



Argus. Forging ahead.

September 30, 2012 / Six Month Report

THE ARGUS GROUP

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

OUR VISION

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

OUR MISSION

We will achieve our vision by:

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

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

OUR PHILOSOPHY AND VALUES

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

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

THE ARGUS GROUP

ARGUS GROUP HOLDINGS LIMITED

Group Holding Company

ARGUS INSURANCE COMPANY LIMITED

*Fire and Windstorm
(Home and Commercial Property),
Contractors' All Risks,
Liability, Marine, Motor,
Employer's Indemnity
(Workers' Compensation)*

CENTURION INSURANCE SERVICES LIMITED

Insurance Agent and Licensed Broker

ARGUS INSURANCE COMPANY (EUROPE) LIMITED, Gibraltar

*Home and Commercial Property,
Contractors' All Risks, Liability,
Marine and Motor*

WESTMED INSURANCE SERVICES LIMITED, Gibraltar

Insurance Brokerage and Agency

BERMUDA LIFE INSURANCE COMPANY LIMITED

*Pensions, Group Life and Long-Term
Disability Insurance,
Individual Life and Annuities*

ARGUS INTERNATIONAL LIFE BERMUDA LIMITED

Individual Life and Annuities

ARGUS INTERNATIONAL LIFE INSURANCE LIMITED

*Individual Life and Annuities
(74% Interest)*

BERMUDA LIFE WORLDWIDE LIMITED

*Individual Life and Annuities
(in run-off)*

SOMERS ISLES INSURANCE COMPANY LIMITED

*Group and Individual Health
Insurance including: Major Medical,
Dental and Vision Care*

AFL INVESTMENTS LIMITED

*Investment Management Services
(60% Interest)*

ARGUS INVESTMENT NOMINEES LIMITED

*Nominee Company
(60% Interest)*

ARGUS INTERNATIONAL MANAGEMENT LIMITED

Company Management

ARGUS MANAGEMENT SERVICES LIMITED

*Financial and General Management
Services*

DATA COMMUNICATIONS LIMITED

Information Systems

ST. MARTIN'S REINSURANCE COMPANY, LTD.

*Financial Reinsurance
(in run-off)*

TROTT PROPERTY LIMITED

Property Holding Company

ARGUS PROPERTY (GIBRALTAR) LIMITED

Property Holding Company

FOGG INSURANCE AGENCIES LIMITED, Malta

Insurance Agent

Argus Group Holdings Limited is a public company, its shares trading on the Bermuda Stock Exchange. At September 30, 2012 it had 1,272 shareholders; 88 percent of whom were Bermudian, holding 87 percent of the issued shares.

REPORT TO SHAREHOLDERS

INTRODUCTION

The Argus Group is pleased to report net earnings of \$7 million for the six months ended September 30, 2012 compared to a net loss of \$3.9 million for the corresponding period in 2011 and net earnings for the year ended March 31, 2012 of \$1.7 million.

LOOKING FORWARD

As stated in the 2012 Annual Report and re-emphasised at the Annual General Meeting of Shareholders in September 2012, your Board and Management believe that this welcome return to profit represents a significant milestone marking the end of challenging legacy issues in the investment arena. Whilst net earnings development will continue to be influenced by balance sheet strengthening, including investment restructuring activities, the significant investment impairments incurred over the last four years are now consigned to the history books.

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

Your Board and Management remain confident of a return to more 'normal' times for the Group. This confidence stems from the continued strong performance of the core business operations, strong cash flows and the benefits arising from the ongoing efforts to optimise the Balance Sheet and capital structure in a considered and orderly fashion.

The leadership team is focused on delivering excellent service and satisfaction to our customers, on delivering long-term sustainable value to our Shareholders and

delivering on our commitment to the community.

FINANCIAL RESULTS

On the *Consolidated Balance Sheet*, *Total Assets* remained steady at \$ 1.7 billion. *Shareholders' Equity Attributable to Shareholders of the Company* has increased to \$91 million, substantially in excess of the statutory capital required to conduct the Group's insurance and financial services businesses by the regulatory bodies to whom we report.

Net Premiums Earned in the period are in line with the prior year reflecting excellent client retention ratios across all lines of business despite unprecedented levels of competition and the lingering global recession. *Net Benefits and Claims* increased by 3 percent primarily as a result of increasing health care costs both locally and overseas ameliorated somewhat by the absence of major windstorms or other catastrophe events in our property and casualty businesses.

In the six months under review, *Investment income*, including *Change in fair value of investments*, increased by 64 percent mainly due to unrealised gains emanating from our fixed income portfolios as short term interest rates declined and the yield curve flattened.

The *Share of earnings of associates* provided a modest contribution in the period under review compared to the loss incurred in the corresponding period in the prior year.

Commissions, management fees and other were largely maintained due to increased ceding commissions earned by our property and casualty operations offset by reduced fees arising from our investment-related businesses.

Operating expenses increased by 10 percent due to the ongoing investment in the infrastructure of the European operations together with the cost associated with the continued strengthening of the Management team.

2012 ANNUAL GENERAL MEETING (“AGM”)

At the AGM of the Company held on September 27, 2012, the entire Board of Directors was re-elected. In response to comments received prior to the meeting regarding the proposed increase in Directors’ fees, the Chairman announced that the Directors had decided not to accept a fee increase should the resolution be passed. This resolution was not carried at the AGM and the Chairman then proposed that there be a resolution that the Directors be paid the same base fee and attendance fee as they had been paid over the previous five years. This resolution was carried by acclamation of the Shareholders present. All other resolutions were passed. At a meeting of the Board held after the AGM, Ms. Sheila Nicoll was re-elected Chairman, Mr. Larry Peck was appointed Group Chief Actuary and all other Officers remain unchanged.

DIVIDEND

As stated at the AGM, Shareholders should rest assured that the Board considers the declaration of a dividend each quarter and is determined the dividend will be resumed as soon as the Board considers it prudent to do so.

DIRECTORS’ AND OFFICERS’ HOLDINGS, SHARE OPTIONS AND RESTRICTED STOCK

At September 30, 2012 the Directors and Officers of the Company had combined interests totalling 724,372 shares out of 21,511,163 shares in issue on that date.

Rights to acquire shares in the Company were granted in the past to key employees who include executive directors and officers under the 2004 Stock Option Plan. No stock options have been granted since 2007. No share options were exercised in the six months to September 30, 2012 and, at that date, the total number of share options outstanding which can be exercised at

various dates up to May 31, 2012 were 303,335 at exercise prices ranging from \$5.95 to \$11.78.

In the six month period ended September 30, 2012 there were 6,400 restricted shares granted to Directors and Officers.

THANK YOU

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



Alison S. Hill,
Chief Executive Officer

December 7, 2012

CONDENSED CONSOLIDATED BALANCE SHEET

<i>(In \$ thousands)</i>	Note	<i>(Unaudited)</i> SEPTEMBER 30 2012	<i>(Audited)</i> MARCH 31 2012
ASSETS			
Cash and short-term investments		28,516	46,127
Interest and dividends receivable		2,112	404
Investments	3	220,953	185,068
Investment in associates	4	11,707	11,404
Insurance balances receivable		20,865	22,164
Reinsurers' share of:			
Claims provisions		12,193	11,573
Unearned premiums		14,421	10,860
Investment properties		7,019	7,010
Other assets		6,923	7,083
Deferred policy acquisition costs		2,112	2,295
Property and equipment		73,961	75,648
Intangible assets		6,403	6,787
TOTAL GENERAL FUND ASSETS		407,185	386,423
SEGREGATED FUND ASSETS		1,328,496	1,334,693
TOTAL ASSETS		1,735,681	1,721,116
LIABILITIES			
Insurance contract liabilities			
Life and annuity policy reserves		147,433	142,325
Provision for unpaid and unreported claims		28,375	29,048
Unearned premiums		24,422	19,559
Total insurance contract liabilities		200,230	190,932
Insurance balances payable		12,099	12,751
Investment contract liabilities		77,573	69,764
Tax payable		51	188
Accounts payable and accrued liabilities		16,797	14,730
Loan payable		3,343	7,843
Post-employment benefit liability	6	4,890	4,078
TOTAL GENERAL FUND LIABILITIES		314,983	300,286
SEGREGATED FUND LIABILITIES		1,328,496	1,334,693
TOTAL LIABILITIES		1,643,479	1,634,979
EQUITY			
Attributable to Shareholders of the Company			
Share capital		17,007	16,433
Contributed surplus		52,586	52,737
Retained earnings		22,519	15,913
Accumulated other comprehensive loss	8	(1,145)	(1,289)
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY		90,967	83,794
Attributable to non-controlling interests		1,235	2,343
TOTAL EQUITY		92,202	86,137
TOTAL LIABILITIES AND EQUITY		1,735,681	1,721,116

See accompanying notes to the condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

For the six months ended September 30 (In \$ thousands, except per share data)	Note	(Unaudited) 2012	(Unaudited) 2011
REVENUE			
Gross premiums written		90,391	92,439
Reinsurance ceded		(24,129)	(25,745)
Net premiums written		66,262	66,694
Net change in unearned premiums		(1,302)	(1,888)
Net premiums earned		64,960	64,806
Investment income	3.2	3,448	4,673
Change in fair value of investments	3.3	5,561	819
Share of earnings/(loss) of associates	4	434	(10,692)
Commissions, management fees and other		13,861	14,043
		88,264	73,649
EXPENSES			
Policy benefits		6,749	8,826
Claims and adjustment expenses		45,260	44,136
Reinsurance recoveries		(3,515)	(5,298)
Gross change in contract liabilities		5,988	4,321
Change in reinsurers' share of claims provisions		(635)	141
NET BENEFITS AND CLAIMS		53,847	52,126
Commission expenses		2,239	2,239
Operating expenses		22,076	20,039
Amortisation and depreciation		2,760	2,746
Interest on loan		150	299
		81,072	77,449
EARNINGS/(LOSS) BEFORE INCOME TAXES		7,192	(3,800)
Income taxes		53	55
NET EARNINGS/(LOSS) FOR THE PERIOD		7,139	(3,855)
Attributable to:			
Shareholders of the Company		7,011	(3,971)
Non-controlling interests		128	116
		7,139	(3,855)
Earnings/(loss) per share:	7		
<i>basic</i>		0.33	(0.19)
<i>fully diluted</i>		0.33	(0.19)

See accompanying notes to the condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/(LOSS)

<i>For the six months ended September 30 (In \$ thousands)</i>	<i>(Unaudited)</i> 2012	<i>(Unaudited)</i> 2011
NET EARNINGS/(LOSS) FOR THE PERIOD	7,139	(3,855)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Change in unrealised gains/(losses) on available-for-sale investments		
Unrealised gains/(losses) arising during the period	37	(183)
Change in unrealised gains/(losses) on translating financial statements of foreign operations	107	(415)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	144	(598)
COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	7,283	(4,453)
OTHER COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO:		
Shareholders of the Company	144	(598)
Non-controlling interests	-	-
	144	(598)
COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO:		
Shareholders of the Company	7,155	(4,569)
Non-controlling interests	128	116
	7,283	(4,453)

See accompanying notes to the condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>For the six months ended September 30 (In \$ thousands)</i>	<i>Note</i>	<i>(Unaudited)</i> 2012	<i>(Unaudited)</i> 2011
SHARE CAPITAL			
Authorised:			
25,000,000 common shares of \$1.00 each (2011 – 25,000,000)		25,000	25,000
Issued and fully paid, beginning of period 21,511,163 shares (2011 – 21,511,163 shares)		21,511	21,511
Deduct: Shares held in Treasury, at cost 431,941 shares (2011 – 478,931 shares)		(4,504)	(5,085)
TOTAL, NET OF SHARES HELD IN TREASURY, END OF PERIOD		17,007	16,426
CONTRIBUTED SURPLUS			
Balance, beginning of period		52,737	52,629
Stock-based compensation expense		18	56
Treasury shares granted to employees		(169)	-
BALANCE, END OF PERIOD		52,586	52,685
RETAINED EARNINGS			
Balance, beginning of period		15,913	14,217
Net earnings/(loss) for the period		7,011	(3,971)
Loss on treasury shares granted to employees		(405)	-
BALANCE, END OF PERIOD		22,519	10,246
ACCUMULATED OTHER COMPREHENSIVE (LOSS)/INCOME			
Balance, beginning of period		(1,289)	(866)
Other comprehensive income/(loss) for the period		144	(598)
BALANCE, END OF PERIOD	8	(1,145)	(1,464)
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY		90,967	77,893
Attributable to non-controlling interests			
Balance, beginning of period		2,343	2,089
Net earnings for the period		128	116
Declared distributions to non-controlling interests		(1,236)	-
TOTAL EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		1,235	2,205
TOTAL EQUITY		92,202	80,098

See accompanying notes to the condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

<i>For the six months ended September 30 (In \$ thousands)</i>	<i>(Unaudited)</i> 2012	<i>(Unaudited)</i> 2011
OPERATING ACTIVITIES		
Earnings/(loss) before income taxes	7,192	(3,800)
Adjustments to reconcile net (earnings)/loss to cash basis (Footnote (i) below)	(6,060)	8,877
Change in operating balances (Footnote (ii) below)	16,286	876
Interest income received	665	2,408
Dividend income received	68	1,562
Income tax paid	(189)	(141)
CASH GENERATED FROM OPERATING ACTIVITIES	17,962	9,782
INVESTING ACTIVITIES		
Purchase of investments	(550,412)	(959,331)
Sale of investments	520,909	949,835
Purchase of property and equipment	(617)	(2,137)
Purchase of intangible assets	(52)	(248)
CASH USED IN INVESTING ACTIVITIES	(30,172)	(11,881)
FINANCING ACTIVITIES		
Dividends paid to Shareholders	-	(2,103)
Distributions to non-controlling interests	(800)	-
Repayment of loan	(4,500)	(3,000)
Interest paid on loan	(150)	(303)
CASH USED IN FINANCING ACTIVITIES	(5,450)	(5,406)
Effect of foreign exchange rate changes on cash and short-term investments	49	(184)
NET DECREASE IN CASH AND SHORT-TERM INVESTMENTS	(17,611)	(7,689)
CASH AND SHORT-TERM INVESTMENTS, beginning of period	46,127	26,245
CASH AND SHORT-TERM INVESTMENTS, end of period	28,516	18,556
<i>Footnotes</i>		
(i) Interest income	(3,715)	(4,112)
Dividend income	(889)	(1,942)
Investment income related to Deposit administration pension plans	2,164	2,465
Net realised gains on sale of investments	(1,730)	(1,527)
Amortisation of net premium on bonds	518	565
Net impairment losses	659	454
Change in fair value of investments	(5,561)	(812)
Share of (earnings)/loss of associates	(434)	10,692
Change in fair value of investment property	-	(7)
Depreciation of property and equipment	2,307	2,302
Amortisation of intangible assets	453	444
Interest on loan	150	299
Expense on vesting of stock-based compensation	18	56
	(6,060)	8,877
(ii) Insurance balances receivable	1,339	(1,047)
Reinsurers' share of:		
Claims provisions	(610)	(73)
Unearned premiums	(3,551)	(5,157)
Other assets	159	(711)
Deferred policy acquisition costs	199	1,494
Insurance contract liabilities	9,159	11,789
Insurance balances payable	(649)	(5,503)
Investment contract liabilities	7,809	6,186
Accounts payable and accrued liabilities	1,619	(6,625)
Post-employment benefit liability	812	523
	16,286	876

See accompanying notes to the condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September, 2012

(Unaudited, in \$ thousands except for per share amounts and where otherwise stated)

1 OPERATIONS

Argus Group Holdings Limited (the Company) was incorporated in Bermuda with limited liability on May 26, 2005 as a holding company and has its registered office at the Argus Building, 14 Wesley Street, Hamilton HM11, Bermuda. The Company and its subsidiaries (the Group) operates predominantly in Bermuda, Gibraltar and Malta underwriting life, health, property and casualty insurance. The Group also provides investment, savings and retirement products, and offers a range of administrative services including company management and accounting services.

The Company's subsidiaries are as follows:

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PRESENTATION

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

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

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

These condensed consolidated interim financial statements follow the same accounting policies and methods of their application as our March 31, 2012 audited financial statements and should be read in conjunction with the latter.

2.2 NEW ACCOUNTING PRONOUNCEMENTS

There are a number of accounting and reporting changes issued under IFRS including those still under development by the International Accounting Standards Board (IASB). A summary of the recently issued new accounting standards that will impact the Group in 2013 and beyond is as follows:

TOPIC	EFFECTIVE DATE	EXPECTED IMPACT
IFRS 4, Insurance Contracts (Phase II)	Expects to publish the re-exposure draft in 2013	Impact to be assessed once re-exposure draft is published
IFRS 10, IFRS 12 and amendments to IAS 27, IAS 28 regarding consolidation, disclosures and related matters	January 1, 2013	No significant impact
IFRS 13, Fair Value Measurement	January 1, 2013	No significant impact
Amendments to IAS 1, Presentation of Financial Statements	January 1, 2013	No significant impact

TOPIC, continuation	EFFECTIVE DATE	EXPECTED IMPACT
Amendments to IAS 19, Employee Benefits	January 1, 2013	Could have a significant impact on net earnings ⁽¹⁾
Amendments to IFRS 7, Financial Instruments: Disclosure	January 1, 2013	Impact assessment in progress
Amendments to IAS 32, Financial Instruments: Presentation	January 1, 2014	Impact assessment in progress
IFRS 9, Financial Instruments	January 1, 2015	Impact assessment in progress

⁽¹⁾ The change in net actuarial loss amounting to \$469,000 per Note 6 will be recognised in Other comprehensive income. Currently, the change is recognised in net earnings.

For additional information, refer to Note 2.19 of the 2012 Annual Report.

3 INVESTMENTS

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

	SEPTEMBER 30, 2012		MARCH 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Investments at FVTPL				
Bonds	99,615	99,615	79,974	79,974
Equities	67,938	67,938	45,597	45,597
	167,553	167,553	125,571	125,571
Held-to-maturity				
Bonds	5,262	5,312	6,046	6,006
	5,262	5,312	6,046	6,006
Available-for-sale				
Equities	4,111	4,111	4,177	4,177
	4,111	4,111	4,177	4,177
Loans and receivables				
Mortgages and loans	43,579	44,636	46,650	47,533
Receivables from reverse repurchase transactions	400	400	2,700	2,700
Policy loans	63	63	61	61
	44,042	45,099	49,411	50,294
Derivatives				
Interest rate swaps	4	4	(45)	(45)
Foreign currency forward contracts	(19)	(19)	(92)	(92)
	(15)	(15)	(137)	(137)
TOTAL INVESTMENTS	220,953	222,060	185,068	185,911

3.2 INVESTMENT INCOME

FOR THE SIX MONTHS ENDED SEPTEMBER 30	2012	2011
Interest income		
Bonds – at FVTPL	2,357	2,727
Bonds – held-to-maturity	172	182
Mortgages and loans	1,078	1,106
Cash and other	108	97
	3,715	4,112
Dividend income		
Equities – at FVTPL	720	1,582
Equities – available-for-sale	169	360
	889	1,942
Net realised gains/(losses) on sale of investments		
Bonds – at FVTPL	1,559	1,096
Equities – at FVTPL	(54)	(112)
Equities – available-for-sale	-	36
Derivative financial instruments	225	507
	1,730	1,527
Amortisation of net premium on bonds	(518)	(565)
Rental income and other	455	576
Recovery of previously recognised impairment loss/(Impairment loss)		
Bonds – held-to-maturity	106	(454)
Mortgages and loans	(765)	-
Deduct: Investment income relating to Deposit administration pension plans	(2,164)	(2,465)
	(2,886)	(2,908)
TOTAL INVESTMENT INCOME	3,448	4,673

3.3 CHANGE IN FAIR VALUE OF INVESTMENTS

FOR THE SIX MONTHS ENDED SEPTEMBER 30	2012	2011
Arising from:		
Bonds	4,165	3,434
Equities	1,264	(2,150)
Derivative financial instruments	132	(472)
Investment property	-	7
TOTAL CHANGE IN FAIR VALUE OF INVESTMENTS	5,561	819

4 INVESTMENT IN ASSOCIATES

The Group holds equity interests in certain companies incorporated in Bermuda and has significant influence over the operational and financial policies of these companies.

Proportionate share of earnings/(loss) of associates is as follows:

FOR THE SIX MONTHS ENDED SEPTEMBER 30	2012	2011
Investment in other associates	434	308
Investment in Northstar Group Holding's Limited	-	(11,000)
SHARE OF EARNINGS/(LOSS) OF ASSOCIATES	434	(10,692)

Northstar Group Holdings, Ltd. (NGH) is a holding company and its wholly owned subsidiary, Northstar Reinsurance Ireland Limited (NRIL), transacted life reinsurance business. No new treaties had been written since 2006 and the two remaining treaties were closed to new business several years ago. During 2011, NGH and NRIL considered several options with respect to the remaining treaties including the novation or recapture of one or both, or retaining the treaties and running off the business.

Under the terms of NGH's shareholder agreement, each shareholder is required to cover a shortfall arising from any other shareholder's inability to meet their obligation. Given that certain of the principal shareholders were not immediately able to meet their obligations due to liquidity and certain other governance-related concerns, the uncertainties in investment markets and the operational volatility of the business contained in the treaties, the principal shareholders decided that running off the business was no longer a viable option. Accordingly, in late 2011 negotiations were concluded with a third party to novate one treaty and recapture the second. NRIL then ceased to do business and has now been placed into Members' voluntary liquidation.

There are various financial commitments due to NGH from other shareholders, which are collateralised by various assets. These assets include holdings in hedge funds and equities, the valuation of which is inherently uncertain and, in the case of one major shareholder, recent events have suggested the charged assets may realise values that will not be sufficient to satisfy their obligations. The ultimate distribution of capital to the Group is dependent on the collection of the amounts due. Accordingly, management has determined that the value of the investment in NGH should be treated as impaired to the extent of the likely inability of this one shareholder to meet its aforementioned obligations. The Group's proportionate share of this obligation is \$11 million and this write down was reflected in the Share of earnings/(loss) of associates on the Condensed Consolidated Statement of Operations for the six months ended September 30, 2011.

The Group continues to pursue the recovery of this write down to the fullest extent under law.

Prior to March 31, 2012, and following the receipt of interim distributions from contributed surplus to NGH shareholders, Argus received \$20.6 million in cash. The residual balance of the Investment in NGH is now represented by a fully collateralised and performing three-year loan of \$2 million to another NGH shareholder and is included under Mortgages and loans on the Condensed Consolidated Balance Sheet.

5 OPERATING SEGMENTS

Transactions between segments are executed and priced on an arm's-length basis in a manner similar to transactions with third parties. These transactions consist primarily of rental and internal financing agreements and insurance contracts. Inter-segment income has been omitted in the following table as immaterial.

5.1 RESULTS BY SEGMENT

FOR THE SIX MONTHS ENDED SEPTEMBER 30		Insured employee benefits	Life and pensions	Property and casualty ⁽²⁾	All other	Total
Segment revenues	2012	55,197	16,827	14,428	1,812	88,264
	2011	47,771	20,633	2,254	2,991	73,649
Investment income ⁽¹⁾	2012	767	8,447	633	(838)	9,009
	2011	102	5,187	(640)	843	5,492
Amortisation and depreciation	2012	214	840	1,703	3	2,760
	2011	270	287	1,602	587	2,746
Income tax expense	2012	-	-	53	-	53
	2011	-	-	55	-	55
Reportable segment earnings/(loss) attributable to shareholders, after tax						
	2012	6,121	4,669	(4,184)	405	7,011
	2011	3,512	5,084	(13,364)	797	(3,971)

⁽¹⁾ Includes Change in fair value of investments

⁽²⁾ For the six months ended September 30, 2011, Investment income and Reportable segment loss attributable to shareholders, after tax are net of impairment losses arising from the Investment in NGH per Note 4.

GEOGRAPHIC INFORMATION ON SEGMENT REVENUES:

FOR THE SIX MONTHS ENDED SEPTEMBER 30		Bermuda	Europe	Total
Segment revenues	2012	80,447	7,817	88,264
	2011	66,969	6,680	73,649

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

5.2 ASSETS AND LIABILITIES BY SEGMENT:

	Insured employee benefits	Life and pensions	Property and casualty	All other	Total
SEPTEMBER 30, 2012:					
Total General Fund Assets	62,131	265,124	71,741	8,189	407,185
Segregated Fund Assets	-	1,328,496	-	-	1,328,496
Total General Fund Liabilities	22,745	230,677	61,239	322	314,983
Segregated Fund Liabilities	-	1,328,496	-	-	1,328,496
MARCH 31, 2012:					
Total General Fund Assets	53,487	254,533	68,776	9,627	386,423
Segregated Fund Assets	-	1,334,693	-	-	1,334,693
Total General Fund Liabilities	19,580	224,515	55,846	345	300,286
Segregated Fund Liabilities	-	1,334,693	-	-	1,334,693

6 POST-EMPLOYMENT BENEFIT LIABILITY

The movement in the defined benefit liability is as follows:

	For the six months ended September 30 2012	For the year ended March 31 2012
Accrued benefit liability, beginning of period	4,078	3,625
Current service cost	67	111
Interest cost on benefit liability	70	179
Net actuarial loss	730	261
Benefits paid	(55)	(98)
ACCRUED BENEFIT LIABILITY, END OF PERIOD	4,890	4,078

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

- (i) Current service cost represents benefits earned in the current period. These are determined with reference to the current workforce eligible for benefits and the amount of benefits to which employees will be entitled upon retirement, based on the provisions of the Group's benefit plan.
- (ii) Interest cost on the benefit liability represents the increase in the liability that results from the passage of time.
- (iii) Each period the actuaries recalculate the benefit liability and compare it to that estimated as at the prior year end. Any differences resulting from changes in assumptions, or from plan experience being different from expectations of management at the previous year end, are considered actuarial gains or losses.

The discount rate assumption in measuring the Company's accrued benefit liability is estimated as follows:

	September 30 2012	March 31 2012
Discount rate	3.50%	5.00%

7 EARNINGS PER SHARE

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

FOR THE SIX MONTHS ENDED SEPTEMBER 30	2012	2011
Net earnings/(loss) for the period	7,011	(3,971)
Weighted average outstanding common shares	21,079	21,032
Common shares and common equivalents	21,079	21,032

8 COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME

	September 30 2012	March 31 2012
Available-for-sale investments	282	245
Translation of financial statements of foreign operations	(1,427)	(1,534)
TOTAL ACCUMULATED OTHER COMPREHENSIVE LOSS	(1,145)	(1,289)

9 COMPARATIVE FIGURES

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

BOARD OF DIRECTORS

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Alan R. Thomson

Deputy Chairman

Wendall S. F. Brown

Peter R. Burnim

John D. Campbell, QC, JP

Alison S. Hill, ACMA

Chief Executive Officer

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

Reginald S. Minors, JP

The Hon. Gerald D. E. Simons, OBE

Everard Barclay Simmons, LLB, MBA

Robert D. Steinhoff, FCA

GROUP MANAGEMENT

Alison S. Hill, ACMA

Chief Executive Officer

David W. Pugh, FCA

Chief Financial Officer

Andrew I. Baker, FCI

Chief Executive, Argus Insurance Company (Europe) Limited

Lauren M. Bell, FLMI, HIA, ACS

Executive Vice President, Life & Pensions

Andrew H. Bickham, ACII

Executive Vice President, Broking

Alex Cabe, CFA

Group Investment Manager

Cindy F. Campbell, CPA, MBA

Chief Operating Officer, AFL Investments Limited

John Doherty, CPCU, ARM, AR_e

Executive Vice President, Property & Casualty

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Executive Vice President, Information Systems

Gary Hitchens

Director of Global Sales & Marketing

Michelle Jackson, MBA, MSc

Executive Vice President, Group Insurance

George N. H. Jones, MBA, LLB

Group Company Secretary & Legal Advisor

Tyrone Montovio, ACII

General Manager, Argus Insurance Company (Europe) Limited

Onesimus Nzabalinda, MBA, MSc

Head of Compliance & Risk Management

Larry A. Peck, FSA, FCIA, MAAA

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Vice President, Organisational Development

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Vice President, Finance

Philip R. Trussell

Vice President & Managing Director, International Life

Lynne Woolridge, FLMI, FALU, HIA

Head of International Life

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