the purposes of this classification, Loans and receivables are comprised of mortgages and loans, Interest and dividends receivable and other receivables included in Other assets on the Consolidated Balance Sheets.

2.6.1(b) Derecognition and offsetting

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire or it transfers the rights to receive the contractual cash flows of the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, which is normally the trade date. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.
Financial assets and liabilities are offset and the net amount presented on the Consolidated Balance Sheets when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

2.6 **Financial instruments** (continued)

2.6.2 Financial liabilities

2.6.2(a) Classification and recognition of financial liabilities

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

(i) Financial liabilities at FVTPL

The Group's financial liabilities at FVTPL relate to deposit accounted annuity policies shown under Investment contract liabilities on the Consolidated Balance Sheets. Contracts recorded at FVTPL are measured at fair value at inception and each subsequent reporting period. Changes in fair value of investment contract liabilities are recorded in Gross change in contract liabilities on the Consolidated Statements of Comprehensive Income/(Loss).

(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, Payable arising from investment transactions, Insurance balance payable and Accounts payable and accrued liabilities. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

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

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

2.6.2(b) Derecognition

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

2.6.3 Derivative financial assets

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

2.6.4 Investment income

Interest is recorded in Investment income on the Consolidated Statements of Comprehensive Income/(Loss) 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. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

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) Loans and receivables

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed individually for impairment. Those found not to be impaired are then collectively assessed for impairment. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together assets 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 loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The impairment loss is recognised in Investment income on the Consolidated Statements of Comprehensive Income/(Loss) and reflected in an allowance account against the loans and receivables. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the impairment loss is reversed in Investment income on the Consolidated Statements of Comprehensive Income/(Loss).

2.7.1(b) Available-for-sale financial assets

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Impairment of assets (continued)

2.7.2 Impairment of non-financial assets

The carrying amounts of the Property and equipment 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 Depreciation of property and equipment on the Consolidated Statements of Comprehensive Income/(Loss) 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 that 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 Insurance, investment and service 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.

2.8.1 Premiums

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

2.8.2 Receivables and payables related to insurance contracts

Receivables and payables related to insurance contracts are recognised when due and measured on initial recognition at the fair value of the consideration receivable or payable. Subsequent to initial recognition, Insurance balances receivable and Insurance balances payable are measured at amortised cost. The carrying value of Insurance balances receivable is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in Operating expenses on the Consolidated Statements of Comprehensive Income/(Loss). Insurance balances receivable and Insurance balances payable are derecognised when the derecognition criteria for financial assets and financial liabilities, as described in Note 2.6.1(b) have been met.

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

2.8 **Insurance, investment and service contracts** (continued)

2.8.3 Reinsurance

Reinsurance ceded premiums comprise the cost of reinsurance contracts into which the Group has entered. Reinsurance ceded is 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 premium represents that part of reinsurance premiums ceded which are estimated to be earned in future financial periods. Unearned reinsurance commissions are recognised as a liability using the same principles and are shown under Insurance balances payable on the Consolidated Balance Sheets. The Reinsurers' share of claims provisions is estimated using the same methodology as the underlying losses. These represent the benefit derived from reinsurance agreements in force at the financial statements reporting date. Amounts due to or from reinsurers with respect to premiums or claims are included in Insurance balances payable or Insurance balances receivable on the Consolidated Balance Sheets.

The Group periodically assesses any reinsurance assets for impairment, with any impairment loss recognised in Operating expense on the Consolidated Statements of Comprehensive Income/(Loss) in the period in which any impairment is determined.

2.8.4 Insurance contract liabilities

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

(i) Life and annuity policy reserves

Life and annuity policy reserves are determined by the Group's actuaries and represent the amounts which, together with future premiums and investment income, are required to discharge the obligations under life and annuity contracts and to pay expenses related to the administration of these contracts. These reserves are determined using generally accepted actuarial practices according to standards established by the Canadian Institute of Actuaries ("CIA"). The CIA requires the use of the Canadian Asset Liability Method ("CALM") for the valuation of actuarial liabilities for all lines of business. The 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 actuarial liability reserves make provision for the expected experience scenario and for adverse deviations in experience.

(ii) Provision for unpaid and unreported claims

Provision for unpaid and unreported claims represents the best estimate of the ultimate costs of claims in the course of settlement and claims incurred but not yet reported. The provision is continually reviewed and updated by Management and the Group's actuaries. Any adjustments resulting from the review process, as well as differences between estimates and ultimate payments, are reflected in Claims and adjustment expenses and Gross change in contract liabilities on the Consolidated Statements of Comprehensive Income/(Loss) in the year in which they are determined.

Provisions for unpaid and unreported claims are not discounted.

2.8.5 Investment contracts

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Insurance, investment and service contracts (continued)

2.8.5 Investment contracts (continued)

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

(i) Deposit administration pension plans are plans where the Group's liability is linked to contributions received, plus a predetermined and guaranteed rate of return. The liability related to these plans is carried at amortised cost.
(ii) Self-funded group health policies are refund accounting agreements that provide for the retroactive adjustment of premiums based upon the claims experience of the policyholder. Under these agreements, any surplus arising is set off against future deficits or returned to the policyholder. Any deficit that may arise is set off against future surpluses or may be recovered in full, or in part, by lump sum payments from policyholders. As these agreements do not transfer insurance risk, funds received under these agreements are accounted for as investment contracts. Assets and liabilities arising from these types of policies are measured at amortised cost.
(iii) Deposit accounted annuity policies relate to policies that do not transfer significant insurance risk but do transfer financial risk from the policyholders and these are measured at FVTPL.

2.8.6 Other service contracts

Fee income from service contracts is 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 pension administration and policyholder administration under segregated fund arrangement are recognized 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.

2.9 Investment Properties

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

Fair values are evaluated regularly by an accredited independent valuation specialist, who holds a recognized and relevant professional qualification and who has recent experience in the valuation of properties in Bermuda.

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 Statements of Comprehensive Income/(Loss).

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Property and equipment (continued)

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 10% – 33%

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 Statements of Comprehensive Income/(Loss).

2.11 Segregated funds

Segregated funds are lines of business in which the Group issues a contract where the benefit amount is directly linked to the reported net asset values 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.

The Group derives fee income, which is included within Commissions, management fees and other on the Consolidated Statements of Comprehensive Income/(Loss). Deposits to segregated funds are reported as increases in Segregated funds liabilities and are not reported on the Consolidated Statements of Comprehensive Income/(Loss).

Insurance premiums are treated as deposits and are not recorded as revenue on the Consolidated Statements of Comprehensive Income/(Loss). Fees charged to policyholders, related to insured risk and associated administrative costs are recorded in Commissions, management fees and other on the Consolidated Statements of Comprehensive Income/(Loss). Refer to Note 2.8.6.

Segregated fund assets are recorded at fair value based on net asset values reported by third parties such as investment managers and fund administrators. Segregated fund assets may not be applied against liabilities that arise from any other business of the Group. The investment results are reflected directly in segregated fund assets and liabilities.

2.12 Employee benefits

2.12.1 Post-employment benefits

The Group participates in the post-retirement medical benefit plan granted by the Parent where the Parent charges the Group an allocated share of the total cost of the benefits.

The Parent operates a post-employment medical benefit plan, which provides medical benefits to eligible retired employees and their spouses. The plan is closed to new entrants effective April 1, 2011. The Parent 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.

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

2.12 **Employee benefits** (continued)

2.12.1 Post-employment benefits (continued)

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

2.12.2 Pensions

The Parent 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 Statements of Comprehensive Income/(Loss) under Operating expenses in the period to which they relate.

2.12.3 Stock-based compensation

The Parent has issued restricted shares to certain members of management. These restricted shares are recognised as an expense pro-rata over the vesting period, adjusted for the impact of any non-market vesting conditions. The total amount to be expensed is determined by reference to the fair value of the awards estimated at the grant date, excluding the impact of any non-market vesting conditions.

2.13 **Share capital**

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.

2.14 **Leases**

The Group is a lessor 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 all included in Property and equipment and Investment properties. Rental income from operating leases is recorded as revenue on a straight-line basis over the term of the lease. This is shown under Investment income on the Consolidated Statements of Comprehensive Income/(Loss).

2.15 **Application of new and revised accounting standards**

The Group has applied the following new and revised standards, relevant to the Group, which are issued by the International Accounting Standards Board (IASB) that are mandatorily effective for the Group for the accounting period beginning April 1, 2019.

2.15.1 IFRS 16, Leases

IFRS 16, Leases (IFRS 16) was issued in January 2016, and should be applied retrospectively or on a modified retrospective basis. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, the customer (lessee) and the supplier (lessor). The standard brings most leases on-balance sheet for lessees under a single model, eliminating the previous classifications of operating and finance leases. Adoption of IFRS 16 did not have significant impact on the Group's Consolidated Financial Statements.

(Amounts in tables are expressed in thousands of Bermuda dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Application of new and revised accounting standards (continued)

2.15.2 IFRIC 23 Uncertainty over Income Tax Treatments (IFRIC 23)

Effective April 1, 2019, the Group adopted IFRIC 23 Uncertainty over Income Tax Treatments, which was issued in June 2017. IFRIC 23 was applied retrospectively. IFRIC 23 provides guidance on applying the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments including whether uncertain tax treatments should be considered together or separately based on which approach better predicts resolution of the uncertainty. Adoption of IFRIC 23 did not have a significant impact on the Group's Consolidated Financial Statements.

2.15.3 Annual Improvements 2015–2017 Cycle

Effective January 1, 2019, the Group adopted amendments issued within the Annual Improvements 2015 – 2017 Cycle which was issued in December 2017.The IASB issued four minor amendments to different standards as part of the Annual Improvements process, with the amendments to be applied prospectively. Adoption of these amendments did not have a significant impact on the Group's Consolidated Financial Statements.

2.16 Future accounting and reporting changes

There are a number of accounting and reporting changes issued under IFRS including those still under development by the IASB. A summary of the recently issued new accounting standards that will impact the Group in 2020 and beyond is as follows:

TOPIC	EFFECTIVE DATE FOR THE COMPANY	EXPECTED IMPACT
2018 Conceptual Framework	April 1, 2020	No significant impact
Amendments to IFRS 3, *Business Combination*	April 1, 2020	Impact assessment in progress
Amendments to IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*	April 1, 2020	Impact assessment in progress
IFRS 9, *Financial Instruments*	April 1, 2023*	Impact assessment in progress
IFRS 17, *Insurance Contracts*	April 1, 2023	Impact assessment in progress

* Deferral option was exercised, refer to discussion in 2.16.4.

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

2.16 **Future accounting and reporting changes** (continued)

2.16.1 *2018 Conceptual Framework*

In March 2018, the IASB issued a revised Conceptual Framework for Financial Reporting (2018 Conceptual Framework), which replaces the Conceptual Framework for Financial Reporting issued in 2010. The 2018 Conceptual Framework includes revised definitions of an asset and a liability, as well as new guidance on measurement, derecognition, presentation and disclosure. Adoption of these amendments is not expected to have a significant impact on the Group's Consolidated Financial Statements

2.16.2 Amendments to IFRS 3 *Business Combinations*

Amendments to IFRS 3 *Business Combinations* were issued in October 2018. The amendments revise the definition of a business and provide a simplified assessment of whether an acquired set of activities and assets qualifies as a business. Application of the amendments are expected to result in fewer acquisitions qualifying as business combinations. Management is assessing the impact of this standard on the consolidated financial statements.

2.16.3 Amendments to IAS 1 *Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*

The amendments clarify the definition of material and provide guidance to improve consistency in its application in IFRS standards. Adoption of these amendments is not expected to have a significant impact on the Group's Consolidated Financial Statements.

2.16.4 IFRS 9, *Financial Instruments*

In July 2014, the final version of IFRS 9 Financial Instruments (IFRS 9) was issued, which replaces IAS 39 Financial Instruments: Recognition and Measurement (IAS 39) and will be applied retrospectively, or on a modified retrospective basis. The project has been divided into three phases: classification and measurement, impairment of financial assets, and hedge accounting.

IFRS 9 provides that financial assets are classified and measured on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. IFRS 9 also introduces an impairment model for financial instruments not measured at fair value through profit or loss that requires recognition of expected losses at initial recognition of a financial instrument and the recognition of full lifetime expected losses if certain criteria are met. A new model for hedge accounting aligns hedge accounting with risk management activities. Revisions issued in July 2014 replace the existing incurred loss model used for measuring the allowance for credit losses with an expected loss model. In October 2017, the IASB issued narrow-scope amendments to IFRS 9. The amendments clarify the classification of certain prepayable financial assets and the accounting of financial liabilities following modification. Management is assessing the impact of this standard on the consolidated financial statements.

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

2.16 **Future accounting and reporting changes** (continued)

2.16.4 IFRS 9, *Financial Instruments* (continued)

To address concerns about differing effective dates of IFRS 9 which is effective on January 1, 2018 and IFRS 17 Insurance Contracts which is effective on January 1, 2023, amendments to IFRS 4 Insurance Contracts was issued, which provide companies whose activities are predominantly related to insurance an optional temporary exemption from applying IFRS 9 until the effective date of IFRS 17. Based on an analysis performed as of March 31, 2019, the Group applied the temporary exemption as the predominance ratio reflecting the share of liabilities connected with insurance to total liabilities exceeds 90 percent. For the purpose of calculating the predominance ratio, liabilities connected with insurance include segregated fund liabilities of $936.4 million (Note 25).

The Group will continue to apply IAS 39 until April 1, 2023. To enable a comparison with entities applying IFRS 9, entities that apply the deferral approach are required to disclose the following information:

- Fair value and changes in fair value separately for (a) those financial assets that pass the solely payments of principal and interest (SPPI) test, excluding any financial asset that meets the definition of held for trading in IFRS 9, or that is managed and whose performance is evaluated on a fair value basis and (b) all other financial assets, including financial assets that are managed and whose performance is evaluated on a fair value basis. Refer to Note 5.1.
- Credit ratings of financial assets that pass the SPPI test. Financial assets which pass the SPPI test are assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Refer to Note 5.1.

2.16.5 IFRS 17*, Insurance Contracts*

In May 2017, the IASB issued IFRS 17, which replaces IFRS 4. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 provides comprehensive guidance on accounting for insurance contracts. For non-life insurance contracts, IFRS 17 introduces mandatory discounting of loss reserves as well as a risk adjustment for non-financial risk. Further, IFRS 17 will change the presentation of insurance contract revenue, premiums written will no longer be presented in the statement of comprehensive income. For long-duration life insurance contracts, IFRS 17 is expected to have a significant impact on actuarial modelling, as more granular cash flow projections and regular updates of all assumptions will be required, either resulting in profit or loss or impacting the "contractual service margin", a separate component of the insurance liability representing unearned profits from in-force contracts.

In order to evaluate the effects of adopting IFRS 17 in the consolidated financial statements, a joint IFRS 17 and IFRS 9 Group Implementation Programme was set up and a third-party advisory team was hired. A steering committee comprising senior management from Finance, Risk, Operations and Investment Management oversees the work performed by the third-party advisory team and the internal individual work streams. The third-party advisory team works with the technical committee in the assessment of the Group's accounting policies and methodologies and with the transformation committee for assessment of systems implications and data flows. The Group is evaluating the impact of adopting IFRS 17 on the financial statements which includes:

- drafting of the initial policy position papers
- performing a PAA eligibility assessment on a group of (re)insurance contracts with a coverage period of more than one year;

(Amounts in tables are expressed in thousands of Bermuda dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Future accounting and reporting changes (continued)

2.16.6 IFRS 17 Insurance Contracts (continued)

The Group's implementation programme is progressing in line with expectations. IFRS 17 is currently expected to be effective for the Group on April 1, 2023, and is to be applied retrospectively to each group of insurance contracts unless impracticable. If, and only if, it is impracticable to apply IFRS 17 retrospectively for a group of insurance contracts, an entity shall apply IFRS 17 using a modified retrospective approach or a fair value approach.

In November 2018, the IASB decided to defer the effective date of IFRS 17 and IFRS 9 by one year, to April 1, 2022. In March 2020, IASB decided to further defer the effective date by another year, to April 1, 2023. The Group is expecting that adoption of this standard will have a significant impact on the Group's consolidated financial statements.

3. CASH AND SHORT-TERM INVESTMENTS

	2020	2019
Cash in bank	$ 28,497	$ 13,492
Short-term investments	3,236	4,551
	$ 31,733	$ 18,043

Included in the cash in bank are cash that support the investment contract liabilities associated with deposit administration pension plans (Note 12) of $7.7 million (2019 – $Nil million) and cash held as collateral of $1.7 million (2019 – $0.9 million) related to derivative transactions.

4. ASSETS AND LIABILITIES HELD-FOR-SALE

In March 2018, Management 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 that is situated in Bermuda. The settlement of the outstanding loan is dependent upon the sale of the collateral property. As at March 31, 2020, the sale of the property valued at $7.7 million (2019 – $11.6 million) is subject to the usual regulatory and court approvals. This sale will result in certain assets being retained by the Group for eventual sale separately.

(Amounts in tables are expressed in thousands of Bermuda dollars)

5. INVESTMENTS

5.1 Carrying values and estimated fair values of investments

The carrying values and estimated fair values of investments are as follows:

	March 31, 2020		March 31, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Available-for-sale				
Bonds	$ 376,302	$ 376,302	$ 389,740	$ 389,740
Equities	4,750	4,750	5,386	5,386
	381,052	381,052	395,126	395,126
Investments at FVTPL				
Bonds	4,769	4,769	14,265	14,265
Equities	-	-	151	151
	4,769	4,769	14,416	14,416
Loans and receivables				
Mortgages and loans	15,333	16,270	15,086	15,445
Policy loans	43	43	40	40
	15,376	16,313	15,126	15,485
Derivatives				
Other [(1)]	3,730	3,730	707	707
Foreign currency forward contracts	70	70	82	82
	3,800	3,800	789	789
Total Investments	$ **404,997**	**$ 405,934**	**$ 425,457**	**$ 425,816**

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

Included in Bonds are investments that support the investment contract liabilities associated with deposit administration pension plans (Note 12) of $230.3 million (2019 – $227 million). These investments are maintained under a Separate Account to provide the policyholders certain protections from creditors of the Group.

(Amounts in tables are expressed in thousands of Bermuda dollars)

5. **INVESTMENTS** (continued)

5.1 **Carrying values and estimated fair values of investments** (continued)

SPPI criterion
As discussed in Note 2.16.4, the Group has investments of $362.1 million (2019 - $353.0 million) that meet the SPPI criterion. This refers to bonds, mortgage loans and policy loans. The change in the fair value of these invested assets during the year is a loss of $5.4 million (2019 – gain of $3.9 million). In terms of credit quality of such assets (excluding mortgages), 98% (2019 – 99%) of these investments are above investment grade assets and the remaining 2% (2019 – 1%) are below investment grade assets.

Investments with a carrying value of $34.4 million (2019 - $58.6 million) do not have SPPI qualifying cash flows as at March 31, 2020. The change in the fair value of these invested assets during the year is a loss of $ 1.2 million (2019 - $0.1 million).

Derivatives and equities with a carrying value of $8.5 million (2019 – $4.9 million) do not meet the SPPI criterion as at March 31, 2020.

Investment in mortgages and loans presented as assets held-for-sale amounting to $7.7 million (2019 - $11.5 million) do not have SPPI qualifying cash flows as at March 31, 2020.

5.2 **Derivative financial instruments**

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

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

At March 31	Note	2020	2019
Derivative assets		$ 3,800	$ 789
Derivative liabilities	15	(3,546)	(332)
Collateral [1]		1,783	914

[1] Collateral refers to cash held in favour of third parties, which is included in Cash and short-term investments on the Consolidated Balance Sheets.

The gains (losses) arising from the Group's derivative financial instruments recognised as Investment income on the Consolidated Statements of Comprehensive Income/(Loss) is as follows:

For the year ended March 31	Note	2020	2019
Derivative financial instruments			
Foreign currency forward		$ 315	$ 372
Other derivatives [1]		2,400	606
	5.4	$ 2,715	$ 978

[1] Other derivatives consist of interest rate swaps, credit default swaps, options and futures.

5. **INVESTMENTS** (continued)

5.2 **Derivative financial instruments** (continued)

5.2.1 Futures

Futures provide the Group with participation in market movements, determined by the underlying instrument on which the future 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. Future 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 or losses settled daily in cash and/or securities. Realised gains (losses) are recognised when the contract is closed.

Future 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 rapidly adjust 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 settlements of unrealised gains and losses and counterparty credit risk evaluation. Credit, market and liquidity risk and how these risks are mitigated are disclosed in Note 13.

At March 31, 2020, the Group has outstanding money market futures with long positions of $65.4 million and short positions of $54.3 million based on notional values (2019 - long positions of $18.5 million and short positions of $18.0 million).

5.2.2 Options

The Group's investment guidelines permit the use of exchange-traded and OTC options, which are used to manage exposure to interest rate risk and also to hedge duration. Exchange-traded options are held on a similar basis to futures and are subject to similar safeguards. Options are contractual arrangements that give the purchaser the right but not the obligation, to either buy or sell an instrument at a specific set price at a predetermined future date. The Group may enter into option contracts that are secured by holdings in the underlying securities or by other means which permit immediate satisfaction of the Group's obligations.

At March 31, 2020, the Group has options with long positions of $Nil and short positions of $6.3 million based on notional values (2019 - long positions of $Nil and short position of $7.2 million).

5.2.3 Interest rate swaps

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

(Amounts in tables are expressed in thousands of Bermuda dollars)

5. **INVESTMENTS** (continued)

5.2 **Derivative financial instruments** (continued)

5.2.3 Interest rate swaps (continued)

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 13.

At March 31, 2020, the Group has open interest rate swaps with long positions of $Nil and short positions of $13.2 million based on notional values (2019 - long positions of $Nil and short positions of $30.8 million).

5.2.4 Credit default swaps

Credit default swaps ("CDS") are used to manage exposure to the market or certain sectors of the market. CDS contract provides protection against the decline in the value of the underlying assets as a result of specified credit events such as default or bankruptcy. CDS requires the purchaser to pay a premium to the seller of the CDS contract in return for payment contingent on the occurrence of a credit event. The protection purchaser has recourse to the protection seller for the difference between the face value of the CDS contract and the fair value of the underlying asset at the time of the settlement. Neither the purchaser nor the seller under the CDS contract has recourse to the entity that issued the reference assets.

At March 31, 2020, the Group has open CDS contracts with long positions of $5.8 million and short positions of $8.4 million based on notional values (2019 - long position of $7.5 million and short positions of $7.3 million).

5.2.5 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 utilize currency forward contracts to gain exposure to a certain currency or market rate or manage the impact of fluctuations in foreign currencies on the value of its foreign currency denominated investments.

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

The Group had the following open foreign currency forward contracts:

As at March 31	**2020**		**2019**	
	Notional Short	**Notional Long**	**Notional Short**	**Notional Long**
South Korean Won	$ 514,577	$ 521,005	$ -	$ -
Japanese Yen	49,501	49,700	-	-
Indian Rupee	25,996	25,649	-	25,649
Sterling	3,637	1,808	1,154	1,648
Euro	1,867	353	384	2,998
Australian Dollar	596	602	693	-
Swiss Franc	335	332	-	-
Argentine Peso	-	-	11,723	22,546
Mexican Peso	-	-	-	6,826
Russian Ruble	-	-	-	39,347

5. **INVESTMENTS** (continued)

5.2 **Derivative financial instruments** (continued)

5.2.5 Foreign currency forwards (continued)

At March 31, 2020, the U.S Dollar equivalent of notional value of outstanding foreign currency forward contracts with long positions and short positions amounted to $4.6 million and $8.5 million respectively (2019 - $7.4 million and $2.3 million).

The Group also held foreign currency contracts denominated in African, Asian and South American currencies as of March 31, 2020. The U.S. Dollar equivalent of notional value of these outstanding foreign currency forward contracts with long positions and short positions amounted to $1.3 million and $1.4 million, respectively (2019 - long positions of $0.8 million and short positions of $0.8 million).

5.3 **Reverse sale and repurchase agreements**

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

During the year, cash flows arising from these agreements amounted to sales and purchases of $304.0 million (2019 - $1.1 billion) which are shown net in cash flows generated from investing activities on the Consolidated Statement of Cash Flows.

Transactions arising from these agreements are subject to master netting agreement that creates contingent right of offset that does not qualify for offsetting.

As of March 31, 2020 and 2019, the Group does not hold any outstanding balances arising from reverse repos.

(Amounts in tables are expressed in thousands of Bermuda dollars)

5. **INVESTMENTS** (continued)

5.4 Investment income

For the years ended March 31		**2020**		**2019**
Interest Income				
Bonds - available-for-sale	$	12,462	$	12,061
Bonds - at FVTPL		131		179
Mortgages and loans		626		712
Cash and other		90		8
		13,309		12,960
Dividend Income				
Equities - available-for-sale		141		142
Equities - at FVTPL		2		45
		143		187
Net realised and changes in unrealised gains and losses on investments				
Bonds - available-for-sale		7,205		(1,167)
Bonds - at FVTPL		389		(55)
Equities - at FVTPL		(50)		1,706
Equities - available-for-sale		(128)		1,083
Derivative financial instrument		2,574		965
Investment Property		(75)		74
		9,915		2,606
Other				
Amortisation of premium on Bonds		(1,046)		(1,125)
Net rental income and other		2,266		2,089
Impairment (charges) reversal on mortgages and loans (1)		(1,146)		148
		74		1,112
Investment income before deductions		23,441		16,865
Deductions				
Investment income relating to Deposit administration pension plans		(1,765)		(1,713)
Total Investment Income	**$**	**21,676**	**$**	**15,152**

(1) As at March 31, 2020, the Group recorded an impairment on certain non-residential mortgages. The impairment recognized is the difference between the carrying value and the recoverable value, determined based on the market value of the underlying collateral property.

(Amounts in tables are expressed in thousands of Bermuda dollars)

5. **INVESTMENTS** (continued)

5.5 Re-designation of Investments

Effective April 1, 2016, the Group re-designated certain fixed income investments with a carrying value and fair value of $305.1 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 6.

To the extent possible, Management intends to hold the investments for an indefinite period of time, taking into consideration the use of these assets for strategic 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 are better served by re-designating these investments to available-for-sale.

Management re-designated these investments to the available-for-sale category as allowed by IAS 39, Financial Instruments. These investments were designated at their fair value on April 1, 2017, and the effect of the change was applied prospectively in these financial statements from the date of re-designation.

The carrying value of the re-designated investments as of March 31, 2020 is $39.9 million (2019 - $66.5 million).

The table below sets out the amounts designated as Investment Income (interest/dividend income and amortization) on the Consolidated Statements of Comprehensive Income/(Loss) in respect to investments re-designated out of the held-for-trading category.

	2020		2019	
	Consolidated Statements of Comprehensive Income/(Loss)	Other Comprehensive Income	Consolidated Statements of Comprehensive Income/(Loss)	Other Comprehensive Income
Investment Income	$2,092	$ -	$3,026	$ -
Net unrealised gains (losses) of investments	-	(198)	-	765

If the investments had not been re-designated, net unrealized gains (losses) of $0.2 million (2019- net unrealized gains of $0.8 million) would have been recognized as Investment income on the Consolidated Statements of Comprehensive Income/(Loss).

The effective interest rates on trading investments re-designated as available-for-sale ranged from 5.0 percent to 5.4 percent (2019 – 6.3 percent to 6.4 percent) with expected recoverable cash flows of $67.8 million (2019 - $105.2 million).

6. **FAIR VALUE MEASUREMENT**

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

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

6. **FAIR VALUE MEASUREMENT** (continued)

The Group determines the estimated fair value of each individual security utilizing 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 recognised 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 any adjustments to any pricing provided by independent pricing services or its third-party investment managers for either year ending March 31, 2020 or 2019.

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 modeled or other valuation methods. Such methods are typically industry accepted standard and include:

- broker-dealer quotes;
- pricing models or matrix pricing;
- 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:

- US 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.

6. **FAIR VALUE MEASUREMENT** (continued)

The fair value of the majority 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.

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/private 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 assets as a reasonable approximate fair value.

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 of Directors.

(Amounts in tables are expressed in thousands of Bermuda dollars)

6. FAIR VALUE MEASUREMENT (continued)

6.1 Assets and liabilities measured at fair value

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

March 31, 2020	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Cash and short-term investments	31,733	-	-	31,733
Interest and dividends receivables	-	2,538	-	2,538
Available-for-sale investments				
Bonds				
US government	79,921	-	-	79,921
US and foreign corporates	-	201,187	-	201,187
Municipal, other government and agency	-	33,025	-	33,025
Mortgage/asset-backed securities	-	47,967	-	47,967
Investment in bond funds	-	14,202	-	14,202
	79,921	296,381	-	376,302
Equities				
Investment in equity funds	-	4,658	-	4,658
Private equity funds and unquoted equities	-	-	92	92
	79,921	301,039	92	381,052
Investments at FVTPL				
Bonds				
US government	4,769	-	-	4,769
Derivatives	-	3,800	-	3,800
Investment properties	-	500	-	500
Total assets at fair value	**116,423**	**307,877**	**92**	**424,392**
Liabilities				
Investment contract liabilities	-	526	-	526
Payables arising from investment transactions	-	3,546	-	3,546
Total liabilities at fair value	**-**	**4,072**	**-**	**4,072**
Segregated funds	**3,571**	**862,529**	**-**	**866,100**

(Amounts in tables are expressed in thousands of Bermuda dollars)

6. **FAIR VALUE MEASUREMENT** (continued)

6.1 **Assets and liabilities measured at fair value** (continued)

March 31, 2019	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Cash and short-term investments	$ 18,043	$ -	$ -	$ 18,043
Interest and dividends receivables	-	2,870	-	2,870
Available-for-sale investments				
Bonds				
US government	86,177	-	-	86,177
US and Bermuda Corporates	-	207,913	-	207,913
Municipal, other government and agency	-	44,927	-	44,927
Mortgage/asset-backed securities	-	36,863	-	36,863
Other - Investment in bond funds	-	13,860	-	13,860
	86,177	303,563	-	389,740
Equities				
Investment in equity funds	-	5,018	-	5,018
Private equity funds and unquoted equities	-	-	368	368
	86,177	308,581	368	395,126
Investments at FVTPL				
Bonds				
US government	14,265	-	-	14,265
Equities				
Private equity funds and unquoted equities	-	-	151	151
	14,265	-	151	14,416
Derivatives	-	789	-	789
Investment properties	-	575	-	575
Total assets at fair value	**$ 118,485**	**$ 312,815**	**$ 519**	**$ 431,819**
Liabilities				
Investment contract liabilities	$ -	$ 704	$ -	$ 704
Payables arising from investment transactions	-	56,545	-	56,545
Total liabilities at fair value	**$ -**	**$ 57,249**	**$ -**	**$ 57,249**
Segregated funds	**$ 1,678**	**$ 934,766**	**-**	**$936,444**

(Amounts in tables are expressed in thousands of Bermuda dollars)

6. FAIR VALUE MEASUREMENT (continued)

6.1 Assets and liabilities measured at fair value (continued)

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, 2020.

For the year ended March 31, 2020	At FVTPL Bonds	At FVTPL Equities	Available-for-sale Bonds	Available-for-sale Equities	Total
Balance, beginning of year	$ -	$ 151	$ -	$ 368	$ 519
Included in Investment income	-	(49)	-	(127)	(176)
Included in Other comprehensive income	-		-	(28)	(28)
Sales/write off	-	(102)	-	(121)	(223)
Assets based on Level 3 inputs	**$ -**	**$ -**	**$ -**	**$ 92**	**$ 92**

For the year ended March 31, 2019	At FVTPL Bonds	At FVTPL Equities	Available-for-sale Bonds	Available-for-sale Equities	Total
Balance, beginning of year	$ -	$ 151	$ -	$ 270	$ 421
Included in Other comprehensive income	-	-	-	98	98
Assets based on Level 3 inputs	**$ -**	**$ 151**	**$ -**	**$ 368**	**$ 519**

During the year, there were no transfers made between the levels within the fair value hierarchy for Segregated funds during the year (2019 – $nil).

(Amounts in tables are expressed in thousands of Bermuda dollars)

6. FAIR VALUE MEASUREMENT (continued)

6.2 Assets and liabilities not measured at fair value

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

March 31, 2020	Level 1	Level 2	Level 3	Total fair value	Carrying value
Assets					
Mortgages and loans [1]	$ -	$ 16,270	$ -	$ 16,270	$ 15,333
Policy loans	-	43	-	43	43
Total assets disclosed at fair value	$ -	**$ 16,313**	$ -	**$ 16,313**	**$ 15,376**
Liabilities					
Investment contract liabilities [2]	$ -	$ 251,807	$ -	$ 251,807	$ 253,226
Total liabilities disclosed at fair value	$ -	**$ 251,807**	**$ -**	**$ 251,807**	**$ 253,226**

March 31, 2019	Level 1	Level 2	Level 3	Total fair value	Carrying value
Assets					
Mortgages and loans [1]	$ -	$ 15,445	$ -	$ 15,445	$ 15,086
Policy loans	-	40	-	40	40
Total assets disclosed at fair value	**$ -**	**$ 15,485**	**$ -**	**$ 15,485**	**$ 15,126**
Liabilities					
Investment contract liabilities [2]	$ -	$ 232,488	$ -	$ 232,488	$ 241,518
Total liabilities disclosed at fair value	**$ -**	**$ 232,488**	**$ -**	**$ 232,488**	**$ 241,518**

(1) Fair value of mortgages and loans is determined by discounting expected future cash flows using current market rates.
(2) Fair value of Investment contract liabilities is based on the following methods:
a) 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
b) Self – funded group health policies – the carrying value approximates the fair value due to the short-term nature of these investment contract liabilities.

6.3 Transfers of Level 1, Level 2 and Level 3 assets and liabilities

The Group's policy is to record transfers of assets and liabilities between levels at their fair values as at the end of each reporting period, consistent with the date of determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. 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, 2 or 3 during the year ended March 31, 2020 and 2019.

(Amounts in tables are expressed in thousands of Bermuda dollars)

7. INVESTMENT PROPERTY

Balance, March 31, 2018	$ 501
Net unrealised gains (losses) from change in fair value	74
Balance, March 31, 2019	575
Net unrealised gains (losses) from change in fair value	(75)
Balance, March 31, 2020	**$ 500**

Included in the Group's investment properties are residential properties. Investment properties are held for rental income and capital appreciation.

8. INSURANCE BALANCES RECEIVABLE

Insurance balances receivable are comprised of:

March 31, 2020	**Insured Employee Benefits**	**Life and Pensions**	**Total**
Due from policyholders, agents and brokers	$ 2,450	$ 47	$ 2,497
Due from reinsurers	3,558	-	3,558
Total insurance balances receivable	**$ 6,008**	**$ 47**	**$ 6,055**

March 31, 2019	**Insured Employee Benefits**	**Life and Pensions**	**Total**
Due from policyholders, agents and brokers	$ 1,926	$ 48	$ 1,974
Due from reinsurers	3,283	-	3,283
Total insurance balances receivable	**$ 5,209**	**$ 48**	**$ 5,257**

9. OTHER ASSETS

As at March 31	**2020**	**2019**
Other financial assets		
Fees receivable	$ 1,764	$ 1,663
Notes and other receivables	170	166
Total other financial assets	**1,934**	**1,829**
Prepaid expenses	933	2,180
Total other assets	**$ 2,867**	**$ 4,009**

(Amounts in tables are expressed in thousands of Bermuda dollars)

10. PROPERTY AND EQUIPMENT

	Land and buildings	Computer equipment	Other equipment	Total
Gross carrying amount				
Balance, March 31, 2018	$ 57,955	$ 1,652	$ -	$ 59,607
Additions	-	-	-	-
Balance March 31, 2019	**57,955**	**1,652**	**-**	**59,607**
Additions	145	-	130	275
Retirements [1]	-	(1,652)	-	(1,652)
Balance March 31, 2020	**$ 58,100**	**$ -**	**$ 130**	**$ 58,230**
Accumulated depreciation				
Balance, March 31, 2018	$ 16,236	$ 1,652	$ -	$ 17,888
Depreciation charge for the year	1,579	-	-	1,579
Balance March 31, 2019	**$ 17,815**	**$ 1,652**	**-**	**$ 19,467**
Depreciation charge for the year	1,582	-	-	1,582
Retirements [1]	-	(1,652)	-	(1,652)
Balance March 31, 2020	**$ 19,397**	**$ -**	**$ -**	**$ 19,397**
Net carrying amount, end of year				
As at March 31, 2019	$ 40,140	$ -	-	$ 40,140
As at March 31, 2020	**$ 38,703**	**$ -**	**$ 130**	**$ 38,833**

(1) Certain computer equipment were retired. These assets were fully depreciated and were no longer used by the Group.

11. INSURANCE CONTRACT LIABILITIES

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

March 31, 2020	**Note**	**Gross**	**Ceded**	**Net**
Life and annuity policy reserves	11.1	$ 174,073	$ (3,110)	$ 170,963
Provision for unpaid and unreported claims	11.2	8,733	-	8,733
		182,806	(3,110)	179,696
Unearned premiums	11.4	2	(184)	(182)
Total insurance contract liabilities		**182,808**	**(3,294)**	**179,514**

March 31, 2019	**Note**	**Gross**	**Ceded**	**Net**
Life and annuity policy reserves	11.1	$ 172,619	$ (5,433)	$ 167,186
Provision for unpaid and unreported claims	11.2	12,563	-	12,563
		185,182	(5,433)	179,749
Unearned premiums	11.4	2	(200)	(198)
Total insurance contract liabilities		**$ 185,184**	**(5,633)**	**179,551**

(Amounts in tables are expressed in thousands of Bermuda dollars)

11. **INSURANCE CONTRACT LIABILITIES** (continued)

11.1 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. The majority of the Life and annuity policy reserves relate to policies issued to individuals domiciled in Bermuda. The Reinsurers' share of claims provisions were assessed for impairment at year end and no impairment were identified. The composition of the assets supporting the net liabilities is as follows:

March 31, 2020	**Group Insurance**	**Life and pensions**	**Total**
Annuities	$ -	$ 167,266	$ 167,266
Long-term disability	4,396	-	4,396
Life	-	2,411	2,411
Life and annuity policy reserves	4,396	169,677	174,073
Reinsurers' share of claims provisions	(3,326)	216	(3,110)
Life and annuity policy reserves, net of reinsurance	**$ 1,070**	**$ 169,893**	**$ 170,963**

March 31, 2019	**Group Insurance**	**Life and pensions**	**Total**
Annuities	$ -	$ 163,687	$ 163,687
Long-term disability	6,584	-	6,584
Life	-	2,348	2,348
Life and annuity policy reserves	6,584	166,035	172,619
Reinsurers' share of claims provisions	(5,624)	191	(5,433)
Life and annuity policy reserves, net of reinsurance	**$ 960**	**$ 166,226**	**$ 167,186**

The Reinsurers' share of claims provisions were assessed for impairment at year end and no impairment were identified. The composition of the assets supporting the net liabilities is as follows:

March 31, 2020	**Cash**	**Bonds**	**Mortgage and loans**	**Equities**	**Land and buildings**	**Total**
Annuities	$ 6,571	$ 136,090	$ 9,018	$ 3,855	$ 11,732	$ 167,266
Long-term disability	180	806	-	84	-	1,070
Life	442	1,979	-	206	-	2,627
Life and annuity policy reserves, net of reinsurance	**$ 7,193**	**$ 138,875**	**$ 9,018**	**$ 4,145**	**$ 11,732**	**$ 170,963**

March 31, 2019	**Cash**	**Bonds**	**Mortgage and loans**	**Equities**	**Land and buildings**	**Total**
Annuities	$ 6,312	$ 126,632	$ 11,227	$ 4,064	$ 15,454	$ 163,689
Long-term disability	-	764	-	196	-	960
Life	563	1,479	-	495	-	2,537
Life and annuity policy reserves, net of reinsurance	**$ 6,875**	**$ 128,875**	**$ 11,227**	**$ 4,755**	**$ 15,454**	**$ 167,186**

(Amounts in tables are expressed in thousands of Bermuda dollars)

11. **INSURANCE CONTRACT LIABILITIES** (continued)

11.1 **Life and annuity policy reserves**

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 $6.7 million (2019 – $nil). These amounts are net of the impact of the reinsurance assets on policyholder liabilities of $3.1 million (2019 - $5.4 million).

A data validation and reconciliation exercise conducted during fiscal year 2020 identified $2.0 million in excess reserves for a subset of policyholders who annuitised during fiscal years 2013 and 2018. The opening retained earnings for 2019 was adjusted to account for these.

The changes in the net life and annuity policy reserves, net of reinsurance are as follows:

March 31	**2020**	**2019**
Balance, beginning of year	$167,186	$167,623
Data validation and reconciliation adjustment	-	(1,975)
Adjusted Balance, beginning of year	167,186	165,648
Changes due to:		
Issuance of new policies	10,350	10,364
Normal in-force movement	(13,178)	(8,852)
Mortality/morbidity assumptions	(360)	(162)
Interest rate assumptions	7,057	(316)
Expense assumptions	-	504
Other	(92)	-
Balance, end of year	**170,963**	**$ 167,186**

11. **INSURANCE CONTRACT LIABILITIES** (continued)

11.1 **Life and annuity policy reserves** (continued)

11.1.1 Key assumptions – Life and annuity policy reserves

ASSUMPTIONS, 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 is estimated to increase the policy reserves by \$3.9 million, 2.4 percent (2019 - \$3.9 million, 2.3 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.

(Amounts in tables are expressed in thousands of Bermuda dollars)

11. **INSURANCE CONTRACT LIABILITIES** (continued)

11.1 **Life and annuity policy reserves** (continued)

11.1.1 Key assumptions – Life and annuity policy reserves (continued)

ASSUMPTIONS, 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 100 basis points increase in the best estimate investment return assumption decreases the total Life and annuity policy reserves by \$13.7 million (2019 - \$13.3 million). A 100 basis points decrease in the best estimate assumption increases the total Life and annuity policy reserves by \$16.0 million (2019 – \$15.6 million).	The Group's policy of closely matching the cash flows of assets with those of the corresponding liabilities is designed to mitigate the Group's exposure to future changes in interest rates. The interest rate risk positions in business segments are monitored on an ongoing basis. Under CALM, the re-investment rate is developed using interest rate scenario testing and reflects the interest rate risk positions. Bonds, equities, real estate and other non-fixed income assets are used to support long-dated obligations in the Group's annuity and pensions businesses, and for long-dated insurance obligations on contracts where the investment return risk is borne by the Group.
(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 \$2.1 million (2019 – \$2.1 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.

11. **INSURANCE CONTRACT LIABILITIES** (continued)

11.1 **Life and annuity policy reserves** (continued)

11.1.1 Key assumptions – Life and annuity policy reserves

ASSUMPTIONS, METHODOLOGY AND SENSITIVITIES	RISK MANAGEMENT
(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 $0.6 million (2019- $0.6 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.

(Amounts in tables are expressed in thousands of Bermuda dollars)

11. **INSURANCE CONTRACT LIABILITIES** (continued)

11.2 Provision for unpaid and unreported claims

The table below sets out the reconciliation of provision for unpaid and unreported claims. These all relate to healthcare policies. The majority of these contracts are of a short-term nature.

For the years ended March 31	**2020**			**2019**		
	Provision for unpaid and unreported claims	**Reinsurers' share of claims provisions**	**Net**	**Provision for unpaid and unreported claims**	**Reinsurers' share of claims provisions**	**Net**
Balance, beginning of year	$ 12,563	$ -	$ 12,563	$ 11,888	$ (20)	$ 11,868
Claims and adjustment expenses incurred						
Current year	67,646	(2,326)	65,320	82,738	(2,839)	79,899
Prior years	477	-	477	4,384	-	4,384
	68,123	(2,326)	65,797	87,122	(2,839)	84,283
Claims and adjustment expenses paid						
Current year	(58,956)	2,326	(56,630)	(70,259)	2,839	(67,420)
Prior years	(12,997)	-	(12,997)	(16,188)	20	(16,168)
	(71,953)	2,326	(69,627)	(86,447)	2,859	(83,588)
Balance, end of year	**$ 8,733**	**$ -**	**$ 8,733**	**$ 12,563**	**$ -**	**$ 12,563**

The amount and timing of when claims are reported and paid from healthcare policies are typically resolved within one year.

11. **INSURANCE CONTRACT LIABILITIES** (continued)

11.3 Key assumptions - Provision for unpaid and unreported claims

ASSUMPTIONS AND METHODOLOGY	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 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 a 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. 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 financial statements reporting date, the provision is necessarily an estimate and claims may ultimately be settled for greater or lesser amounts. It is reasonably possible that management will revise this estimate significantly in the near term. Any subsequent differences are recorded in the Gross change in contract liabilities on the Consolidated Statements of Comprehensive Income/(Loss) in the period in which they are determined.

(Amounts in tables are expressed in thousands of Bermuda dollars)

11. **INSURANCE CONTRACT LIABILITIES** (continued)

11.4 Unearned premiums

The Group is exposed to pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluations are performed regularly to estimate future claims costs, related expenses, and expected profit in relation to unearned premiums. There was no premium deficiency at March 31, 2020 or 2019.

As at March 31	**2020**			**2019**		
	Unearned premiums	**Reinsurers' share of unearned premiums**	**Net**	**Unearned premiums**	**Reinsurers' share of unearned premiums**	**Net**
Balance, beginning of year	$ 2	$ (200)	$ (198)	$ 2	$ (352)	$ (350)
Premiums written during the year	108,911	(6,657)	102,254	127,232	(7,504)	119,728
Premiums earned during the year	(108,911)	6,673	(102,238)	(127,232)	7,656	(119,576)
Balance, end of year	**$ 2**	**$ (184)**	**$ (182)**	**$ 2**	**$ (200)**	**$ (198)**

12. **INVESTMENT CONTRACT LIABILITIES**

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

As at March 31	**2020**		**2019**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
At amortised cost:				
Deposit administration pension plans	$ 238,165	$ 236,746	$ 227,164	$ 218,134
Self-funded group health policies	15,061	15,061	14,354	14,354
	253,226	**251,807**	**241,518**	**232,488**
At FVTPL:				
Deposit administration pension plans	526	526	704	704
Total investment contract liabilities	**$ 253,752**	**$ 252,333**	**$ 242,222**	**$ 233,192**

(Amounts in tables are expressed in thousands of Bermuda dollars)

12. INVESTMENT CONTRACT LIABILITIES (continued)

12.1 Investment contract liabilities at amortised cost

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

March 31	**2020**	**2019**
Balance, beginning of year	$ 241,518	$ 234,800
Deposits	81,290	85,158
Withdrawals	(65,720)	(78,232)
Fees deducted	(3,744)	(3,727)
Interest	2,384	1,958
Other	(2,502)	1,561
Balance, end of year	**$ 253,226**	**$ 241,518**

For the year ended March 31, 2020, the net gain relating to Investment contract liabilities measured at amortised cost is $4.6 million (2019 - net gain of $3.4 million).

12.2 Investment contract liabilities at FVTPL

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

March 31	**2020**	**2019**
Balance, beginning of year	$ 704	$ 2,516
Included in net income [1]	23	298
Deposits	143	442
Withdrawals	(344)	(2,552)
Balance, end of year	**$ 526**	**$ 704**

[1] Amount is recorded under Change in contract liabilities on the Consolidated Statements of Comprehensive Income/(Loss). See Note 19.

13. RISK MANAGEMENT

13.1 Governance framework

The Group aligns its risk management functions with that of its Parent, the Argus Group. The Group prioritises the development of a forward looking risk management framework to deal appropriately with changes in the economic, social and regulatory environment in which it operates. The risk management deployed by the Group is based on the principles set down below, which are aligned with the Group's strategy and take into account the regulatory requirements, as well as the best market practices.

- A comprehensive risk management policy, with a forward-looking approach.

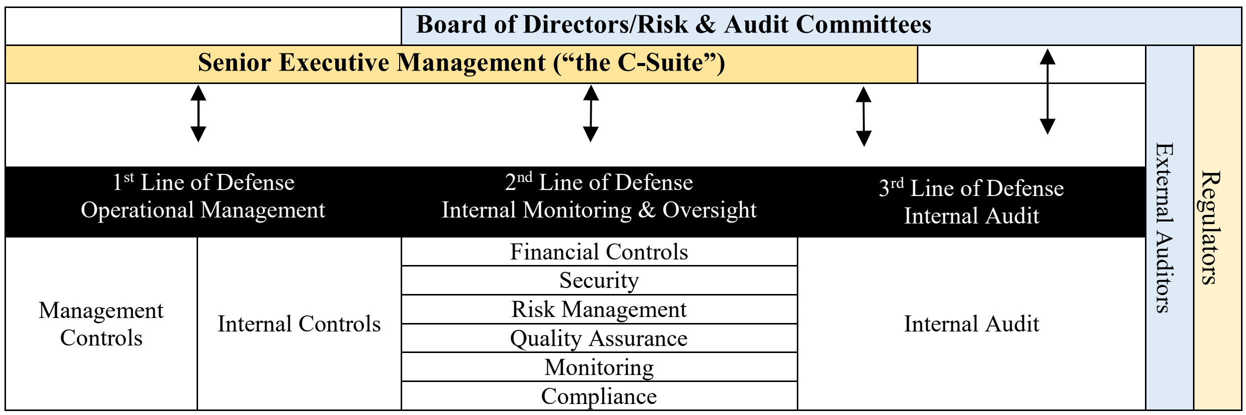
  The Board of Directors approves the Group's risk management policies and meets regularly to approve any commercial, regulatory and organizational requirements of such policies. These policies define the Group's identification of risk and its interpretation and sets out the risk profiles for the Group, to ensure the appropriate quality and diversification of assets and alignment of underwriting and reinsurance strategy to the corporate goals.

13. **RISK MANAGEMENT** (continued)

13.1 **Governance framework** (continued)

- Three lines of defense model.

  The Group has adopted the Three Lines of Defense model as shown below, which addresses how specific duties related to risks and controls are managed and coordinated within the Group.



13.1.1 Capital management

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

The Bermuda Monetary Authority (the "BMA") is the regulator of the Group. The laws and regulations of Bermuda require that the Group maintain a minimum amount of statutory capital and surplus based on the enhanced capital requirement. As of March 31, 2020, the amount of group statutory capital and surplus exceeds this regulatory requirement.

Management monitors the adequacy of the Group's capital from the perspective of Bermuda statutory requirements. The Bermuda Insurance Act 1978 and Related Regulations (the "Act") requires the Group to file an annual audited statutory financial return and meet minimum solvency margins and minimum liquidity ratios.

The statutory capital and surplus for the Group as at March 31, 2020 was $60.2 million (2019 - $49.6 million) and the minimum solvency margin of the Group was $21.5 million (2019 - $24.8 million).

The Bermuda Solvency Capital Requirement (BSCR) is the prescribed form of capital and solvency reporting in Bermuda, which was revised under new legislation enacted in 2008. The BSCR includes a standardised model used to measure the risk associated with an insurance subsidiary's assets, liabilities and premiums, and a formula to take account of catastrophe risk exposure. The BMA requires all insurers to maintain their statutory capital and surplus at a target level which is 120 percent of the amount calculated in accordance with the BSCR. As of March 31, 2020 and 2019, the statutory capital and surplus of the insurance subsidiaries exceeded this regulatory requirement.

13. **RISK MANAGEMENT** (continued)

13.1 **Governance framework** (continued)

13.1.1 Capital management (continued)

In addition, minimum liquidity ratios must be maintained by Bermuda entities writing general insurance business whereby relevant assets, as defined by the Act, 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 statutory capital by 15 percent or more or statutory capital and surplus by 25 percent or more, as set out in the prior year's statutory financial statements, the Group 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.

13.1.2 Investment Risk

Investment guidelines are established by the Risk Committee of the Parent to manage this risk. Investment guidelines set parameters within which the Group's external investment managers must operate. Important parameters include guidelines on permissible asset classes, duration ranges, credit quality, currency, maturity, sectors, geographical, sovereign and issuer exposures. Compliance with guidelines is monitored on a quarterly basis. Any adjustments to the investment guidelines are approved by the Risk Committee and the Parent.

The Group's fixed maturity portfolios are managed by an external investment manager. The Group also has a diversified low volatility multi-strategy portfolio of bond and equity funds, and a small equity portfolio. The performance of the managers is monitored on an ongoing basis.

All portfolios duration is matched to the duration of the insurance liabilities, within an agreed range. The portfolios are invested in fixed maturity securities, fixed maturity funds and cash and cash equivalents. The portfolios may, at times, contain assets significantly in excess of those required to meet insurance liabilities or other defined funding needs.

The Group reviews the composition, duration and asset allocation of its investment portfolio on a regular basis in order to respond to changes in interest rates and other market conditions. If certain asset classes are anticipated to produce a higher return within management's risk tolerance, an adjustment in asset allocation may be made. Conversely, if the risk profile is expected to move outside of tolerance levels, adjustments may be made to reduce the risks in the portfolio.

The Risk committee of the Parent meets quarterly to ensure that the Group's strategic and tactical investment actions are consistent with investment risk preferences, appetite, risk and return objectives and tolerances.

13.1.3 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.

(Amounts in tables are expressed in thousands of Bermuda dollars)

13. **RISK MANAGEMENT** (continued)

13.1 **Governance framework** (continued)

13.1.3 Credit risk (continued)

13.1.3(a) Maximum exposure to credit risk

The following table summarises the Group's maximum exposure to credit risk related to financial instruments and insurance contracts. The maximum credit exposure is the carrying value of the financial assets and insurance assets net of any allowances for losses.

As at March 31	Note	**2020**	**2019**
Cash and short-term investments		$ 31,733	$ 18,043
Interest and dividends receivable		2,538	2,870
Bonds - at FVTPL and available-for-sale	5.1	381,071	404,005
Mortgages and loans	5.1	15,333	15,086
Policy loans	5.1	43	40
Derivative financial instruments	5.1	3,800	789
Other financial assets included in Other assets	9	1,934	1,829
Insurance balances receivable	8	6,055	5,257
Reinsurers' share of claims provisions	11	3,110	5,433
Total Consolidated Balance Sheet maximum credit exposure		**$ 445,617**	**$ 453,352**

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.

(Amounts in tables are expressed in thousands of Bermuda dollars)

13. **RISK MANAGEMENT** (continued)

13.1 **Governance framework** (continued)

13.1.3 Credit risk (continued)

13.1.3(b) Concentration of credit risk

Concentrations of credit risk arise from exposures to a single debtor, a group of related debtors or group 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	**2020**	**2019**
Bonds available-for-sale and FVTPL issued or guaranteed by:		
Government and Agency	$ 103,596	$ 10,003
Banking	99,939	93,158
Asset Backed Securities	60,770	63,940
Communications	21,721	27,645
Oil and Gas	17,737	19,488
Pharmaceutical	11,021	6,304
Manufacturing	10,953	10,975
Transportation	9,774	11,358
Utilities and Energy	8,327	8,063
Insurance	5,418	6,291
Mining	1,720	6,825
Supranational	-	106,017
Other(1)	30,095	33,938
Total bonds	**$ 381,071**	**$ 404,005**
Derivative financial instruments issued or guaranteed by:		
Other(1)	3,800	789
Total derivative financial instruments	**$ 3,800**	**$ 789**

(1) Includes investment with less than $2 million of concentration of credit risk by industry sector or geographical distribution and bond funds of $14.2 million (2019 - $13.9 million).

(Amounts in tables are expressed in thousands of Bermuda dollars)

13. **RISK MANAGEMENT** (continued)

13.1 **Governance framework** (continued)

13.1.3 Credit risk (continued)

13.1.3(b) Concentration of credit risk (continued)

As at March 31	**2020**	**2019**
Geographical distribution of bonds available for sale and FVTPL is as follows:		
United States of America	$ 286,492	$ 316,098
United Kingdom	19,847	20,441
Cayman Islands	12,704	7,232
Canada	5,379	4,738
Mexico	5,121	3,372
France	4,916	5,715
Netherlands	4,597	4,991
Japan	4,183	1,538
Ireland	4,171	4,253
Switzerland	3,685	3,876
India	1,029	1,661
Australia	893	2,225
Other(1)	28,054	27,865
Total bonds	**$ 381,071**	**$ 404,005**
Geographical distribution of derivative financial instruments is as follows:		
United States of America	$ 3,800	$ 789
Total derivative financial instruments	**$ 3,800**	**$ 789**

(1) Includes investment with less than $2 million of concentration of credit risk by industry sector or geographical distribution and bond funds of $14.2 million (2019 - $13.9 million).

Mortgages comprise first mortgages on real property situated in Bermuda which include certain mortgages classified under Assets held-for-sale. Residential mortgages include mortgages for both single and multiple family dwellings. As at March 31, 2020, the Group's mortgages and loans amount to $15.3 million (2019 – $15.1 million).

13.1.3(c) Asset quality

The following table provides an analysis of the carrying value of bonds and derivative financial instruments by rating.

March 31	**2020**	**2019**
Bond portfolio quality:		
AAA	$ 135,517	$ 153,787
AA	11,885	12,266
A	98,979	86,029
BBB	127,818	146,338
BB or lower	6,868	5,585
Not rated	4	-
Total bonds at FVTPL	**$ 381,071**	**$ 404,005**
Derivative financial instruments quality:		
Not Rated	$ 3,800	$ 789
Total derivative financial instruments	**$ 3,800**	**$ 789**

(Amounts in tables are expressed in thousands of Bermuda dollars)

13. **RISK MANAGEMENT** (continued)

13.1 **Governance framework** (continued)

13.1.3 Credit risk (continued)

13.1.3(d) Allowance for credit losses on impaired investments

Mortgages and loans

Changes in the allowance for credit losses are as follows:

As at March 31	**2020**	**2019**
Balance, beginning of year	$ 1,771	$ 11,622
Net provisions made/(reversed) during the year - mortgages and loans	153	(148)
Provisions written off during the year	-	(9,703)
Balance, end of year	**$ 1,924**	**$ 1,771**

13.1.3(e) Age analysis of financial assets past due but not impaired

As at March 31, 2020, there were $12.1 million mortgages and loans and $0.1 million receivables from continuing operations (2019 - $13.2 million mortgages and loans and $0.1 million receivables from continuing operations) that were past due. Past due financial assets have an allowance of $1.1 million (2019 - $Nil) because the fair value of the collateral or the expected future cash flows are below the carrying value of these financial assets.

The assets-held-for sale include past due receivable amounting to $7.7 million (2019 - $11.6 million). There were $nil (2019 - $nil) impairment recorded during the year.

13.1.4 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 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 within 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 long-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.

(Amounts in tables are expressed in thousands of Bermuda dollars)

13. **RISK MANAGEMENT** (continued)

13.1 **Governance framework** (continued)

13.1.4 Liquidity risk (continued)

13.1.4 (a) 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, 2020	**Within 1 year**	**2-5 years**	**6-10 years**	**Over 10 years**	**Total**
Life and annuity policy reserves - net of reinsurance [1]	$ 14,394	$ 53,668	$ 57,283	$ 120,004	$ 245,349
Provision for unpaid and unreported claims - net of reinsurance [1]	8,733	-	-	-	8,733
Insurance balances payable	4,496	-	-	-	4,496
Payables arising from investment transactions	3,546	-	-	-	3,546
Investment contract liabilities [1]	54,410	35,484	37,267	111,541	238,702
Accounts payable and accrued liabilities	7,851	-	-	-	7,851
Total from general fund liabilities	**$ 93,430**	**$ 89,152**	**$ 94,550**	**$ 231,545**	**$ 508,677**

March 31, 2019	**Within 1 year**	**2-5 years**	**6-10 years**	**Over 10 years**	**Total**
Life and annuity policy reserves - net of reinsurance [1]	$ 15,054	$ 55,910	$ 59,029	$ 126,095	$ 256,088
Provision for unpaid and unreported claims - net of reinsurance [1]	12,563	-	-	-	12,563
Insurance balances payable	2,614	-	-	-	2,614
Payables arising from investment transactions	56,545	-	-	-	56,545
Investment contract liabilities [1]	60,772	29,116	32,788	105,450	228,126
Accounts payable and accrued liabilities	7,357	-	-	-	7,357
Total from general fund liabilities	**$ 154,905**	**$ 85,026**	**$ 91,817**	**$ 231,545**	**$ 563,293**

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

13.1.5 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.

The Group has minimal exposure to currency risk, which is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

(Amounts in tables are expressed in thousands of Bermuda dollars)

13. **RISK MANAGEMENT** (continued)

13.1 **Governance framework** (continued)

13.1.5 Market risk (continued)

13.1.5(a) 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 product liability cash flows for products with fixed and highly predictable benefit payments; and
- Quantifying and reviewing regularly the risk associated with the mismatch in portfolio duration and cash flow.

The impact of interest rate risk for the Group's actuarial liabilities and the assets supporting those liabilities is included in Note 11.

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

The sensitivity of other comprehensive income attributable to shareholders to changes in interest rates is shown below. There is no sensitivity of net earnings at March 31, 2020 and 2019.

As at March 31	**2020**	**2019**
Change in interest rate assumptions		
100 basis points increase	$ (5,527)	$ (5,943)
100 basis points decrease	$ 5,548	$ 5,332

13.1.5(b) Equity risk

Equity investments are held in accordance with the Group's investment policy as part of the well diversified asset portfolio that are appropriate for the Group. 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 $Nil and $0.5 million respectively (2019 - $Nil and $0.5 million respectively); conversely the impact of a ten percent decrease would have an equal but opposite effect. The direct exposure to equity markets generally falls within the risk-taking philosophy of the Group's investment policy and is regularly monitored by management.

13. **RISK MANAGEMENT** (continued)

13.1 **Governance framework** (continued)

13.1.6 Limitations of sensitivity analysis

The sensitivity information given above and in Note 11 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 rates fall towards zero.

13.1.7 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 risks mitigation programme. Reinsurance 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, see Note 11.

(Amounts in tables are expressed in thousands of Bermuda dollars)

14. INSURANCE BALANCES PAYABLE

Insurance balances payable is comprised of:

March 31	2020	2019
Due to policyholders, agents and brokers	$ 2,851	$ 1,496
Due to reinsurers	1,645	1,118
Total insurance balances payable	**$ 4,496**	**$ 2,614**

15. PAYABLES ARISING FROM INVESTMENT TRANSACTIONS

March 31	Note	2020	2019
Derivatives	5.2	$ 3,546	$ 332
Investment trades awaiting settlement		-	56,213
		$ 3,546	**$ 56,545**

16. NET CHANGE IN UNEARNED PREMIUMS

For the years ended March 31	2020	2019
Gross change in unearned premiums	$ -	$ (152)
Change in unearned premiums on premiums ceded	16	-
Net change in unearned premiums	**$ 16**	**$ (152)**

17. COMMISSIONS, MANAGEMENT FEES AND OTHER

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

For the years ended March 31	2020	2019
Fee income service contracts		
Pension administration	$ 3,272	$ 3,591
Policyholder administration	9,287	9,521
Total fee income from service contracts	12,559	13,112
Reinsurance commission income	1,780	1,762
Total commissions, management fees and other	**$ 14,339**	**$ 14,874**

(Amounts in tables are expressed in thousands of Bermuda dollars)

18. REINSURANCE RECOVERIES

For the years ended March 31	2020	2019
Claims and adjustment expenses recovered from reinsurers	$ 2,849	$ 2,839
Policy benefits recovered from reinsurers	-	833
Total reinsurance recoveries	**$ 2,849**	**$ 3,672**

19. NET CHANGE IN CONTRACT LIABILITIES

For the year ended March 31, 2020	Property and Casualty	Employee Benefits	Total
Gross change in contract liabilities:			
Insurance contracts	$ (3,830)	$ 1,500	$ (2,330)
Investment contracts	-	(23)	(23)
	(3,830)	1,477	(2,353)
Change in reinsurers' share of claims provisions - insurance contracts	-	2,323	2,323
Net change in contract liabilities	**$ (3,830)**	**$ 3,800**	**$ (30)**

For the year ended March 31, 2019	Property and Casualty	Employee Benefits	Total
Gross change in contract liabilities:			
Insurance contracts	$ 675	$ 2,474	$ 3,149
Investment contracts	-	(298)	(298)
	675	2,176	2,851
Change in reinsurers' share of claims provisions - insurance contracts	-	(390)	(390)
Net change in contract liabilities	**$ 675**	**$ 1,786**	**$ 2,461**

20. OPERATING EXPENSES

Operating expenses incurred during the year are as follows:

For the years ended March 31	2020	2019
Allocated expenses and management fees	$ 12,166	$ 18,116
Employee benefits expense (see next page)	6,357	6,673
Professional fees	1,943	2,728
IT related expenses	1,301	1,171
General and corporate expenses	674	1,134
Provision for bad debts	773	856
Other expenses	796	825
Total operating expenses	**$ 24,010**	**$ 31,503**

(Amounts in tables are expressed in thousands of Bermuda dollars)

20. **OPERATING EXPENSES** (continued)

Employee benefits expense during the year is comprised of:

For the years ended March 31	**2020**	**2019**
Salaries and other short-term benefits	$ 6,053	$ 6,310
Pension costs	254	259
Post-employment medical benefits	25	80
Stock-based compensation	25	24
Total employee benefits expense	**$ 6,357**	**$ 6,673**

Pension costs arise from the Parent's defined contribution pension plan covering all full-time employees in Bermuda.

21. **RELATED PARTY TRANSACTIONS**

Significant related party transactions are as follows:

21.1 Operating expenses include the Group's allocation of group overhead expenses of $13.5 million (2019 - $19.3 million).

21.2 Netted in Operating expenses is the management fee of $0.3 million (2019 - $0.3 million) which was charged to recover the allocated costs of administering the insurance policies of an affiliate.

21.3 Due from parent includes surplus cash deposits with the Parent. These deposits are payable on demand and bears no interest.

21.4 Compensation of key personnel

Key personnel have been identified as the Board of Directors of the Group. These individuals have the authority and responsibility for planning, directing and controlling the activities of the Group. Fees paid to directors for the reporting period totaled $0.02 million (2019 - $0.04 million).

21.5 Mortgage loans
The Group has extended mortgage loans to certain Officers totaling $1.9 million as at March 31, 2020 (2019 - $2.1 million).

22. **DIVIDENDS AND RETURN OF CAPITAL TO PARENT**

The Group declared and paid dividends of $12.1 million (2019 - $7.0 million) during the year. Additionally, the Group paid $Nil (2019 - $1.4 million) return of capital to the Parent.

23. **INCOME TAXES**

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

24. **COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)**

For the years ended March 31	**2020**	**2019**
Available-for-sale investments – unrealized gains/(losses)	$ (5,712)	$ 1,496
Re-measurement of post-employment medical benefit obligation	344	104
Total accumulated other comprehensive income/(loss)	**$ (5,368)**	**$ 1,600**

(Amounts in tables are expressed in thousands of Bermuda dollars)

25. 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.

Changes to Segregated funds are as follows:

For the year ended March 31	Note	2020	2019
Additions to Segregated Funds			
Contributions and transfers		$ 115,553	$ 82,239
Net investment income		37	54
Net increase/(decrease) in fair value of investments		(66,253)	(138)
Segregated Funds acquired		2,278	31
		51,615	**82,186**
Deductions from Segregated Funds			
Withdrawals, benefit payments and transfers to the General Fund		111,903	65,869
Operating expenses		10,056	9,588
Transfer to related party		-	133,354
		121,959	**208,811**
Net additions/(deductions) to/(from) Segregated Funds for the year		(70,344)	(126,625)
Segregated funds, beginning of year		936,444	1,063,069
Segregated Funds, end of year		**$ 866,100**	**$ 936,444**

Effective June 29, 2018, and pursuant to section 25 of the Insurance Act 1978, the final tranche of the transfer of certain private placement variable life insurance policies from the Group to AILBL was completed. The Group's total assets and liabilities decreased by $137.9 million, which includes segregated fund assets and liabilities of $133.4 million. The first tranche of the transfer was completed on April 1, 2017.

The Group assigned and transferred all rights and obligations, title and interest related to these policies to AILBL. The portfolio transfer did not impact the Group's net equity position at the date of transfer, and fulfilled all terms and conditions as stated in the Amended Scheme of Transfer Order, sanctioned by the Supreme Court of Bermuda, dated March 17, 2017.

The policies were transferred in order to consolidate the international life insurance business into one company, as part of the Parent's divestment plan.

26. COMMITMENTS AND CONTINGENCIES

26.1 Group as a lessor

The Group has entered into non-cancellable commercial property leases on several floors of the Group's office building. 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.

(Amounts in tables are expressed in thousands of Bermuda dollars)

Future minimum lease rentals receivable under non-cancellable operating leases are as follows:

For the years ended March 31	**2020**	**2019**
Within one year	$ 1,560	$ 1,562
After one year but no more than five years	1,488	3,048
	$ 3,048	**$ 4,610**

26.2 **Contingencies**

The Group is contingently liable with respect to certain litigation and claims that arise in the normal course of business. There were no other contingent liabilities outside the normal course of business.

27. COMPARATIVES

Certain of the comparative figures in these consolidated financial statements and note disclosures have been reclassified to conform to the presentation adopted for the year ended March 31, 2020.

28. SUBSEQUENT EVENTS

Many countries are experiencing the outbreak of the COVID-19 disease which was declared to be a global pandemic by the World Health Organization on March 11, 2020. The Group is monitoring the developments related to this pandemic closely and continues to evaluate its impact on the Group’s business. Though the magnitude of the impact on the Group’s financial performance as of March 31, 2020 was not significant, the full scale impact post year end is currently uncertain and could be potentially significant to the Group.

There were no other material subsequent events that are required to be disclosed.