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# Celebrating 60 years of Experience

SIX MONTH REPORT

September 30, 2010



## THE ARGUS GROUP

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### ARGUS GROUP HOLDINGS LIMITED

*Group Holding Company*

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### ARGUS INSURANCE COMPANY LIMITED

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

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### CENTURION INSURANCE SERVICES LIMITED

*Insurance Agent and Licensed Broker*

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### ARGUS INSURANCE COMPANY (EUROPE) LIMITED, Gibraltar

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

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### WESTMED INSURANCE SERVICES LIMITED, Gibraltar

*Insurance Brokerage and Agency*

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### BERMUDA LIFE INSURANCE COMPANY LIMITED

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

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### ARGUS INTERNATIONAL LIFE BERMUDA LIMITED

*Individual Life and Annuities*

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### ARGUS INTERNATIONAL LIFE INSURANCE LIMITED

*Individual Life and Annuities (74% Interest)*

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Argus Group Holdings Limited is a public company, its shares trading on The Bermuda Stock Exchange. At September 30, 2010 it had 1,294 shareholders; 90 percent of whom were Bermudian, holding 83 percent of the issued shares.

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### BERMUDA LIFE WORLDWIDE LIMITED

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

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### SOMERS ISLES INSURANCE COMPANY LIMITED

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

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### AFL INVESTMENTS LIMITED

*Investment Management Services (60% Interest)*

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### ARGUS INVESTMENT NOMINEES LIMITED

*Nominee Company (60% Interest)*

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### ARGUS INTERNATIONAL MANAGEMENT LIMITED

*Company Management*

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### ARGUS MANAGEMENT SERVICES LIMITED

*Financial, Investment and  
General Management Services*

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### DATA COMMUNICATIONS LIMITED

*Information Systems*

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### ST. MARTIN'S REINSURANCE COMPANY, LTD.

*Financial Reinsurance (in run-off)*

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### ARGUS PROPERTY LIMITED & TROTT PROPERTY LIMITED

*Property Holding Companies*

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### ARGUS PROPERTY (GIBRALTAR) LIMITED

*Property Holding Company*

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### FOGG INSURANCE AGENCIES LIMITED, Malta

*Insurance Agent*

## REPORT TO SHAREHOLDERS

The Argus Group is pleased to report a profit of \$6.6 million for the six months ended September 30, 2010. In this our 60th year of operations, we remain confident that the Group is well positioned for the future. We are encouraged by the fact that core earnings from business operations remain strong. Investment income and changes in the value of investments contributed only \$7.1 million to earnings compared to a contribution of \$16.9 million in the corresponding period last year when we reported net earnings of \$12.1 million.

On the *Consolidated Balance Sheet*, *Total Assets* now stand at \$541 million whilst *Segregated Funds Assets* have remained static at \$1.2 billion. The Group now has \$1.7 billion under its administration. *Shareholders' Equity* at September 30, 2010 has increased to \$107.3 million from \$97.5 million at March 31, 2010.

*Net premiums earned* in the period increased by 2.2 percent reflecting new business and the Group's continuing efforts to write profitable lines of business. Meanwhile *Claims, Policy and Actuarial benefits* have decreased by 7 percent. Claims received as a result of Hurricane Igor on September 20, 2010 were not as severe as anticipated due to the fact that Igor decreased in intensity from a Category 3 to a Category 1 storm before it reached Bermuda. The reduction in *Claims, Policy and Actuarial benefits* incurred is mainly due to health claims returning to normal levels after last year's excessively high overseas claims costs.

In the six months under review, *Investment income* increased by 14.4 percent. The *Change in fair value of investments* was minimal. By contrast, in the corresponding period in the prior year an increase of \$10.2 million was recorded. The Group continues to de-risk the balance sheet in a measured and orderly fashion to mitigate the effect of future volatility in world-wide investment markets, as experienced in recent years.

*Commissions, management fees and other income* increased by 3 percent in line with the modest recovery in the values of assets under management in our various investment-related businesses.

*Operating expenses* increased by 10.4 percent during the period as the operating costs of the newly-acquired Fogg Insurance Agencies in Malta, which has over 20 staff, were consolidated into the Group for the first time. Previously, the Group paid the agency a commission for business produced hence the reduction in *Commissions paid* in the current period. In addition, under expenses, Argus has recruited a number of specialised staff in Bermuda to ensure that it complies with the ever-increasing demands of regulators in the territories in which it operates.

In the six months to September 30, 2010, the Group recorded net unrealised gains of \$4.3 million under *Other Comprehensive Income* compared to gains of \$12.8 million in the corresponding period for the prior year. These unrealised gains arose from market movements on financial assets classified as 'available for sale'.

The foreign currency translation adjustment of the Group's self-sustaining foreign operations amounted to a gain of \$654,000 and is also recorded under *Other Comprehensive Income*.

On November 8, 2010, at the delayed 2010 Annual General Meeting, shareholders approved all of the resolutions proposed. Thus the complex legal process that the Argus Group committed to undertake to remedy the issues arising from inadequate notice of general meetings in order to preserve the rights and title of all of its shareholders was brought to a successful conclusion. As a result, the Company's Board of Directors determined that the voluntary suspension in trading of Argus shares on the Bermuda Stock Exchange, that lasted three months, was no longer required and the suspension was lifted on November 9, 2010. In addition, the Board declared a dividend of 10 cents per share payable on November 30, 2010 to shareholders of record on November 17, 2010 – unchanged from the previous two quarters. The current quarterly dividend of 10 cents per share represents an annualised yield of 7 percent on the recent share price of \$5.71 per share.

At September 30, 2010 the Directors and Officers of Argus Group Holdings Company Limited had combined interests totaling 1,499,918 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. In the six month period ended September 30, 2010 no restricted shares were granted to employees. No share options were exercised in the period and, as at September 30, 2010, the total number of share options outstanding which can be exercised at various dates up to June 9, 2016 were 431,527 at exercise prices ranging from \$5.12 to \$11.78.

The health care system in Bermuda continues to undergo the greatest set of changes since the Health Insurance Act came into effect in 1971. In July 2010, the Bermuda Health Council ("BHeC") released a public consultation paper setting out its proposals to enhance the regulatory framework for Bermuda's health insurers. Argus has provided a formal written response to the consultation paper and we await further advice from the BHeC on planned next steps. In the meantime, Argus continues to focus on the activities required to automate reimbursement processes and improve plan data available on-line, both of which are in support of reforms proposed by the BHeC.

Certain 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 due to a variety of factors including worldwide economic conditions, success in business retention and other factors.

At the Annual General Meeting the entire Board was re-elected except Mr. John Pereira who did not seek re-election. We thank Mr. Pereira for his many years of dedicated service to Argus.

Finally, we thank our staff for their hard work and commitment and our clients and shareholders for their continued loyalty and support.



Gerald D.E. Simons, President and Chief Executive Officer

November 24, 2010

## CONSOLIDATED BALANCE SHEET

<i>(In \$ thousands)</i>	<i>(Unaudited)</i> <b>September 30 2010</b>	<i>(Audited)</i> March 31 2010
<b>GENERAL FUND ASSETS</b>		
Investments	404,096	389,628
Cash and short-term investments	11,668	13,651
Interest and dividends receivable	855	820
Insurance balances receivable	11,861	11,522
Reinsurers' share of:		
Claims provisions	6,057	3,550
Unearned premiums	13,960	8,975
Capital assets	77,691	78,580
Intangible assets	8,614	6,123
Deferred policy acquisition costs	818	616
Other assets	5,520	5,318
<b>TOTAL GENERAL FUND</b>	<b>541,140</b>	518,783
<b>SEGREGATED FUNDS ASSETS</b>	<b>1,168,683</b>	1,169,276
<b>GENERAL FUND LIABILITIES</b>		
Life and annuity policy reserves	136,981	135,086
Deposit administration pension plans	179,340	169,674
Total life and annuity policy reserves	316,321	304,760
Provision for unpaid and unreported claims	30,538	26,022
Insurance balances payable	9,635	8,632
Deposit liabilities	6,118	6,558
Unearned premiums	24,571	18,160
Note payable	16,750	16,750
Loan payable	16,843	19,843
Dividends payable	-	2,103
Accounts payable and accrued liabilities	10,357	16,006
Non-controlling interest	2,693	2,470
	<b>433,826</b>	421,304
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	16,436	16,436
Contributed surplus	52,618	52,382
Retained earnings	30,998	26,494
Accumulated other comprehensive income	7,262	2,167
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>107,314</b>	97,479
<b>TOTAL GENERAL FUND</b>	<b>541,140</b>	518,783
<b>SEGREGATED FUNDS LIABILITIES</b>	<b>1,168,683</b>	1,169,276

## CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

<i>(In \$ thousands, except per share data)</i>	<i>(Unaudited)</i> <b>For the six months ended 30 September 2010</b>	<i>(Unaudited)</i> <b>For the six months ended 30 September 2009</b>
<b>REVENUE</b>		
Gross premiums written	85,752	84,703
Reinsurance ceded	(25,216)	(25,704)
Net premiums written	60,536	58,999
Net change in unearned premiums	(1,008)	(771)
Net premiums earned	59,528	58,228
Investment income	7,620	6,660
Change in fair value of investments	(525)	10,202
Commissions, management fees and other	14,478	14,053
	<b>81,101</b>	<b>89,143</b>
<b>EXPENSES</b>		
Claims and adjustment expenses	41,486	43,513
Policy benefits	6,986	5,946
Increase in actuarial benefits	1,458	4,252
Commissions paid	1,156	1,964
Operating expenses	19,825	17,960
Amortisation, depreciation and impairment	2,923	2,776
Interest on loans	443	507
Non-controlling interest	223	66
	<b>74,500</b>	<b>76,984</b>
<b>NET INCOME FOR THE PERIOD</b>	<b>6,601</b>	<b>12,159</b>
<b>Earnings per share:</b>		
<i>basic – \$0.31 (2009 – \$0.58)</i>		
<i>fully diluted – \$0.30 (2009 – \$0.57)</i>		
<b>OTHER COMPREHENSIVE INCOME</b>		
Net unrealised gain on available-for-sale investments arising during the period	4,271	12,844
Reclassification of realised gains included in net income	170	-
Unrealised gain on translating financial statements of self-sustaining foreign operations	654	1,008
<b>OTHER COMPREHENSIVE INCOME</b>	<b>5,095</b>	<b>13,852</b>
<b>COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>11,696</b>	<b>26,011</b>

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

<i>(In \$ thousands)</i>	<i>(Unaudited)</i> <b>September 30 2010</b>	<i>(Audited)</i> March 31 2010
<b>SHARE CAPITAL</b>		
Authorised:		
25,000,000 common shares of \$1.00 each (2010 – 25,000,000)	<b>25,000</b>	25,000
Issued and fully paid, beginning of period 21,511,163 shares (2009/2010 – 21,485,744 shares)	<b>21,511</b>	21,486
Issue of nil shares from stock options exercised (2009/2010 – 25,419 shares)	-	25
Issued and fully paid, end of period 21,511,163 shares (2009/2010 – 21,511,163 shares)	<b>21,511</b>	21,511
Deduct: Shares held in Treasury, at cost 477,724 shares (2009/2010 – 477,724 shares)	<b>(5,075)</b>	(5,075)
Total, net of shares held in Treasury	<b>16,436</b>	16,436
<b>CONTRIBUTED SURPLUS</b>		
Balance, beginning of period	<b>52,382</b>	52,267
Stock options exercised	-	91
Stock-based compensation expense	<b>236</b>	386
Treasury shares granted to employees	-	(362)
Balance, end of period	<b>52,618</b>	52,382
<b>RETAINED EARNINGS</b>		
Balance, beginning of period	<b>26,494</b>	57,299
Net income/(loss) for the period	<b>6,601</b>	(18,435)
Cash dividends	<b>(2,097)</b>	(12,187)
Loss on treasury shares granted to employees	-	(183)
Balance, end of period	<b>30,998</b>	26,494
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME</b>		
Balance, beginning of period	<b>2,167</b>	(10,575)
Other comprehensive income for the period	<b>5,095</b>	12,742
Balance, end of period	<b>7,262</b>	2,167
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>107,314</b>	97,479



## CONSOLIDATED STATEMENT OF CASH FLOWS

<i>(In \$ thousands)</i>	<i>(Unaudited)</i> <b>September 30 2010</b>	<i>(Audited)</i> March 31 2010
<b>OPERATING ACTIVITIES</b>		
Net income/(loss) for the period	<b>6,601</b>	(18,435)
Adjustments to reconcile net earnings/(loss) to cash basis (Footnote (i) below)	<b>(261)</b>	28,649
Change in operating balances (Footnote (ii) below)	<b>9,132</b>	17,467
<b>CASH GENERATED FROM OPERATIONS</b>	<b>15,472</b>	27,681
<b>INVESTING ACTIVITIES</b>		
Purchase of investments	<b>(169,664)</b>	(237,443)
Sale of investments	<b>163,281</b>	228,921
Purchase of subsidiary, net of cash acquired	<b>(2,757)</b>	-
Purchase of capital assets	<b>(1,551)</b>	(8,110)
Purchase of intangible assets	<b>(218)</b>	(159)
<b>CASH USED IN INVESTMENT ACTIVITIES</b>	<b>(10,909)</b>	(16,791)
<b>FINANCING ACTIVITIES</b>		
Dividends paid	<b>(4,200)</b>	(13,438)
Share options exercised	-	116
Acquisition of shares held in Treasury	-	205
Repayment of loans	<b>(3,000)</b>	(7,910)
<b>CASH USED IN FINANCING ACTIVITIES</b>	<b>(7,200)</b>	(21,027)
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENT</b>	<b>654</b>	604
<b>NET DECREASE IN CASH AND SHORT-TERM INVESTMENTS</b>	<b>(1,983)</b>	(9,533)
<b>CASH AND SHORT-TERM INVESTMENTS, beginning of period</b>	<b>13,651</b>	23,184
<b>CASH AND SHORT-TERM INVESTMENTS, end of period</b>	<b>11,668</b>	13,651
Footnotes		
(i) Depreciation of capital assets	2,440	4,896
Amortisation of intangible assets	484	685
Compensation expense on vesting of stock options	236	201
Amortisation of net premium discount of bonds	256	314
Net gains on sale and net unrealised (depreciation)/appreciation of investments	(3,900)	11,643
Provision for mortgage loans	-	10,000
Non-controlling interest	223	910
	(261)	28,649
(ii) Interest and dividends receivable	(35)	474
Insurance balances receivable	(339)	2,720
Reinsurers' share of:		
Claims provisions	(2,507)	(285)
Unearned premiums	(4,985)	(151)
Deferred policy acquisition costs	(202)	48
Other assets	(202)	(735)
Life and annuity policy reserves	1,895	3,652
Deposit administration pension plans	9,666	10,987
Provision for unpaid and unreported claims	4,516	829
Insurance balances payable	1,003	932
Deposit liabilities	(440)	(2,377)
Unearned premiums	6,411	(600)
Other liabilities	(5,649)	1,973
	9,132	17,467

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 September, 2010

### 1. OPERATIONS

The Company through its subsidiaries (collectively the “Group”) operates predominantly in Bermuda and Gibraltar 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  
Centurion Insurance Services Limited  
Argus Insurance Company (Europe) Limited, *Gibraltar*  
Westmed Insurance Services Limited, *Gibraltar*  
Bermuda Life Insurance Company Limited  
Argus International Life Bermuda Limited  
Argus International Life Insurance Limited  
Bermuda Life Worldwide Limited  
Somers Isles Insurance Company Limited  
AFL Investments Limited  
Argus Investment Nominees Limited  
Argus International Management Limited  
Argus Management Services Limited  
Data Communications Limited  
St. Martin's Reinsurance Company, Ltd.  
Argus Property Limited, Trott Property Limited & Argus Property (Gibraltar) Limited  
Fogg Insurance Agencies Limited, *Malta*

### 2. SIGNIFICANT ACCOUNTING POLICIES

- (a) These interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Bermuda and Canada, with the exception of the notes to the financial statements, which conform to the minimum disclosure requirements prescribed by CICA Handbook Section 1751 – Interim Financial Statements, and are presented in Bermuda Dollars which are on par with U.S. Dollars.
- (b) These unaudited interim consolidated financial statements follow the same accounting policies and methods of their application as our March 31, 2010 audited financial statements and should be read in conjunction with the latter.

### 3. INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

In February 2008, the CICA announced that Canadian generally accepted accounting principles for publicly accountable enterprises will be replaced by IFRS for fiscal years beginning on or after January 1, 2011. As a result, IFRS will be adopted by the Company on April 1, 2011 and its first set of IFRS compliant financial statements will be for the year ending March 31, 2012.

The Group has commenced the assessment and evaluation phase of its IFRS implementation project in order to determine the effect on its processes, systems and financial statements upon adoption.

#### 4. SEGMENT INFORMATION

The Group has adopted the accounting requirements relating to the presentation of operating segments based upon internal management reporting. The Group has four reportable segments as follows:

- (i) Insured Employee Benefits – including group health, life and long term disability and employer’s indemnity coverage.
- (ii) Life and Pensions – including individual life insurance, annuities and group retirement income plans.
- (iii) Property and Casualty – including fire and windstorm (home and commercial property), all risks, liability, marine and motor coverage.
- (iv) All Other – representing the combined operations of the remaining components of the Group comprising two management companies, three property holding companies, a financial reinsurance company, an investment management services company and the Group’s holding company.

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

		Insured Employee Benefits	Life and Pensions	Property and Casualty	All Other	Total per Financial Statements
Segment Income	<b>2010</b>	<b>48,556</b>	<b>15,264</b>	<b>14,397</b>	<b>2,884</b>	<b>81,101</b>
	2009	49,244	21,322	17,141	1,436	89,143
Depreciation of Capital Assets	<b>2010</b>	<b>282</b>	<b>320</b>	<b>646</b>	<b>1,676</b>	<b>2,924</b>
	2009	651	448	113	880	2,092
Segment Earnings	<b>2010</b>	<b>5,136</b>	<b>2,574</b>	<b>2,319</b>	<b>(3,428)</b>	<b>6,601</b>
	2009	729	8,057	5,870	(2,497)	12,159
Segment Assets	<b>2010</b>	<b>46,666</b>	<b>349,918</b>	<b>112,628</b>	<b>31,928</b>	<b>541,140</b>
	2009	42,648	360,360	97,481	64,689	565,178
Capital Expenditure	<b>2010</b>	<b>651</b>	<b>228</b>	<b>751</b>	<b>139</b>	<b>1,769</b>
	2009	1,120	546	927	2,992	5,585

Notes

- (a) Intersegment income is omitted as immaterial.
- (b) Capital Assets includes capital and intangible assets.

#### 5. COMPARATIVE FIGURES

Certain of the 2009 comparative figures have been reclassified to conform to the presentation adopted for 2010.

## BOARD OF DIRECTORS

Sheila E. Nicoll, FCII	<i>Chairman</i>
Alan R. Thomson	<i>Deputy Chairman</i>
Wendall S. F. Brown	
Peter R. Burnim	
John D. Campbell, QC, JP	
James S. Jardine, CA, FCIS, JP	
Reginald S. Minors, JP	
The Hon. Gerald D. E. Simons, OBE	<i>President &amp; Chief Executive Officer</i>
Robert D. Steinhoff, FCA	
Christopher P. Trott	

## GROUP MANAGEMENT

Gerald D. E. Simons, FLMI, HIA, ACS	<i>President &amp; Chief Executive Officer</i>
Alison S. Hill, ACMA	<i>Chief Operating Officer</i>
David W. Pugh, FCA	<i>Chief Financial Officer</i>
Andrew I. Baker, FCII	<i>Chief Executive, Argus Insurance Company (Europe) Limited, Gibraltar</i>
Lauren M. Bell, FLMI, HIA, ACS	<i>Executive Vice President, Life &amp; Pensions</i>
Andrew H. Bickham, ACII	<i>Executive Vice President, Broking</i>
Cindy F. Campbell, CPA, MBA	<i>Chief Operating Officer, AFL Investments Limited</i>
John Doherty, CPCU, ARc, ARM	<i>Vice President, Property &amp; Casualty</i>
Gary Hitchens	<i>Director, Global Sales &amp; Marketing</i>
Michelle Jackson, MBA, MSc, ALMI	<i>Executive Vice President, Group Insurance</i>
George N. H. Jones, BA, MBA, LLB	<i>Group Company Secretary &amp; Legal Advisor</i>
Onesimus Nzabalinda, MBA, MSc	<i>Head of Compliance &amp; Risk Management</i>
Larry A. Peck, FSA, FCIA, MAAA	<i>Executive Vice President, Group Actuary</i>
C. Joy Pimental, FLMI, ACS	<i>Head of Sales Management</i>
Wanda E. Richardson, MA, SPHR	<i>Vice President, Organisational Development</i>
Sheena M. Smith, CPA	<i>Vice President, Finance</i>
Philip R. Trussell	<i>Managing Director, International Life</i>
Paul Williams	<i>Executive Vice President, Information Systems</i>