

Argus Group Holdings Limited



# Financial Condition Report

Financial Year End: March 31, 2017

# Our Vision

To give more and more people the freedom to do what matters most.

# Our Mission

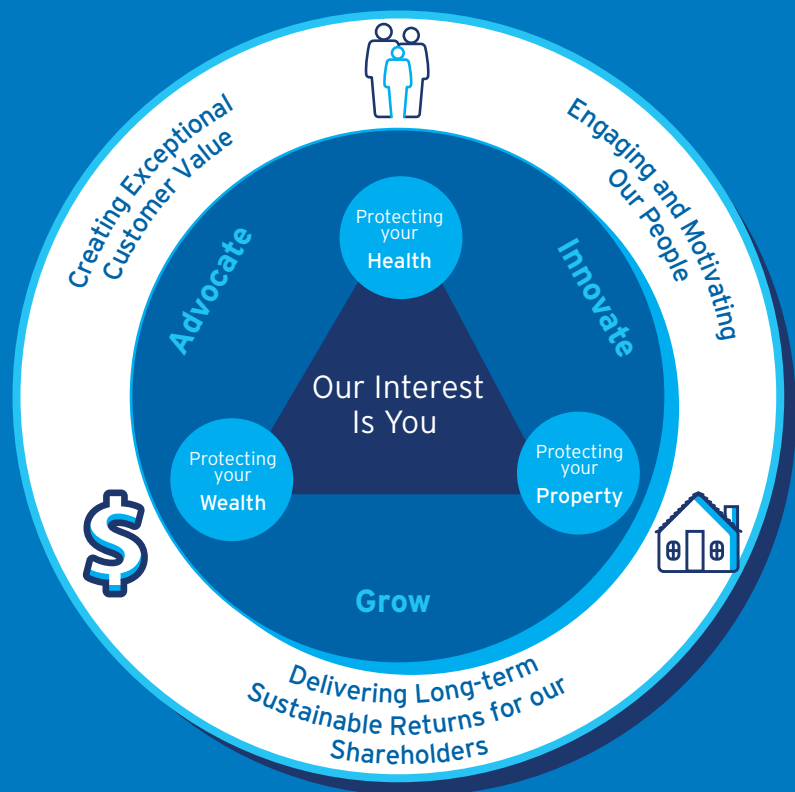
To provide financial services which predict and protect for the future, always ensuring “Our Interest is You”.

# Our Purpose

At Argus, our purpose is to deliver long-term sustainable returns to our shareholders through exceptional customer service, delivered by engaging and motivating our staff. “Our Interest is You” spans across all stakeholders as we seek to provide exceptional value through the solutions and services that we offer.

# Our Values

- Integrity
- Fairness
- Excellence
- Respect
- Professionalism
- Teamwork



# CONTENTS

	Executive Summary .....	2
	Declaration .....	3
I	Business and Performance .....	4
II	Governance Structure .....	15
III	Risk Profile .....	28
IV	Solvency Valuation .....	33
V	Capital Management .....	36
VI	Significant Events .....	39

## EXECUTIVE SUMMARY

At Argus, we focus on providing real benefit to our customers by delivering market-leading innovative solutions and high quality service of excellent value. Delivering on our brand promise **“Our Interest is You”** is core to our culture and central to our role as a trusted partner in navigating through everyday challenges and supporting long-term success.

We know that it is our continued focus to deliver long-term sustainable shareholder value in a dynamic and rapidly evolving global marketplace that sets us apart from our competitors. Over the last year, delivering sustainable value influenced how we allocated surplus capital, how we managed risks impacting our business, how we positioned ourselves in the markets within which we compete and how we conducted our daily business. We believe our role is one of careful stewardship of our shareholders’ assets and long-term custodianship of our business for future generations.

This past year has been one of profound and unprecedented change. We have experienced significantly higher geopolitical risk, a shift in the monetary policies of major central banks and the roles that they play in shaping economic policy and ever-increasing technology-led market disruption. The unexpected referendum result by the United Kingdom to exit the European Union and the surprise victory for Donald Trump in the United States presidential election demonstrated how wrong ‘conventional wisdom’ could be. Despite some of the market turmoil that followed these events, we are delighted to report \$12.0 million net earnings attributable to shareholders as a result of strong underlying business operations, with Return on Average Equity and Earnings per Share of 9.5% and \$0.57, up from 6.0% and \$0.34 last year.

In all the territories in which Argus does business, we are experiencing ever-increasing levels of regulatory oversight and rigor that shape how we manage capital and mitigate risk. With the introduction of the Financial Condition Report (FCR), our aim is to assist interested parties in understanding the corporate governance and capital position of Argus Group Holdings Limited (AGH) and its subsidiaries (collectively referred to as “Argus”, the “Group” or “Argus Group”).

This FCR is produced in accordance with the Insurance Rules 2015 (the “Rules”) under the Bermuda Insurance Act 1978 (the “Act”) in regard to undertakings carrying on Insurance and Reinsurance business in Bermuda.

This is the first FCR published by AGH based on the position as at March 31, 2017, and it is prepared on a consolidated basis, which encompasses information in relation to all Bermuda Monetary Authority (BMA) insurance regulated entities within the Argus Group.

Listed in the table below are the five subsidiaries of the Argus Group which are licenced by the BMA to carry on general and long-term business insurance in Bermuda. This FCR is prepared on a Group basis and provides additional specific disclosures related to those entities listed below:

Licensed Entity Name	Class of Insurance Licence
Argus Group Holdings Limited (AGH)	Group
Argus Insurance Company Limited (AICL)	General Class 3A
Argus International Life Bermuda Limited (AILBL)	Long-Term Class C
Argus International Life Insurance Limited (AILIL)	Long-Term Class C
Bermuda Life Insurance Company Limited (BLIC)	General Class 3B & Long-Term Class D
Bermuda Life Worldwide Limited (BLW)	Long-Term Class C

## DECLARATION

### Declaration on the Financial Condition Report

To the best of our knowledge and belief, the Financial Condition Report fairly represents the financial condition of the Argus Group, in all material respects as at March 31, 2017.



---

**Alison Hill**, FCMA, CGMA  
Chief Executive Officer



---

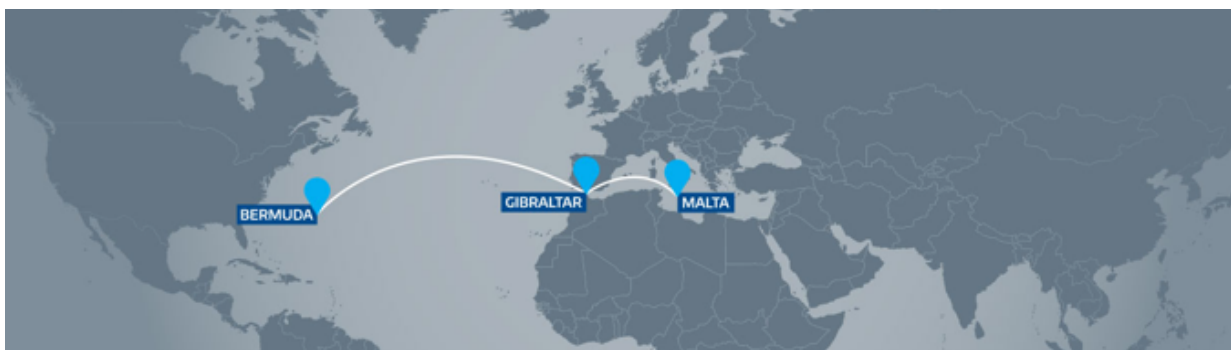
**Peter Dunkerley**, FCA  
Chief Financial Officer

## I BUSINESS AND PERFORMANCE

Argus Group Holdings Limited (“AGH”) is the parent holding company for a geographically diverse group of companies operating in Bermuda, Gibraltar and Malta. AGH, together with its subsidiaries, are collectively commonly referred to as “Argus”, the “Group” or the “Argus Group”. AGH’s registered office is located at the Argus Building, 14 Wesley Street, Hamilton HM 11, Bermuda.

AGH was incorporated in Bermuda with limited liability in May 2005 and, pursuant to a court-approved scheme of arrangement, replaced Argus Insurance Company Limited as the parent holding company for the Argus Group in November 2005. AGH is a public company, and Argus’ shares have been listed and traded on the Bermuda Stock Exchange since 1971.

The Argus Group is a multi-line insurance and financial services organisation underwriting life, health, property and casualty insurance. The Argus Group also offers investment, savings and retirement products targeted at local and international businesses as well as individuals.



### Bermuda

Argus has been writing insurance since 1950, when The Somers Isles Insurance Company Limited was incorporated with the purpose to ‘transact Hospitalisation Insurance for the first time in Bermuda’. Somers Isles was the first company of what became the Argus Group. In 1957 Argus began administering life benefits and pensions products. Argus is now the market leader in employee benefits, providing innovative and progressive products, tools and services to over 60% of the international business sector in Bermuda. In 1961, Argus Insurance Company Limited was formed to write general property and casualty insurance. Additionally, Argus provides wealth management solutions.

### Gibraltar

At Argus, we remain committed to our long-term strategic focus of geographical diversification. Argus has had a presence in Gibraltar since November 2004. Argus Insurance Company Europe Limited (AICEL), is a leading Gibraltar-based insurance company writing property and casualty business. Additional specialist classes of insurance are offered through our broking subsidiary, Westmed Insurance Services Limited.

### Malta

We have continued to diversify the Group’s sources of earnings across products and geographies. In 2010, AGH acquired a strong, well-established insurance agency that has served Malta since 1966, now Argus Insurance Agencies Limited. Since then, we have gained considerable momentum with the successful integration of the Millennium Insurance Agency business, and in 2016 we welcomed Island Insurance Brokers Limited into the Argus Group.

## Group Structure

The table below provides details of the major operating subsidiaries which are directly and indirectly held by AGH, at March 31, 2017.

Name	Country of incorporation and place of business	Nature of business	% of ownership interest held	
			2017 & 2016	% of ownership interest held by non-controlling interests 2017 & 2016
AFL Investments Limited	Bermuda	Investment management services	60%	40%
Argus Insurance Agencies Limited	Malta	Insurance agency	100%	-
Argus Insurance Company Limited	Bermuda	Property and casualty insurance: Home and commercial property, contractors' all risks, liability, marine, motor and employer's indemnity	100%	-
Argus Insurance Company (Europe) Limited	Gibraltar	Property and casualty insurance: Home and commercial property, contractors' all risks, liability, marine and motor	100%	-
Argus International Life Bermuda Limited <sup>(1)</sup>	Bermuda	Individual life and annuities	100%	-
Argus International Life Insurance Limited <sup>(1)</sup>	Bermuda	Individual life and annuities	74%	26%
Argus Investment Nominees Limited	Bermuda	Nominee company	60%	40%
Argus Management Services Limited	Bermuda	Financial and general management services	100%	-
Bermuda Life Insurance Company Limited	Bermuda	Pensions, group life and long-term disability insurance, individual life and annuities, group and individual health insurance	100%	-
Bermuda Life Worldwide Limited	Bermuda	Individual life and annuities	100%	-
Centurion Insurance Services Limited	Bermuda	Insurance agent and licensed broker	100%	-
NBHH (Keepsake) Limited	Bermuda	Property holding company	100%	-
Island Insurance Brokers Limited	Malta	Insurance broker	100%	-
Trott Property Limited	Bermuda	Property holding company	100%	-
Westmed Insurance Services Limited	Gibraltar	Insurance agent and licensed broker	100%	-

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

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

## **Group Supervisor**

The Argus Group is licenced and regulated in the territories in which the Group does business. However, the BMA is the regulator of the Group.

Bermuda Monetary Authority  
BMA House  
43 Victoria Street  
Hamilton HM12  
Bermuda  
Tel: +1 441 295 5278

## **Approved Auditor**

KPMG  
Crown House  
4 Par-la-ville Road  
Hamilton HM08  
Bermuda  
Tel: +1 441 294 2659



## Argus Group

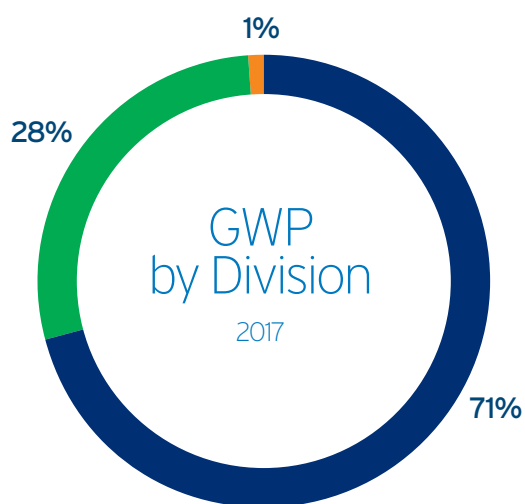
### Insurance Business

The Argus Group offers a wealth of multi-line insurance and financial services solutions to our clients, built on decades of experience and a strong capital base within our three divisions of Employee Benefits, Global Property and Casualty (P&C) and Wealth Management. The subsidiaries that operate outside of Bermuda have not been reported on an individual basis within this report as they fall outside the scope of this FCR.

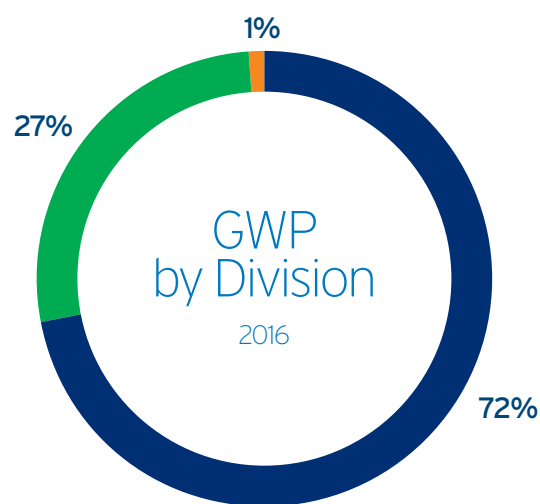
The Argus Group's consolidated gross written premiums by division and by geographical region for the years ending March 31, 2017 and 2016, are shown in the tables below.

Consolidated Gross Written Premiums \$000	2017	2016
Employee Benefits	116,893	127,072
Global Property & Casualty	46,122	47,971
Wealth Management	2,134	1,335
<b>Total</b>	<b>165,149</b>	<b>176,378</b>

\$000	2017	2016
Bermuda	147,053	156,569
Europe	18,096	19,809
<b>Total</b>	<b>165,149</b>	<b>176,378</b>



■ Employee Benefits ■ Global Property & Casualty  
■ Wealth Management

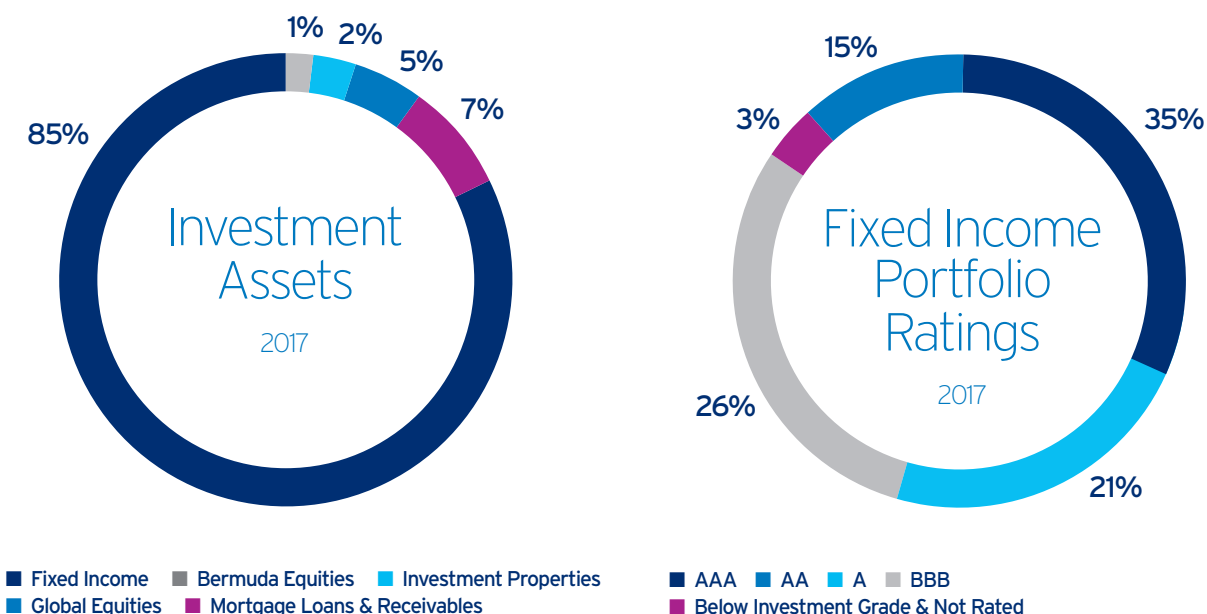


■ Employee Benefits ■ Global Property & Casualty  
■ Wealth Management

## Investments

At the core to the Group's investment philosophy is our commitment to careful and diligent custodianship of policyholder and shareholder assets. We achieve this by maintaining a high quality, diversified, portfolio that is liquid and well matched to the characteristics of the liabilities it supports. The Group's investment portfolio is designed to ensure funds are readily available to satisfy our obligation to policyholders, and to enhance shareholder value by generating appropriate long-term risk-adjusted yields.

As can be seen from the charts below, 85% of the Group's investments are fixed income bonds of which 97% are investment grade. The 3% holding of below investment grade and non-rated fixed income asset is comprised of a diverse range of tactical positions and are considered "money good" by their respective managers.



During the fiscal year ended March 31, 2017, credit spreads tightened while yields on sovereign debt spiked. This was due largely to the outcome of the U.S. presidential election, and the expectations that result set for higher growth and inflation. Furthermore, the Federal Reserve raised interest rates (by 0.25%) twice; once after their December 2016 meeting, and the second following their meeting in March, 2017. U.S. Treasury prices dropped as the the 10 Year Treasury Yield increased from 1.77% at March 31, 2016, to 2.39% at March 31, 2017. The main themes during this fiscal year were tightening credit spreads, increasing Treasury yields, and rallying equity prices.

Against this backdrop, our combined investments had a net positive total return of \$19.3 million for the fiscal year. \$18.4 million will flow through the income statement while unrealised gains of \$0.9 million will be recorded in other comprehensive income (OCI). This compares with \$14 million in net income and a positive \$6.2 million OCI figure at the half year.

The table below provides a breakdown of the Group's investment portfolio by asset class.

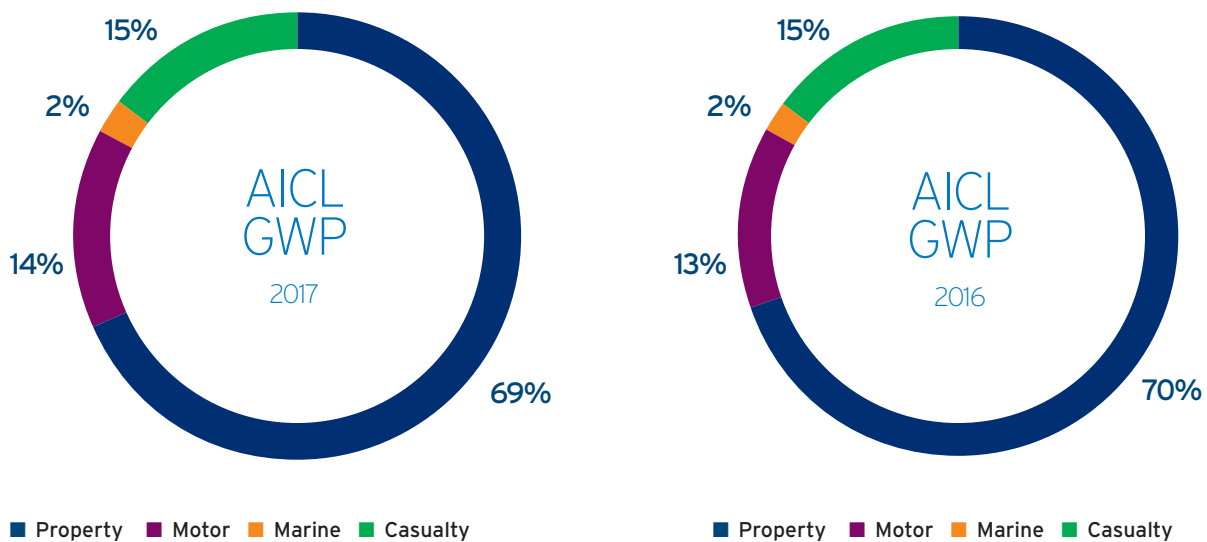
\$000	Asset Balance 2017	Net Investment Income 2017	Percentage Return 2017
Fixed Income	455,374	11,255	2.7%
Equities	30,733	6,505	6.9%
Mortgages & loans	35,492	727	2.0%
Investment property	12,225	1,048	8.6%
Investment in associates	11,581	212	1.8%
Other	-	243	-
Fair value gains	-	1,758	-
Impairments	-	(1,000)	-
Allocations	-	(2,104)	-
<b>Total</b>	<b>545,405</b>	<b>18,644</b>	<b>3.0%</b>

#### Argus Insurance Company Limited (AICL)

AICL is a wholly owned subsidiary of AGH, writing property and casualty insurance business to both commercial and retail clients. Additionally, AICL provides underwriting, claims and administration services. The lines of business written by AICL include property, motor, marine and casualty. The majority of the business written is direct insurance, with a small proportion of reinsurance coverage to the local market. AICL's comprehensive reinsurance arrangements help to mitigate significant events, namely windstorms.

AICL's gross written premiums by line of business and by geographical region for the years ending March 31, 2017 and 2016 are as follows:

Gross Written Premiums \$000	2017	2016
Property	19,290	19,640
Motor	4,053	3,812
Marine	681	576
Casualty	4,137	4,136
<b>Total</b>	<b>28,161</b>	<b>28,164</b>
Bermuda	<b>28,161</b>	<b>28,164</b>



The table below provides a breakdown of AICL's investment portfolio by asset class.

\$000	Asset Balance 2017	Net Investment Income 2017	Percentage Return 2017
Fixed Income	16,257	(24)	(0.1)%
Equities	6,533	265	4.1%
Investment property	3,575	(164)	(4.6)%
Investment in associates*	3,895	(559)	(14.4)%
Other**	-	248	-
Fair value gains	-	8	-
<b>Total</b>	<b>30,260</b>	<b>(266)</b>	<b>(1.6)%</b>

\* Negative net income in investment in associates is due to a decline in real estate values.

\*\* Rental income, bank interest and other

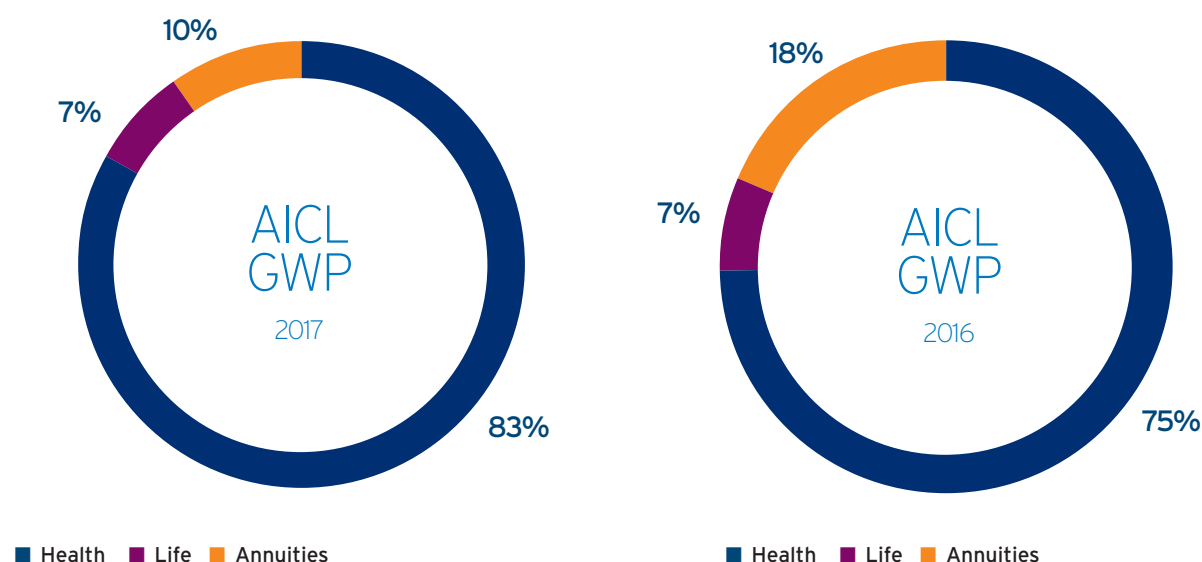
### Bermuda Life Insurance Company Limited (BLIC)

BLIC is a wholly-owned subsidiary of AGH, writing business for both group and individual clients. The lines of business include health, life and disability insurance, in addition to offering pension and annuity products.

Argus is the market leader in employee benefits, providing innovative and progressive products, tools and services. We adopt an integrated, people-centric approach across our full range of services that support being proactive about maintaining both physical and financial wellness for an enriched and fulfilling retirement.

BLIC's gross written premiums by line of business and by geographical region for the years ending March 31, 2017 and 2016 are as follows:

Gross Written Premiums		
\$000	2017	2016
Health	97,901	95,562
Life	8,386	8,443
Annuities	11,339	23,757
<b>Total</b>	<b>117,626</b>	<b>127,762</b>
<b>Bermuda</b>	<b>117,626</b>	<b>127,762</b>



The table below provides a breakdown of BLIC's investment portfolio by asset class.

\$000	Net Asset Balance 2017	Investment Income 2017	Percentage Return 2017
Fixed Income	418,503	10,695	2.6%
Equities	15,856	5,804	36.6%
Mortgages & loans	41,682	1,165	2.8%
Investment property	400	3	0.8%
Investment in associates	7,551	754	10.0%
Other*	-	2,212	-
Fair value (losses)	-	(35)	-
Impairments	-	(1,000)	-
Allocations	-	(2,104)	-
<b>Total</b>	<b>483,992</b>	<b>17,493</b>	<b>3.8%</b>

\* Rental income, bank interest and other

## Argus International Life Bermuda Limited (AILBL)

The Group's Wealth Management Division includes three regulated insurance subsidiaries. AILBL is a wholly owned subsidiary of AGH and is a registered separate accounts company under the Argus International Life Insurance Limited Consolidation and Amendment Act 2008. Any reference made to AILBL in this document will mean to refer to AILBL as a stand-alone entity unless otherwise stated.

## Argus International Life Insurance Company (AILIL)

AILIL is owned 74 percent by AILBL, and 26 percent by a United States resident partner. AILIL has made the US Internal Revenue Code 953(d) election, which allows it to be treated as a United States domestic insurance company for income tax purposes. AGH, through its wholly owned subsidiary AILBL, holds more than a simple majority of the shares issued and outstanding of AILIL, and therefore maintains significant influence over AILIL. AILIL is a registered separate accounts company under the Argus International Life Insurance Limited Consolidation and Amendment Act 2008.

Both AILBL and AILIL offer variable life insurance products to trusts, private companies or other eligible entities located in Bermuda or in other jurisdictions where it is deemed that the laws do not prohibit the ownership or sale of the insurance.

## Bermuda Life Worldwide Limited (BLW)

BLW is a wholly owned subsidiary of AILBL. BLW contains a closed book of fixed interest universal life policies for individuals domiciled outside Bermuda. BLW is in run-off, with no new business since 1999.

AILBL, AILIL and BLW write life business only. Gross written premiums by entity and by geographical region for the years ending March 31, 2017 and 2016 are as follows:

Gross Written Premiums \$000	2017	2016
AILBL	659	336
AILIL	1,234	994
BLW	241	5
<b>Total</b>	<b>2,134</b>	<b>1,335</b>
<b>Bermuda</b>	<b>2,134</b>	<b>1,335</b>

The tables below provide a breakdown of AILBL, AILIL and BLW's investment portfolio by asset class.

\$000	AILBL Net			AILIL Net			BLW Net		
	Asset Balance	Investment Income 2017	Percentage Return	Asset Balance	Investment Income 2017	Percentage Return	Asset Balance	Investment Income 2017	Percentage Return
Fixed Income	-	-	-	834	4	0.4%	8,765	312	3.6%
Equities	-	-	-	208	-	-	3,368	-	-
Mortgages & loans	-	-	-	-	-	-	521	33	6.3%
Intercompany balances	-	-	-	-	-	-	6,616	426	6.4%
Other*	-	23	-	-	8	-	-	3	-
Fair value gains	-	-	-	-	-	-	-	228	-
<b>Total</b>	<b>-</b>	<b>23</b>	<b>0.0%</b>	<b>1,042</b>	<b>12</b>	<b>0.4%</b>	<b>19,270</b>	<b>1,002</b>	<b>4.0%</b>

\* Policy loans, bank interest and other

## Material Income and Expenses

Argus Group's main revenue sources are premiums, fees and commissions where margins remain under pressure from competitors and from clients who are looking to drive ever greater value from their service providers. In this context we are pleased to have successfully held rates firm across most lines of business with modest overall rate increases for our health business. Combined fee income includes \$18.9 million comprising fees for service generated by our pensions, insurance brokerage, health administration and wealth management businesses.

The Group's major expense arises from claims costs. We use a combined operating ratio to track the overall performance of our underwriting operations, which compares premium income to the cost of claims and operating expenses. For the year ended March 31, 2017, the combined operating ratio for the insurance businesses within the Group remains healthy at 83.3%, this compares to 78.5% in the prior year. The increase in the combined ratio compared to the prior year is driven by lower profits from our health business, as a result of pricing actions taken in the short term to secure future long-term sustainability of this important business to the Argus Group. Additionally, health claims have returned to a more normal level after the unusually low claims in the previous two years. Our Global Property and Casualty Division performed well overall, despite the impact of hurricane Nicole in Bermuda and the emergence of some old liability claims in Europe. Once again, we are pleased that the financial impact to the Group of significant events has been mitigated through the performance of the Group's comprehensive reinsurance arrangements.

The material income and expenses for the Bermuda regulated insurance subsidiaries for the years ending March 31, 2017 and 2016 are as follows:

Material Income (& Expenses) for 2017						
\$000	AICL	BLIC	AILBL	AILIL	BLW	Argus Group
Net earned premium	8,468	109,450	32	197	(246)	128,820
Net investment income	333	16,739	23	12	774	18,431
Commission & fee income	6,592	14,409	682	775	-	28,960
Net benefits & claims	(2,682)	(95,712)	-	(50)	(977)	(105,728)
Commission expenses	(1,219)	(728)	(194)	(238)	(13)	(4,745)
Operating expenses	(7,954)	(31,638)	(888)	(1,212)	(900)	(49,725)

Material Income (& Expenses) for 2016						
\$000	AICL	BLIC	AILBL	AILIL	BLW	Argus Group
Net earned premium	8,349	119,572	31	179	(393)	139,151
Net investment income	377	4,944	22	15	1,061	1,499
Commission & fee income	5,687	16,334	822	767	-	32,061
Net benefits & claims	(2,794)	(101,125)	-	-	(60)	(109,601)
Commission expenses	(1,664)	(437)	(357)	(247)	(5)	(5,101)
Operating expenses	(7,815)	(28,643)	(364)	(529)	(900)	(46,042)

## Other material information

### Group Strategy

The financial strength of our operations is underpinned by our three strategic pillars of Growth, Advocacy and Innovation.

#### Growth

The Group remains committed to our long-term strategic focus of growing and expanding our business in Europe. We have gained considerable momentum with the successful integration of Island Insurance Brokers Limited in Malta. The Brexit vote has not changed our European focus. We are closely following the situation as it evolves to assess the potential impact on our businesses. But we do know that with significant change comes great opportunity, and we are taking time and talking to global industry experts and European-based government representatives to better explore how we might capitalise on those new opportunities in Europe as they emerge.

#### Advocacy

Our approach to advocacy is to do the right thing on behalf of our customers, our staff and business partners. It is taking time to gain a deep understanding of the evolving needs of our clients and then giving them a voice and an ally when influencing reform in our broader business communities. We've cemented our position as leading advocates for Employee Benefits through the continued roll-out of our wellness programme: Thrive. We've also rolled out an exciting new platform of pension fund options, which has served to meet the needs of our clients and give us a competitive edge within the market place.

#### Innovation

Our innovative spirit and innovative approach shapes how we harness and utilise technology. By having a deep understanding of our clients' needs, we can ensure technological change is relevant and delivers real value to our customers to meet the expectations of their complex and evolving lives. Our new "Argus Health Benefit Portal" gives our clients the ability to better manage their employee benefits by having 24/7 access to online Reports and Benefits plans and, transact in a safe and secure manner.

### Financial Strength and Credit Rating

A.M. Best's Financial Strength Rating is an independent opinion of an insurer's financial strength and ability to meet its ongoing policy and contract obligations. A.M. Best's opinions are derived from an evaluation of a company's balance sheet strength, operating performance and business profile.

Listed below are the two Argus entities which obtain a Financial Strength Rating from A.M. Best.

	Financial Strength Rating	Long-Term Credit Rating	Outlook	Rating Year
AICL	B++ (Good)	bbb+	Positive	2016
BLIC	B++ (Good)	bbb+	Positive	2016
Argus Group		bb+	Positive	2016



## II GOVERNANCE STRUCTURE

The primary objective of the Group's risk and financial management framework is to protect the Group from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities if those opportunities fall within the Group's risk appetite. Management recognises the critical importance of having efficient and effective risk management systems in place.

The Group has an established risk management function with clear terms of reference from the Board of Directors, its committees and the associated executive management committees. This is supplemented by a clear organisational structure with documented delegated authorities and responsibilities from the Board of Directors to executive management committees and senior management. In addition, a Group policy framework which sets out the risk profiles, risk management, control and business conduct standards for the Group's operations is in place. Each policy has a member of senior management charged with overseeing compliance with the policy.

The Board of Directors approves the Group's risk management policies and meet regularly to approve any commercial, regulatory and organisational requirements of such policies. These policies define the Group's identification of risk and its interpretation, which ensures the appropriate quality and diversification of assets, and the alignment of underwriting and reinsurance strategy to the corporate goals.

### Board and Senior Executive

The Board has responsibility for strategic oversight and ensuring Management (inclusive of the Officers) comply with legal and regulatory requirements. Management, and in particular the Officers, are responsible for the day-to-day operations and administration of the Group.

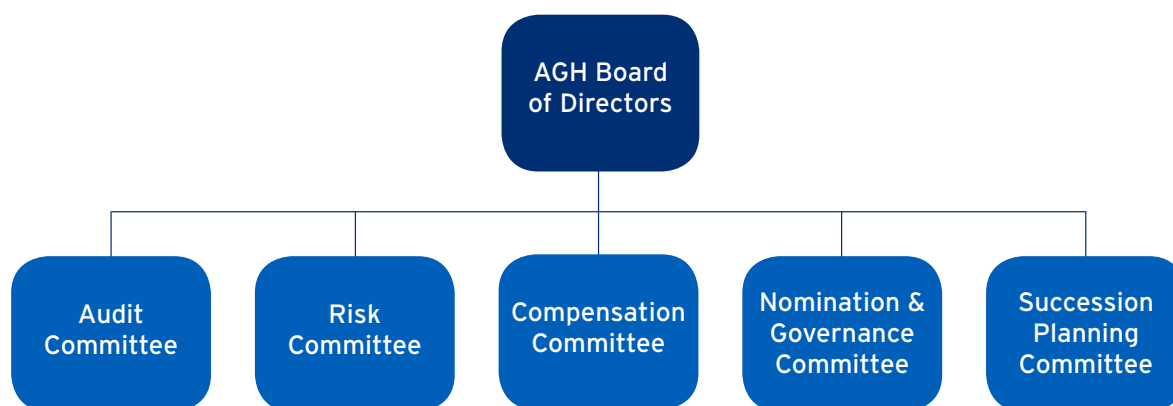
The role of the Board is to provide leadership of the Group as a whole and the respective subsidiaries, within a framework of prudent and effective controls, which enables risk to be assessed and managed. The AGH Board sets the Argus Group's strategic aims, and ensures that the necessary financial and human resources are in place to meet objectives and review management performance. The Argus Group's values and standards are set by the AGH Board, ensuring that its statutory and legal obligations to stake-holders and Government are understood and met.

Each subsidiary Board is similarly responsible for each relevant subsidiary, to enable the AGH Board to carry out its objectives.

### Board Committee Structure

The Argus Group operates a centralised board committee structure at AGH level: each of AGH's board committees has been given authority on behalf of AGH's Board of Directors, with responsibility for ensuring all entities of the Argus Group operate, and are managed, to a common minimum standard pursuant to committee-specific Terms of Reference. Where an operating subsidiary has a matter that falls outside the parameters generally prescribed by an AGH board committee, the subsidiary's management have the ability to escalate matters to the relevant AGH board committee for consideration on an exception basis, and recommendation for appropriate action to the relevant subsidiary board or AGH Board where appropriate.

The chart below reflects AGH's current board committee structure:



### **Audit Committee**

The Audit Committee is tasked with assisting the Group's Board in fulfilling its oversight responsibilities for the Group's financial reporting process, the system of internal control, the audit process, as well as the Group's process for monitoring compliance with laws and regulations and the code of conduct.

### **Risk Committee**

The Risk Committee is tasked with the oversight of the Group's risk management, asset liability management, and financial investments, the latter as defined in the Group's Investment Policy.

The Risk Committee advises the Group's Board on overall risk appetite, tolerance, strategy and metrics, taking into account current and prospective economic, financial, regulatory and political environments.

### **Compensation Committee**

The role of the Compensation Committee is to discharge the Group Board's responsibilities relating to the compensation of the Group's executive officers and other designated senior officers, the adoption of policies that govern the Group's compensation and benefit programmes, oversight of plans for executive officer development and succession, and to fulfil the responsibilities set forth in the Terms of Reference.

### **Nomination and Governance Committee**

The role of the Nomination and Governance Committee is to ensure that suitable potential board nominees are identified and recruited, and to oversee the process by which individuals are nominated to become board members. The Nomination and Governance Committee also oversees matters of corporate governance, including advising the Group's Board on matters of (A) board organisation, membership and function; and (B) committee structure and membership.

The Group Board's committee structure, committee operations, committee formations, and committee charters are periodically reviewed by the Nominations and Governance Committee, which makes such recommendations to the Group's Board to be consistent with best practices and the best interests of the Argus Group.

The Nomination and Governance Committee also oversees the annual evaluation of the performance and effectiveness of the Group's Boards and reviews the report and results of the evaluation.

## **Succession Planning Committees**

The Argus Group's Succession Planning Committees are responsible for reviewing the roles and responsibilities of top executives and non-executive directors, to develop a succession plan and timelines, and to identify and recommend to the Group Nomination and Governance Committee potential candidates for appointment.

## **Management Committees**

### **Executive Risk Management Committee (RMC)**

The main function of the RMC is to assist the Risk and Audit Committee's and the Group's Boards in fulfilling their responsibilities for, and on behalf of, the Argus Group. To ensure that a wide range of risk activities are sufficiently covered, the RMC has delegated certain matters of focus to four RMC Sub-Committees; namely 1) Operational Risk, 2) Data Privacy & Information Risk, 3) Underwriting & Claims, 4) Capital & Regulatory.

### **Asset-Liability Management Committee (ALMC)**

The ALMC is tasked with the oversight of the management and control of all financial investments and corresponding liabilities, as defined in the Argus Group's Investment Policy. This includes determining the strategic asset allocation and long-term asset mix. It is also responsible for oversight of any investment managers.

### **Remuneration Policy**

At the Argus Group, our culture is to do the right thing, the right way, always, especially when it comes to our staff. Our compensation programme is a key component of our talent management strategy, and management are incentivised on forward-looking activities that generates long-term sustainable value. The Argus Group offers remuneration packages to attract, retain and motivate high quality employees in the respective jurisdictions in which we operate. Both fixed and variable remuneration is offered. Fixed remuneration is given in the form of a base salary and is determined by taking into account an individual's experience and qualifications. Variable remuneration is discretionary and takes the form of cash bonus and is available to all staff.

Three factors that impact the variable remuneration are market position, individual performance and the Group's ability to meet its financial and strategic targets. Additionally the granting of restricted stock is at the discretion of the Compensation Committee of the Board of Directors. When determining grants, consideration is given to further enhance the Group's ability to retain the services of key employees.

Comprehensive salary reviews are conducted as part of the annual performance appraisal process. The Human Resource department ensures that remuneration is internally equitable and aligned with market competitive compensation levels in all jurisdictions.

The Compensation Committee of the Board of Directors is empowered to review and approve key compensation policies on behalf of the Argus Group and in that connection to also ensure that such policies provide total compensation that is competitive in the marketplace.

Moreover, part of the role and oversight of the Compensation Committee is the annual review and approval of the Group's remuneration and compensation policies. This includes the executive total compensation plan structure, short-term incentive compensation plans, review of performance evaluations, and equity-based plans for the Group's executive officers and other designated senior officers. Additionally,

the Board is charged with oversight of plans for executive and senior officers' development and succession.

Pursuant to the Group's Bye-Laws, the remuneration (if any) of the Directors shall be determined by the Group at a general meeting and shall be deemed to accrue from day to day. The Directors may also be paid all travel, hotel and other expenses properly incurred by them in attending and returning from the meetings of the Board, any committee appointed by the Board, general meetings of the Group, or in connection with the business of the Group or their duties as Directors generally. The Board may from time to time, at its sole discretion, approve the provision by the Company of such ex-gratia benefits, without limitation, whether by the payment of cash, gratuities, pensions or otherwise, as determined by the Board, to any one or more Directors.

During the current reporting period, the Group's Independent Non-Executive Directors received a fixed fee with no variable or performance-related component, as set by the Group's shareholders at the Annual General Meeting held on September 29, 2016

The Group's sole Executive Director, the Chief Executive Officer, is a salaried employee of the Argus Group and is remunerated based on an employment contract. The CEO receives no further remuneration entitlement based on the role as a Director of the Group.

#### ***Pension or early Retirement Schemes for Members, Board and Senior Employees***

There are no supplementary pensions or early retirement schemes for Members, Board and senior employees.

#### ***Material Transactions with Shareholder Controllers, Persons who Exercise Significant Influence, the Board or Senior Executives***

AGH is a public company listed on the Bermuda Stock Exchange. Other than general intra-group outsourcing arrangements typical of a consolidated conglomerate (risk, legal, treasury, actuarial, marketing, etc), the Argus Group also provides group employee benefits (pension, health, life) to employees of the Group.

During the financial year ending March 31, 2017, AGH paid a total dividend of \$3.9 million to shareholders.

The following capital transactions were also recorded by Bermuda insurance subsidiaries, in line with the Group Capital Management Policy, during the year ending March 31, 2017:

- AICL distributed \$3.5 million of contributed surplus to AGH
- BLIC paid a total dividend of \$13.6 million to AGH
- BLW distributed \$1.0 million of contributed surplus to AGH

#### **Fitness and Propriety Requirements**

Our core values of integrity, fairness, excellence, respect, professionalism and teamwork underpin the foundation upon which Argus is built. The Group ensures that the individuals running the business or fulfilling key functions are aligned with the core values of the Group and have the appropriate knowledge and skills.

In assessing of whether an employee is fit and proper, consideration has to be given to the person's competence and capability to undertake the role, including professional and formal qualifications, and knowledge and relevant experience in the context of the respective duties allocated to that person. In addition, due to the level of trust required to perform certain activities and the obligations imposed by regulators upon financial services firms, employees must also demonstrate a number of personal qualities such as honesty and integrity.

The Nomination and Governance Committee of AGH uses criteria when considering candidates for election as non-executive directors of any entity within the Argus Group and when evaluating existing non-executive directors to determine whether they should be endorsed for re-election by the shareholders. The criteria, that follows, are not exhaustive and the committee may consider other factors.

Individuals to be considered for board membership should possess all of the following personal characteristics: good character and integrity, informed judgment, financial literacy, maturity and a history of achievement in a business environment. Each board as a whole should demonstrate abilities in the following fields: accounting and finance; business judgment; general management; knowledge of local and international insurance and reinsurance, including knowledge of the relevant company's businesses and products; familiarity with the Bermuda economy and its political and social situation; leadership and vision. Consideration is also given to the combination of skills, experience, independence and diversity of backgrounds which will enable each board, as a body, to be effective in advancing the business and prospects of the respective company. Existing non-executive directors are obligated to immediately advise the chairman of the Committee of potential conflicts of interest, perceived or actual, and the individual's appropriateness of continuing as a director is then re-evaluated by the Committee. The Committee will not recommend the election or re-election of persons who are unable to devote sufficient time to the affairs of AGH or the relevant subsidiary company.

Each director upon election must then operate pursuant to a specific Terms of Reference for Directors, which expressly states the objectives and responsibilities of each of the AGH and subsidiary boards, as well as clearly defines the fiduciary and statutory duties of each Director. The Committee conducts individual and collective board assessments on a minimum of an annual basis to ensure compliance with these duties specifically and the Terms of Reference generally.

#### **Argus Group Holdings Limited – Board of Directors**

The Argus Group's Board of Directors is comprised of both Bermudian and non-Bermudian individuals who bring a wealth of local and international business experience. Their reputation and experience reflect the Argus Group's corporate values. The composition reflects a blend of financial, insurance and business knowledge. A list of Directors is provided below with a brief professional resume on each. All of the Directors also either chair or serve on the boards of a number of AGH's subsidiary companies, or on key committees of the Group's Board of Directors.

The Directors and Officers of AGH are listed below:

**Executive Director**

Alison S. Hill

**Non-Executive Directors**

Sheila E. Nicoll

Alan R. Thomson

Timothy C. Faries

Wendell S. F. Brown

Sen. James S. Jardine

Marcia B. Scheiner

Peter R. Burnim

Robert D. Steinhoff

Paul C. Wollmann

**Officers**

Sheila E. Nicoll

*Chairman*

Alan R. Thomson

*Deputy Chairman*

Alison S. Hill

*Chief Executive Officer*

Peter J. Dunkerley

*Chief Financial Officer*

George N.H. Jones

*Company Secretary*

**Chairman - Sheila E. Nicoll, FCII**

*Chief Operating Officer, Sirius Bermuda Insurance Company, Ltd*

Ms. Nicoll has been a member of the Argus Group Holdings Limited's Board of Directors for 12 years, and Chairman since 2008. Ms. Nicoll has over 35 years of experience in the insurance/reinsurance industry in Bermuda, London and New York. She holds an MA in Chemistry from Oxford University and professional designations as a Fellow of the Chartered Institute of Insurance.

**Deputy Chairman - Alan R. Thomson**

*Semi-Retired, Thomson Associates, Ltd*

Mr. Thomson has been a member of the Argus Group Holdings Limited's Board of Directors for 14 years, and Deputy Chairman since 2008. Mr. Thomson brings almost 46 years of experience in local and international insurance broking and insurance captive management.

**Wendall S. F. Brown**

*Chairman & President, BDC 2000 LTD*

Mr. Brown has been a member of the Argus Group Holdings Limited's Board of Directors for eight years. He is the Chairman & President of BDC 2000 Limited, which is the parent company to The Phoenix Stores Limited, and has been involved with many other Bermuda businesses including Bermuda General Agencies, Sunshine Company Limited, Sun Sing Limited, and Aberfeldy, amongst others. He brings in-depth understanding of the Bermuda business community including financial knowledge and extensive entrepreneurial experience. Mr. Brown holds a Bachelor of Computer Science from Concordia University.

**Peter R. Burnim, MBA**

*Managing Director, iQ Venture Partners, Inc., Chairman and Board member*

Mr. Burnim has been a member of the Argus Group Holdings Limited's Board of Directors for eight years. Mr. Burnim is managing director of iQ Venture Partners, Inc., a boutique investment advisory group that raises capital for emerging companies and hedge funds. He previously worked at Citibank/Citicorp for over 25 years where he served as Senior Credit, Senior Securities and Senior Corporate Officer, running U.S. Corporate Banking, European Corporate Finance, European Capital Markets and U.S. Private Banking. Mr. Burnim is an honors graduate of Harvard College and Harvard Business School. He currently serves as a Trustee of Allianz VIP Trust and Allianz VIP Fund of Fund Trust, Chairman of EGB Insurance, Emrys Technology, Sterling Bank & Trust Limited, Sterling Trust (Cayman) Limited. He also serves on numerous education, artistic, and religious not-for-profit Boards.

**Timothy C. Faries, BA, LLB, LLM**

*Managing Partner, Appleby (Bermuda) Limited*

Mr. Faries has been a member of the Argus Group Holdings Limited's Board of Directors for three years. In addition to being the Managing Partner, Mr. Faries is also the Bermuda group head of the Corporate and Commercial department and the Insurance and Reinsurance sector leader for Appleby (Bermuda) Limited. Mr. Faries qualified as a barrister and solicitor in Alberta and was called to the Bermuda Bar in 1994. He serves as director on several other Boards.

**Alison S. Hill, FCMA, CGMA**

*Chief Executive Officer, Argus Group Holdings Limited*

Ms. Hill has been a member of the Argus Group Holdings Limited's Board of Directors for six years. Ms. Hill has 28 years of experience in the financial services sector, including 15 years of senior management experience in the financial services sector in Europe, prior to joining Argus Group Holdings Limited as Chief Operations Officer in 2009. She succeeded to Chief Executive Officer in 2011. She holds a BA (Hons) in Business Studies from Plymouth University and professional designations as a Fellow Chartered Management Accountant and Chartered Global Management Accountant. She serves as director on several other Boards.

**Sen. James S. Jardine, FCPA, FCA, FCIS, ARM, JP**

*Retired Partner & Chief Executive Officer, Appleby*

Mr. Jardine has been a member of the Argus Group Holdings Limited's Board of Directors for eight years. Mr. Jardine holds a Bachelor of Commerce from Dalhousie University, and holds professional designations of Fellow Chartered Accountant and Fellow Chartered Secretary, and brings a wealth of local financial knowledge and experience. He has served as an Independent Senator in the Government of Bermuda Upper House, having been appointed by The Governor of Bermuda in 2010.

**Marcia B. Scheiner, MBA**

*President, Integrate Autism Employment Advisors*

Mrs. Scheiner has been a member of the Argus Group Holdings Limited's Board of Directors for two years. Ms. Scheiner is currently president of the non-profit Integrate Autism Employment Advisors, which she founded in New York in 2010. She has a wealth of global financial services experience and has previously held positions with Zurich Financial Services, Chase Manhattan Bank and Canadian Imperial Bank of Commerce.

**Robert D. Steinhoff**, FCA, CPA, JP  
*Retired, Senior Partner, KPMG*

Mr. Steinhoff has been a member of the Argus Group Holdings Limited's Board of Directors for 12 years. Mr. Steinhoff was at KPMG in Montreal before returning to Bermuda, becoming a Partner in 1976 and retiring as Senior Partner in 2003. Mr. Steinhoff holds a Bachelor of Commerce from Dalhousie University, and a Postgraduate Degree in Accounting & Finance from McGill University. He holds the professional designation of Fellow Chartered Accountant, and brings a wealth of local and international knowledge in the financial and insurance arenas. He serves on numerous not-for-profit Boards.

**Paul C. Wollmann**, MBA, CPCU, ARe, ARM  
*Chief Underwriting Officer, Essent Reinsurance Ltd.*

Mr. Wollmann has been a member of the Argus Group Holdings Limited's Board of Directors for four years. Mr. Wollmann has extensive (re)insurance and capital markets knowledge and has direct work experience with the most senior levels of large financial institutions. He holds a BA from Rollins College, Florida and an MBA from The School of Risk Management, Insurance and Actuarial Science, St. John's University, New York.

## **Argus Group Holdings Limited - Officers**

**Chairman - Sheila E. Nicoll**, FCII  
*See previous listing.*

**Deputy Chairman - Alan R. Thomson**  
*See previous listing.*

**Alison S. Hill**, FCMA, CGMA  
*See previous listing.*

**Peter J. Dunkerley**, FCA  
*Chief Financial Officer, Argus Group Holdings Limited*

Mr. Dunkerley joined the Argus Group in 2012 as Executive Vice President, Finance & Treasury and succeeded to Chief Financial Officer in 2015. Prior to joining Argus, Mr. Dunkerley was a Director in the Insurance practice of PricewaterhouseCoopers in Bermuda. He holds a Bachelor in Aeronautical Engineering from Loughborough University in England, is a Fellow of the Institute of Chartered Accountants in England & Wales and a member of the Institute of Chartered Accountants of Bermuda.

**George N.H. Jones**, MBA, LLB  
*Company Secretary, Argus Group Holdings Limited*

Mr. Jones joined the Argus Group in 2010 and is Group General Counsel for the Company and its various subsidiaries. Prior to joining Argus Mr. Jones had 20 years of experience in the legal and financial services industry, including five years within the Corporate and Commercial Practice Group at Appleby (Bermuda) Limited, working with both the Insurance and Funds & Investment Services Teams, as well as Appleby (Mauritius) Limited. Previous experience also includes a number of roles within large financial institutions in Bermuda, Chile and the United States. He holds a BA in International Relations from Bucknell University, a Masters of Business Administration in Entrepreneurship from Babson College, and a law degree from University of Buckingham. He is a member of the Bermuda Bar.



Directors for each entity within the scope of the FCR are listed below:

Executive Directors	AICL	AIBL	AILIL	BLIC	BLW
Alison S. Hill (CEO)	•		•	•	•
Peter J. Dunkerley (CFO)	•	•	•	•	•
Lauren M. Bell				•	
Michelle A. Jackson				•	
John Doherty	•				
Lynne A. Woolridge		•	•		•
Sheila E. Nicoll				•	
Alan R. Thomson				•	
Timothy C. Faries				•	
Wendell S. F. Brown	•			•	
James S. Jardine		•	•		•
Marcia B. Scheiner	•				
Peter R. Burnim		•	•		•
Robert D. Steinhoff	•				
Paul C. Wollmann	•				

- Chairman
- Deputy Chairman

## Risk Management and Solvency Self-Assessment

### *Risk Management Process and Procedures to Identify, Measure, Manage and Report on Risk Exposures*

The Group's Board of Directors has the primary responsibility for risk oversight and has delegated the responsibility for ensuring the effectiveness of the risk management framework to the Risk Committee, leaving the day-to-day responsibilities of managing and overseeing the execution of the risk management programme to the RMC.

The risk identification and assessment process is an integral part of the annual business planning process. The timing of the annual risk register review has now been aligned with the business planning process whereby each business and support unit identifies material risks to which it is exposed, and then designs appropriate mitigation controls based on the severity of each risk. The majority of material risks considered by each business unit included the following: insurance underwriting risk; investment, liquidity, and concentration, market and credit risks, system and operational risk, Group and strategic risk, reputational and legal risks.

For each material risk, the Group's assumed exposure is measured in terms of its likelihood and impact and/or consequence in preventing each business unit from achieving its business objectives. Once the risk exposure is assessed the risk treatment is considered based on acceptance, reduction, transferabil-

ity or avoidance, and taking into account the Group's risk appetite statement, risk tolerance levels and limits.

In addition to the risk registers, Management have prepared a risk budget in accordance with risk tolerances of the Group Risk Appetite Statement. The risk budget has been assessed against historical adverse events within the individual business units and the potential variability within the 2017-18 budget.

To ensure that a wide range of risk activities are sufficiently covered, the RMC has delegated certain matters to four Sub-Committees:

1. Operational Risk
2. Data Privacy & Information
3. Underwriting & Claims
4. Capital & Regulatory

Per the Board approved terms of reference of the RMC, each Sub-Committee meets on a monthly basis and reports its activities to the RMC every other month. The RMC reports to the Risk Committee on a quarterly basis.

#### ***Risk Management and Solvency Self-Assessment Systems Implementation***

The Group ensures that the risk management framework and solvency self-assessment systems are embedded in the running of its businesses, through the monthly Risk Management Committee, Asset Liability Management Committee and Operations Committee, and the twice monthly Portfolio Management Group. All material risks, business decisions and strategic planning are brought to these committees/working groups, and reported to the Committees of the Board for review and approval. Business decisions are assessed taking into consideration the risks and the group's appetite towards risk, as defined in the Group's Risk Appetite Policy. Solvency self-assessment is carried out on a forward-looking basis at least quarterly. The impact on solvency and capital from potential material business decisions is incorporated in the Medium-Term Capital Plan (MTCP) and reported to the Risk Management Committee.

Management considers the capital requirements of all its insurance entities on a quarterly basis, and advises the Risk Management Committee through the MTCP, of any surplus or deficit capital. The MTCP includes an analysis of the quarterly financial position of all insurance entities in the Group, including the solvency requirements as prescribed by the Act. The Group has internal capital targets supplemental to the regulatory requirements. The MTCP includes recommendations for the maintaining of those internal targets.

#### ***Solvency Self-Assessment Approval Process***

The solvency self-assessment is approved by the Risk Management Committee with final approval by the Audit Committee/Risk Committees of the Board. Independent verification is carried out by Internal Audit and an audit opinion is prepared and submitted to the Audit/Risk Committees of the Board accordingly.

### **Internal Controls**

#### ***Internal Control System***

The Group has established processes, procedures and systems to ensure that business objectives are achieved in an operationally effective and efficient manner; financial information and reporting is reliable; and compliance with laws, regulations and internal policies is achieved.

The adherence to internal controls is an integral part of the business culture. Senior management across the Group ensures that all personnel are aware of their role and responsibilities as they relate to the

internal control system and that the control activities are commensurate with the risks arising.

All incidences of internal control breakdowns are monitored by the risk and compliance function, analysed for causes and remediated on a timely basis. Risk Management monitors the remediation progress through monthly reporting.

The internal control system is comprised of the Internal Control Environment and Monitoring and Reporting.

### ***Internal Control Environment***

Senior management across the Group promote the importance of performing appropriate internal controls by ensuring that all personnel are aware of their role in the internal control system. The control activities are commensurate to the risks arising from the activities and processes to be controlled. To that end, an annual risk assessment of material risks is performed across the Group and these are recorded in risk registers.

### ***Monitoring and Reporting***

Senior management has established monitoring and reporting mechanisms within the internal control system which provide the AGH Board with the relevant information for the decision-making processes on a quarterly basis. The solvency self-assessment approval process requires the approval of the Risk Management Committee and final approval of the Audit and Risk Committees of the Board. An independent verification is carried out by Internal Audit and an audit opinion is prepared and submitted to the Audit and Risk Committees of the Board accordingly.

### ***Compliance Function***

A Head of Group Compliance has been appointed by the Board to manage the compliance function in all jurisdictions within which the Group operates. A Group Compliance policy, which sets out the responsibilities of the Board, Management and the Head of Compliance, has been approved by the Board.

The Head of Group Compliance monitors compliance with Group policies and procedures, adherence to the Group Standards of Business Conduct as well as compliance with the internal control system. All incidents of non-compliance, and their remediation, are reported to the Board on a quarterly basis. The Compliance function is subject to an annual internal audit and a report of deficiencies or material non-compliance findings are reported to the Board.

## **Internal Audit**

A Head of Group Internal Audit has been appointed by the Board to manage the internal audit function. These responsibilities are set out in the Group Internal Audit Policy which has been approved by the Board.

### ***Independence of the Internal Audit Function***

The Audit Committee ensures that the internal audit function does not perform any operational functions and is free from undue influence by any other functions, including key functions. In that respect, the internal audit function reports directly to the Audit Committee (Chairman) and administratively, reports to the Head of Compliance who is also independent and reports directly to the Audit Committee.

When performing an audit, and evaluating and reporting the audit results, the Audit Committee ensures that the internal audit function is not subject to influence from management or the Board, that could impair its operational independence and impartiality.

### ***Conflict of Interest within the Internal Audit Function***

Measures to manage the conflict of interest are set out in the Group Standards of Business Conduct Policy. All employees, including Directors, are required to annually certify, that they remain compliant with the policy.

### ***Internal Audit Policy***

The Board-approved Internal Audit Policy sets out the terms and conditions to which the internal audit function can be called upon to investigate and give its opinion or assistance, or to carry out other special tasks.

### ***Annual audit plan***

The annual internal audit plan is reviewed and approved by the Audit Committee on behalf of the Board. The Audit Committee ensures that the internal audit plan:

- is risk-based, taking into account all the business activities and the system of governance, as well as strategic initiatives;
- covers all significant business activities that are to be reviewed within a reasonable period of time; and
- is flexible enough to cover any ad-hoc areas that the Board, Audit Committee or the Executives may require internal audit to investigate.

### **Actuarial Function**

The actuarial function is led by the Group's Chief Actuary. The actuarial function is governed by the Terms of Reference for the Actuarial Function, which has been approved by the Board and encompasses the requirements of the BMA's Insurance Code of Conduct and Solvency II Directive.

The actuarial function is responsible for reporting and ensuring the adequacy of technical provisions for insurance business. The Chief Actuary reports at least annually to the Board on the nature, reliability and adequacy of the technical provisions. In addition, the actuarial function has representation on the Audit Committee of the Board.

The actuarial function contributes to the effectiveness of the risk management framework, particularly as it relates to policyholder obligations, potential exposures and capital requirements.

Analyses performed by the actuarial function include but are not limited to:

- Own risk and solvency self-assessment at least annually (CISSA/GSSA and ORSA)
- Asset liability matching quarterly
- Experience analyses at least annually
- Effectiveness of underwriting processes
- Effectiveness/appropriateness of reinsurance arrangements

The actuarial function reports on its activities via the relevant executive management committees and committees of the Board.

The majority of the activities of the actuarial function are performed internally. The exception is the approved actuary for the Group's property and casualty business, which is performed by an external independent actuary, approved by the regulator. The Group's Chief Actuary performs the approved actuary roles for the Group's long-term and health businesses.

## **Fitness and Propriety**

The actuarial function is carried out by fit and proper persons. Persons conducting the activities of the function have the relevant experience and qualifications, in addition to complying with the Group's Fit and Proper policy.

## **Outsourcing**

The Group has developed a Board-approved Outsourcing Policy that shall govern the outsourcing arrangements, ensuring that outsourced functions are conducted in a sound manner, in compliance with applicable laws and regulations and ensuring that the Company meets its financial and service obligations to policyholders.

The policy sets out a robust governance process for selecting a Third Party Service Provider (TPSP). Prior to the appointment of a TPSP, a full due diligence exercise is undertaken to assess the suitability, competency and capability of each TPSP to carry out the outsourced function and the control environment in which it operates. Part of the control environment assessment is to ensure that the TPSP has sufficient data security controls in place to protect the Group's data and that of its policyholders, as well as having the appropriate business continuity and/or contingency plans.

The policy further sets out a process to monitor the performance of each outsourced function or service and to report to the Risk Management Committee all instances of non-compliance with the policy, or breach of laws and regulations, in a timely manner. The group has an Outsourcing Policy which outlines the criteria for the selection of third party service providers. This policy governs the Group and all its subsidiaries.

### ***The outsourcing policy includes the following:***

- The criteria for determining whether a function or activity is critical or important;
- The selection process for a service provider, and how often their performance and results are assessed;
- The contents of the written agreement with the service provider (service level agreement); and
- Business contingency plans, including existing strategies for outsourced critical or important functions or activities.

### ***Description of material intra-group outsourcing***

The following key functions, namely, Actuarial, Risk Management, Compliance and Internal Audit are intra-group outsourced. Further, the following key support functions are also outsourced to the Group. These are:

- Information Technology
- Human Resources
- Investment Management
- Accounting and Finance
- Marketing

A Service Level Agreement has been executed between each entity and the Group.

The fit and proper procedures have been applied when assessing persons employed by the Group to perform these functions.

### **Any other material information**

There is no additional material information to report under Governance Structure.

### III RISK PROFILE

#### Risk Appetite

The risks taken by the Argus Group are guided by the following principles:

- All risks undertaken must have an associated expected reward that is commensurate with the risk; the Argus Group has no appetite for unrewarded risks.
- Risks are only accepted to the extent that they contribute to the achievement of the Group's mission and the execution of its strategy.
- Risks are only undertaken where the Group has the demonstrable expertise to manage them.
- Risk tolerances are set to manage the Group's aggregate exposure to risk in accordance with the Group's appetite.
- Actual levels of risk versus risk tolerances are monitored and business plans are adapted to the extent required.

#### Material Risks and Risk Mitigation

The Argus Group is exposed to the following key risks:

##### **General Insurance risk**

The principal risk the Group faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations.

The risk exposure for claims and benefits differing from expectation 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.

##### **Mortality, Morbidity and Longevity risk**

Mortality refers to the likelihood of death. The mortality assumption is based on industry standard life insurance and standard annuity past and emerging experience. The volume of the Group's life insurance and annuity business is not sufficient to use company specific mortality tables.

The Group maintains underwriting standards to determine the insurability of applicants. Claim trends are monitored on an ongoing basis. To offset some of the mortality risk, the Group cedes a proportion of the risk to reinsurers. Mortality and morbidity are monitored regularly.

##### **Credit risk (non-investment)**

The Group has exposure to credit risk, which is the risk that a counterparty will suffer a deterioration in financial strength or be unable to pay amounts in full when due.

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

### ***Operational Risk***

Operational risk is the risk of direct or indirect loss, reputational and/or brand damage arising from inadequate or failed processes or systems, people or external events including changes in the regulatory environment. Sub-categories of operational risk include:

- **People:** Human errors, internal or external fraud, breaches of employment law, unauthorised activity, loss or lack of key personnel, inadequate training, inadequate supervision;
- **Process:** Lack of internal control procedures, project management failures, ineffective change management, payment or settlement failures, inadequate process documentation, errors in valuation and/or pricing models, accounting errors, internal or external reporting and distribution channels;
- **Systems:** Failure of systems or application software that supports daily execution of business units, lack of systems development and implementation documentation, systems security breaches, integrity of data, unavailability of systems due to computer hacking, virus attacks or denial of services; and
- **External events:** Inadequate third-party/vendor management, undocumented outsourcing process, non-compliance with regulatory requirements, natural and other disasters, political risks.

This definition excludes strategic risk, financial risk and legal/litigation risk.

The Group developed an operational risk management system to capture, analyse and report on causes of control breakdowns and operational risk events including customer complaints. Details and resolution of these events are reported to the Risk Management Committee monthly and highlights of the events are reported to the Risk Committee on a quarterly basis.

### ***Financial instrument risk***

Credit risk, liquidity risk and market risks are associated with financial instruments.

- Credit risk is the possibility that a counterparty will suffer a deterioration in financial strength or be unable to pay amounts in full when due.

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.

- Liquidity risk is the risk that the group will not be able to meet all cash outflow obligations as they come due.

The Group actively manages its liquidity position and collateral exposure to ensure it has ample resources to fund obligations. The Group matches assets to its liability profile (ALM). The Group's ALM process allows it to maintain its good financial position by ensuring that sufficient liquid assets are available to cover its expected funding requirements. The Group invests in var-

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

- Market risks include currency, interest rate and equity risk.

Investment portfolios are monitored and reviewed regularly for investment quality by the Asset Liability Committee and the Risk Committee of the Board. In addition, collateral requirements and concentration limits are specified in the Group's Investment Policy.

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The following policies and procedures are in place to mitigate the Group's exposure to currency risk:

- The Group regularly monitors the effect of currency translation fluctuations;
- Investments are normally made in the same currency as the liabilities supported by those investments;
- The majority of the Group's assets, liabilities and earnings are denominated in Bermuda or U.S. dollars; and
- The assets and liabilities of the foreign operations are held in their appropriate functional currency.

Interest rate risk is the potential for financial loss arising from changes in interest rates. Changes in market interest rates can impact the reinvestment of matured investments, as the returns available on new investments may be significantly different from the returns previously achieved. The Group manages these risks through:

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

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. 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.

### ***Catastrophe Risk***

The Insurer is exposed to the possibility of a single event creating a high volume of claims, or high value claims, to property in the jurisdictions in which the Insurer provides property coverage.

The Group purchases a strategic portfolio of reinsurance to minimise a significant risk of loss to the Group, which includes proportional and non-proportional covers.

No material changes to the risks the Group is exposed to have occurred during the year.



## Material risk concentrations

Concentrations of credit risk arise from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics, such as operating in the same geographic region or in similar industries. The characteristics are similar in that changes in economic or political environments may impact their ability to meet obligations as they come due.

Material concentration risk may arise from large exposures to counterparties, industry sectors and products, and geographic locations. The Group mitigates these risks through diversification.

In 2016 the Argus Group welcomed Island Insurance Brokers into the group to further diversify our sources of revenue geographically and by product. This acquisition has provided the Group with a springboard for further growth and expansion in the Malta market. European net earnings for the upcoming year are expected to grow to approximately one fifth of Group net earnings.

Substantial progress has also been made to diversify our investment portfolio and we were able to substantially reduce the Group's concentration in certain equity holdings this year. Management remain focused on reducing the Group's remaining asset concentrations and removing potential volatility from non-core activities.

## Investments

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

The Group seeks to earn a reasonable long-term return whilst: (1) Being well-diversified and maintaining excellent credit quality; (2) Being sufficiently liquid to pay claims and other contractual liabilities as they become due; (3) Asset-Liability Matching - investing in assets with similar characteristics to the liabilities they support.

The Group Investment Policy is the blueprint for the effective management of the assets associated with the liability structure, capital, and total return on investments of Argus Group Holdings Limited and its various subsidiaries. The Group Investment Policy is a subset of the Group's Risk Management Framework and sets out the Group Investment Policy objectives and constraints within the framework. In addition, the Policy defines the asset liability management approach and the procedures and controls for the operation of the Group's various investment portfolios.

Management of the Group's assets is performed centrally by the Portfolio Management Group (PMG) led by the Group Investment Manager and the CFO. Any recommendations and reviews of performance from the PMG are presented to the Asset Liability Management Committee for review and approval, and if necessary review and approved by the Risk Committee of the Board.

## Stress Testing and Sensitivity Analysis

Results of scenario testing have demonstrated that the Group is resilient to the majority of the stress tests investigated. In the instances where solvency deteriorates significantly, mitigating actions are in place to ensure that the impact is tolerable, or business is conducted in a way such that the scenario does not present itself as an ongoing risk.

Sensitivity testing of risks that are pertinent to the Group is performed as part of the Group's own risk and solvency self-assessment at least annually. The tests consider a range of scenarios and stresses using internally developed models, and take into consideration the results of the standard formula approach prescribed by the regulators.

Several stress scenarios are tested, which assess the likely range of outcomes and the impact on the Group's and operating insurance subsidiaries' capital position. Scenarios are selected based on their relevance to the Group using historical and probable events. These scenarios include: interest rate stresses, longevity stresses, catastrophe stresses, extreme claims inflation and reducing future business volumes.

The results of the Group's own risk and solvency assessment is presented to, challenged and approved by the Risk Management Committee and the Risk Committee of the Board. The results of the stress/scenario testing are also included in the annual returns to the regulators in Bermuda and Gibraltar.

Material risks identified by the self-assessment are incorporated in the Group's risk registers, which inform strategic decision making through its direct link to the Group's business planning process.

Reverse scenario testing has also been conducted to identify scenarios which would lead to regulatory insolvency, and a wind-up scenario to assess the Group's ability to remain sufficiently capitalised when it is closed to new business

#### **Any other material information**

There is no additional material information to report under the Group's Risk Profile.

## IV SOLVENCY VALUATION

### The valuation bases, assumptions and methods used to derive the value of each asset class

The consolidated financial statements have been compiled on the going concern basis and prepared on the historical cost basis except for the following material items on the Balance Sheets:

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

Investments are valued at carrying value. When available, quoted market prices are used to determine fair value for bonds, equities and derivatives. If quoted market prices are not available, fair value is typically based upon alternative valuation techniques such as matrix pricing, net asset valuation and discounted cash flow modelling. Broker quotes are used only when external public vendor prices are not available.

### The valuation bases, assumptions and methods used to derive the value of technical provisions, the amount of the best estimate, and the amount of the risk margin.

Technical Provisions include

- Long-term insurance claims reserves
- General business insurance claims reserves
- General business insurance premium provisions
- The risk margin

#### ***Long-term insurance claims reserves***

Long-term insurance claims reserves are determined by the Actuarial Function and represent the amounts that, 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 on a best estimate basis using either the BMA's scenario approach or the BMA's standard approach. Under the scenario approach, the best estimate policy reserves are calculated by projecting asset and liability cash flows discounted under a variety of interest rate scenarios provided by the BMA. For the standard approach, the cashflows are discounted using a single yield curve supplied by the BMA. Reinsurance recoveries are adjusted for the expected likelihood of counterparty default.

#### ***General business insurance claims reserves***

General business insurance claims reserves represent the best estimate of the ultimate costs of claims in the course of settlement and claims incurred but not yet reported. Reinsurance recoveries are adjusted for the expected likelihood of counterparty default. The provision for unpaid and unreported claims is discounted using the BMA prescribed rates of interest.

#### ***General business insurance premium provision***

The premium provision represents the present value of the expected cash flows on the unexpired portion of all in-force policies, and policies to which the Group is contractually bound that have yet to incept. These are commonly referred to as bound but not incepted exposures (BBNI). Best estimate assump-

tions are used for the expected lapse rate, claims experience and expenses. The premium provision is discounted using the BMA prescribed rates of interest.

### **Risk Margin**

The risk margin allows for and reflects the uncertainty associated with the best estimate liabilities. The risk margin is determined based on the non-market related BSCR under the Economic Balance Sheets basis, using the Cost-of-Capital approach over the full period required to run-off the insurance liabilities.

As at March 31, 2017, the total Technical Provisions for the Argus Group amounted to \$418.8 million:

Argus Group \$000	General Business	Long-Term Business	Consolidated
Net Premium Provisions	4,977	-	4,977
Net Loss & Loss Expenses	19,870	388,403	408,273
Risk Margin	811	4,766	5,577
<b>Total Insurance Technical Provisions</b>	<b>25,658</b>	<b>393,169</b>	<b>418,827</b>

As at March 31, 2017, the total Technical Provisions for AICL amounted to \$5.7 million:

AICL \$000	General Business
Net Premium Provisions	1,490
Net Loss & Loss Expenses	3,885
Risk Margin	374
<b>Total</b>	<b>5,749</b>

As at March 31, 2017, the total Technical Provisions for BLIC amounted to \$389.3 million:

BLIC \$000	General Business	Long-Term Business	Consolidated
Net Premium Provisions	(944)	-	(944)
Net Loss & Loss Expenses	8,596	377,065	385,661
Risk Margin	69	4,510	4,579
<b>Total</b>	<b>7,721</b>	<b>381,575</b>	<b>389,296</b>

The Technical Provisions for AILBL, AILIL and BLW are highlighted in the table below. In accordance with the Act, AILBL's Technical Provisions are consolidated and include the Technical Provisions of AILIL and BLW. All three entities only write long-term business, and on a consolidated basis, the total Technical Provisions for the year ending March 31, 2017 amounted to \$8.3 million.

\$000	AILBL Consolidated	AILIL	BLW
Net Premium Provisions	-	-	-
Net Loss & Loss Expenses	7,797	(3,450)	11,149
Risk Margin	524	7	669
<b>Total</b>	<b>8,321</b>	<b>(3,443)</b>	<b>11,818</b>

### Recoverables from reinsurance contracts.

The main recoverables from reinsurance contracts are claims and adjustment expenses and policy benefits.

### The valuation bases, assumptions and methods used to derive the value of other liabilities

#### Investment contract liabilities

- Fair value of the Deposit accounted annuity policies is determined by using valuation techniques, such as discounted cash flow methods. A variety of factors are considered in the valuation techniques, including yield curve, credit spread and default assumptions, which have market observable inputs.
- Deposit administration pension plans and self-funded group health policies are measured at amortised cost.

**There is no additional material information to report under Solvency Valuation.**

## V CAPITAL MANAGEMENT

### Capital needs and regulatory capital requirements.

#### Eligible Capital

Over the past year there have been significant changes to the regulatory regimes in the jurisdictions in which Argus operates. This resulted in some significant changes to the way capital is assessed and the amount of capital the Group was required to hold to support its operating entities. In several instances this has merely aligned the regulatory capital requirement with our own internal assessment of capital needs. Argus is pleased that our diligent capital planning means that, despite this raising of the bar, the Group remains in a healthy capital position. We continue to hold conservative buffers over and above that required by our regulators, leaving sufficient surplus capital available to support strategic growth.

The Group's capital base is structured so as to exceed regulatory targets, maintain satisfactory credit ratings, align the profile of assets and liabilities taking account of risks inherent in the business, provide flexibility to take advantage of growth opportunities and provide an adequate return to shareholders. Capital is managed on a consolidated basis under principles that consider all the risks associated with the businesses. It is also managed at the operating segment level under the principles appropriate to the jurisdiction in which it operates.



Management considers the capital requirements of the Group on a monthly basis and advises the Risk Management Committee through the Medium-Term Capital Plan (MTCP) of any surplus or deficit capital. The MTCP includes an analysis of the quarterly financial position of the Group, including the solvency requirements as prescribed by the Act. The Group maintains an internal capital target, and the MTCP will advise of measures to be taken to adjust surplus in order to achieve the internal target. The principles of the MTCP are considered in the business planning cycle.

The Argus Group and all Bermuda insurance subsidiaries hold only Tier 1 basic capital, the highest quality capital (i.e. fully paid shares, contributed surplus and statutory surplus) in accordance with the Eligible Capital Rules. The Group does not hold any Tier 2 or Tier 3 capital.

As at March 31, 2017:

- AGH has 25,000,000 authorised, with 21,728,151 issued and fully paid, (excluding treasury shares) common shares at par value \$1.00, and is traded on the Bermuda Stock Exchange
- AGH has 715,762 treasury shares at par value \$1.00.
- AGH has contributed surplus of \$53.2 million and statutory economic surplus of \$68.3 million
- Minority interest is \$1.3 million

All capital used to meet the Enhanced Capital Requirement (ECR) and Minimum Solvency Margins (MSM), are categorised as Tier 1 basic capital.

Eligible capital is not subject to transitional arrangements as required under the Eligible Capital Rules.

There are no factors affecting encumbrances on the availability and transferability of capital to meet the ECR.

The Group does not have any ancillary capital instruments that have been approved or otherwise by the Authority.

Reconciliation of Capital & Surplus – March 31, 2017						
\$000	AICL	BLIC	AILBL *	AILIL	BLW	AGH
<b>IFRS Equity</b>	<b>27,944</b>	<b>71,588</b>	<b>9,662</b>	<b>630</b>	<b>7,137</b>	<b>131,570</b>
Prudential Filters:						
Non admitted assets	(403)	(2,101)	(1,115)			
Prepayments						(3,156)
Intangible Assets						(5,924)
Guarantees	(2,165)					(2,165)
<b>Statutory Capital &amp; Surplus</b>	<b>25,376</b>	<b>69,487</b>	<b>8,547</b>	<b>630</b>	<b>7,137</b>	<b>120,325</b>
Net Technical Provisions	862	13,192	4,148	3,494	551	19,145
Fair value adjustment of assets	4,016	(4,779)	42		42	(1,089)
<b>Economic Capital &amp; Surplus</b>	<b>30,254</b>	<b>77,900</b>	<b>12,737</b>	<b>4,124</b>	<b>7,730</b>	<b>138,381</b>

\* AILBL is reported on a consolidated basis and includes AILIL and BLW.

## Regulatory Capital Requirements

The MCM, ECR and capital coverage ratio of the insurance entities regulated by the BMA are summarised in the table below:

\$000	MSM	ECR	Statutory Economic Capital and Surplus	Coverage Capital Ratio
Argus Group	33,747	46,546	138,381	297%
AICL	4,660	18,642	30,254	162%
BLIC	23,550	29,592	77,900	263%
AILBL*	500	1,814	12,737	702%
AILIL	500	500	4,124	825%
BLW	500	1,831	7,730	422%

\* AILBL is reported on a consolidated basis and includes AILIL and BLW.

The statutory economic capital and surplus is equal to the eligible capital used to meet the ECR and MSM requirements, with the exception of Argus Group. In accordance with the Eligible Capital Rules, Argus Group eligible capital used to meet the ECR is \$137.1 million due to a \$1.3 million minority interest adjustment to statutory economic capital and surplus.

The Group uses the BMA's standard approach to calculate the capital requirements of the insurance entities regulated by the BMA, including Argus Group, and does not use an internal capital model to derive the Enhanced Capital Requirement.



## VI SIGNIFICANT EVENT

### *Portfolio Transfer*

Effective April 1, 2017, BLIC assigned and transferred all rights and obligations, title and interest in a legacy book of private placement variable life and annuity policies, with corresponding assets and liabilities of \$269.0 million, to AILBL, pursuant to Section 25 of the Act. The portfolio transfer did not impact the net equity position of BLIC or AILBL 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.

### *Dividends post year-end*

Based upon the audited financial results of the Group for the year ended March 31, 2017, the Directors have declared an interim dividend of nine cents per share (2016 - nine cents per share) payable on August 23, 2017 for shareholders of record on July 25, 2017.







Registered Office:

The Argus Building, 14 Wesley Street, Hamilton HM 11, Bermuda  
Tel: (441) 295-2021 Fax: (441) 292-6763

Mailing Address:

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

Customer Service Centre:

Tel: (441) 298-0888 e-mail: [insurance@argus.bm](mailto:insurance@argus.bm) [www.argus.bm](http://www.argus.bm)