

July 24, 2017

Dear Shareholder,

You will be pleased to learn that the Argus Group reported net earnings of \$12 million for the year ended March 31, 2017. We are pleased with this solid result, which is underpinned by disciplined, long-term underwriting strategies and strong investment performance against a backdrop of geopolitical turmoil and market disruption.

We believe our role is one of careful stewardship of our shareholders' assets and long-term custodianship of our business for future generations. We are pleased with our continued progress to diversify the Group's sources of earnings across products and geographies, including the acquisition of Island Insurance Brokers Limited in Malta.

The strong financial position and underlying earnings strength of the Group has allowed the Board to declare an interim dividend of 9 cents per share payable on August 23, 2017 to shareholders of record on July 25, 2017.

Shareholders' equity now stands at \$130.2 million and remains well in excess of the capital level required by regulators to support the insurance and investment activities of the Group. The result for the year represents a return on average Shareholders' Equity of 9.5 percent, compared with 6 percent in the prior year. Earnings per share for the year were \$0.57, compared with \$0.34 in the previous year. As of March 31, 2017, Total Assets including Segregated Fund Assets stood at \$2.2 billion.

Net premiums written of \$128.8 million decreased by 7.8 percent while Net benefits and claims of \$105.7 million decreased by 3.6 percent. Both have been impacted by our health business as a result of pricing actions taken in the short term to ensure the sustainability of the Bermuda health care system in the mid to longer term and maintain profitability of this important business to the Group. Additionally, health claims have returned to a more normal level after the unusually low claims in the previous two years. While the Group has seen growth in the insured population, we've also experienced an increase in claims costs as more insureds have been encouraged to use preventative and diagnostic benefits.

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 strength of the Group's comprehensive reinsurance arrangements.

Combined fee income of \$18.9 million comprises fees for service generated by our pensions, insurance brokerage, health administration and wealth management businesses. The decline of 5.5 percent is mostly attributable to fee reductions within our pension business that were delivered to our pension members as part of our successful fund transformation initiative. As a result, our highly competitive pension offering attracted new clients with pension assets totaling \$70 million in the year.



Investment income increased by \$16.9 million compared to the prior year. The robust results reflected stronger performance from our selected investment managers, with all managers meeting or outperforming their target returns. The investment income benefitted from one-time realised gains of \$4.9 million from the sale of certain Bermuda equities.

Operating expenses increased by \$3.7 million primarily due to the addition of Island Insurance Brokers Limited and significant investment in delivering our strategic goals of innovation, advocacy and growth through diversification outside of Bermuda.

We remain deeply concerned about the unsustainable cost of the health care system in Bermuda. As a result, we are proactively investing in several groundbreaking health management initiatives in the short term to help 'bend the trend' of escalating health costs and to deliver long-term benefits to our health clients. During the year we invested in an innovative Diabetes Reversal programme, which is aimed at reducing the prevalence of Type 2 diabetes in Bermuda, and the new Argus Health Benefit portal, which gives our clients the ability to better manage their employee benefits through 24/7 access to reports and benefit plans.

Despite competitive markets and environmental changes, we remain optimistic about the future. The Group's three strategic priorities are positioning the Group to thrive in uncertain times and to be resilient to whatever global forces push our way. Our advocacy and innovation strategies are creating the value our clients are looking for, which helps offset ongoing margin squeeze. Our growth strategy will diversify the Group's sources of revenue and bring economies of scale. Underpinning these strategies are our highly engaged team and our culture of doing the right thing, for everyone, always.

Thank you for your loyalty. We look forward to a long and profitable future together.

Yours sincerely,

Alison S. Hill  
Chief Executive Officer

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**BY EMAIL**

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**BY HAND**

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**QUESTIONS? CALL 298-0888 AND ASK FOR THE REGISTRAR**

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