ARGUS

Insurance • Pensions • Investments

ANNUAL 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 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) and Group Accident Insurance

CENTURION INSURANCE SERVICES LIMITED
Insurance Agent and Licensed Broker

ARGUS INSURANCE COMPANY (EUROPE) LIMITED, Gibraltar
(Formerly: Norwich Union International Insurance Limited)
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
(Formerly: Tremont International Insurance Ltd.)
Individual Life and Annuities

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

ARGUS FINANCIAL LIMITED (60% Interest)
Investment Management Services

ARGUS INVESTMENT STRATEGIES FUND LIMITED (60% Interest)
Mutual Fund

ARGUS INVESTMENT NOMINEES LIMITED (60% Interest)
Nominee Company

ARGUS INTERNATIONAL MANAGEMENT LIMITED
Company Management

ARGUS MANAGEMENT SERVICES LIMITED
Financial, Investment and General Management Services

DATA COMMUNICATIONS LIMITED
Information Systems

ST. MARTIN'S REINSURANCE COMPANY, LTD.
Financial Reinsurance (in run-off)

ARGUS PROPERTY LIMITED & TROTT PROPERTY LIMITED
Property Holding Companies

Argus Group Holdings Limited is a public company, its shares trading on The Bermuda Stock Exchange. At March 31, 2007 it had 1,104 shareholders; 90 percent of whom were Bermudian, holding 83 percent of the issued shares.

At Argus, our dedication to growth has never been more apparent. Several key initiatives bring to light our passion for building strong foundations that will ultimately improve our financial strength and enable us to contribute to the welfare of the community. That is why we have chosen “Foundations for Growth” as this report’s overall theme. As our business continues to grow, the new Argus building will enable us to meet our needs for expansion and with the purchase of Tremont International Insurance Ltd., we are expanding our reach to a new niche market. We are committed to expanding the Argus Wellness Programme; many Bermuda residents are taking advantage of it. However, our commitment to the community does not end with health. With the adoption of two public parks, we are working to improve the environment of Bermuda for future generations.

BOARD OF DIRECTORS

James A. C. King, MD ■ ■
Chairman

David P. Gutteridge ■
Deputy Chairman

John D. Campbell, QC, JP ■

W. Roger Davidson ■ ■

Reginald S. Minors, JP ■

Sheila E. Nicoll, FCII ■

John D. Pereira ■

The Hon. Gerald D. E. Simons, OBE
President & Chief Executive Officer

Robert D. Steinhoff, FCA ■

Alan R. Thomson ■

Christopher P. Trott ■

GROUP MANAGEMENT

Gerald D. E. Simons, FLMI, HIA, ACS
President &
Chief Executive Officer

Margaret Atwood, FLMI, CCP, ACS
Vice President
Information Systems

Andrew I. Baker, FCII
Chief Executive
Argus Insurance Company (Europe) Limited,
Gibraltar

Lauren M. Bell, FLMI, HIA, ACS
Executive Vice President
Life & Pensions

Andrew H. Bickham, ACII
Executive Vice President
Broking

Cindy F. Campbell, CPA, MBA
Executive Vice President
Group Insurance

David J. Crowhurst, FCII, *Chartered Insurer*
Executive Vice President
Property & Casualty

John Doherty, CPCU, ARe
Vice President
Property & Casualty

Brian C. E. Foster, ACII, ARM
Vice President
Agency

Larry A. Peck, FSA, FCIA, MAAA
Group Actuary

Henry R. Perren, M.A.
Chief Operating Officer
Argus Financial Limited

C. Joy Pimental, FLMI, ACS
Executive Vice President
Marketing

David W. Pugh, FCA
Chief Financial Officer
& Secretary

Wanda E. Richardson, MA, SPHR
Vice President
Organisational Development

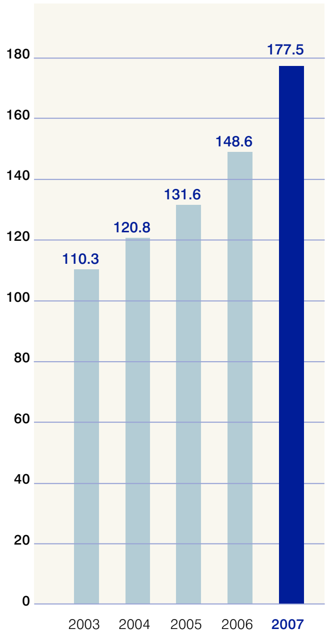
Sheena M. Smith, CPA
Vice President
Finance

COMMITTEES OF THE BOARD

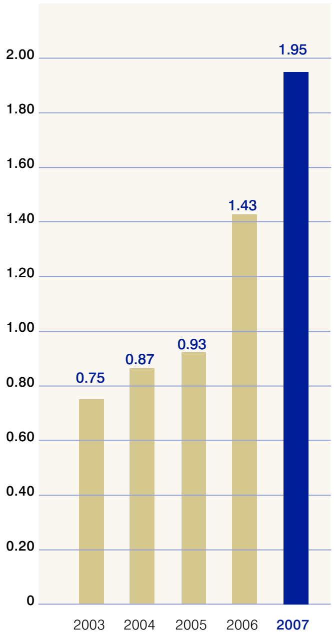
Nominations and Governance Committee ■   Compensation Committee ■   Audit Committee ■

FINANCIAL HIGHLIGHTS

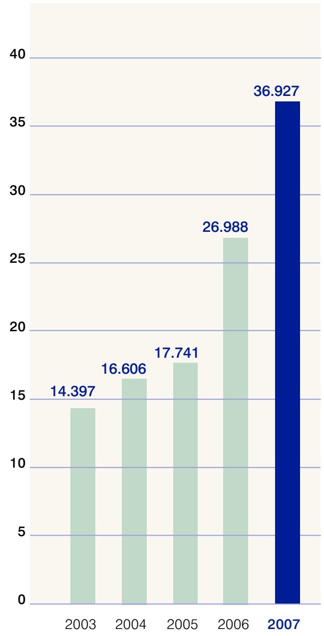
SHAREHOLDERS' EQUITY
Millions of Dollars



EARNINGS PER SHARE
(Basic) Dollars Per Share



EARNINGS FOR THE YEAR
Millions of Dollars



FIVE YEAR SUMMARY – FINANCIAL AND SHAREHOLDER DATA

(In $ thousands, except share data)	**2007**	2006	2005	2004	2003
FOR THE YEAR					
Total revenue	**153,814**	134,044	105,232	95,083	83,079
Earnings for the year	**36,927**	26,988	17,741	16,606	14,397
Cash dividends	**10,044**	7,780	7,057	6,218	5,823
AT YEAR END					
Total General Fund Assets	**535,760**	471,405	455,227	358,521	303,548
Shareholders' Equity	**177,504**	148,614	131,590	120,814	110,252
FINANCIAL RATIOS					
Earnings per share – fully diluted	**$1.92**	$1.41	$0.91	$0.86	$0.75
Return on average Shareholders' Equity	**22.64%**	19.26%	14.06%	14.37%	13.51%
Cash dividend payout ratio	**27.20%**	28.82%	39.78%	37.44%	40.45%
SHAREHOLDER DATA					
Shares in issue	**19,418,989**	17,520,161	17,488,838	17,379,055	15,765,967
Book value per share	**$9.14**	$8.48	$7.52	$6.95	$6.99
NUMBER OF EMPLOYEES	**170**	166	154	130	127

Our new building demonstrates our investment in and commitment to Bermuda. With the rapid expansion of Argus over the past decade, our new building will allow us to provide enough space to meet our growing needs.

Gerald Simons and David Pugh in front of the new Argus corporate headquarters building site

REPORT TO SHAREHOLDERS

We are pleased to report that the Group's strategy of focusing on growth by building upon the strong foundations of our core businesses – life, pensions, health and property and casualty insurance – has yielded satisfactory results from all of our insurance operations. This, together with enhanced commission income and the maintenance of strong investment returns have combined to produce record earnings for the year ended March 31, 2007.

FINANCIAL RESULTS

Net earnings were $36.9 million for the year ended March 31, 2007, a 36.8 percent increase over the previous year. This result provided a 24.8 percent return on opening shareholders' equity and fully diluted earnings per share were $1.92, up 51 cents, or 36.2 percent compared to $1.41 last year.

Total General Fund Assets rose to $536 million from $471 million and assets in our separate account funds increased to just over $1 billion. In total, the Group now has $1.582 billion under its administration. Shareholders' equity at year-end had risen to $178 million, up from $149 million one year before.

Premiums earned, net of reinsurance, rose by 13.1 percent reflecting new business acquired and the results of our continuing efforts to achieve acceptable underwriting ratios by appropriate adjustments to premiums. These efforts combined, where appropriate, with increased deductibles and stricter selection of risks have now begun to produce results as all business lines have improved performance. The situation has been assisted by the lack of catastrophic events, especially major windstorms and the lower than expected level of overseas medical claims. This last point is evidenced by the 4.1 percent rise in claims and adjustment expenses in the year under review compared to the previous year which had seen a 20.2 percent uplift. Whilst this low level of growth in claims is fortuitous, it is not viewed as sustainable.

Investment income increased by 3.8 percent to $31.7 million – almost half of which is attributable to our portfolio of Bermuda equities held in our principal life subsidiary, Bermuda Life. Whilst overseas fixed interest investments continue their lackluster performance, overseas equities yielded more satisfactory returns as world-wide markets improved in the year.

Generally Accepted Accounting Principles followed in Canada, which have general application in Bermuda, allowed the Group to recognise, annually, 15 percent of the unrealised gains on equities held in our life subsidiaries. This policy applied to Bermuda Life's significant investment in equities quoted on The Bermuda Stock Exchange. As explained in Note 2 (L) to the attached Financial Statements, with effect from April 1, 2007, this moving average market method will no longer apply and all such quoted investments will be classified as 'held for trading' and recorded at market value. The net effect of this change in future years will be substantially increased

Brian Foster builds on solid foundations by developing strong business relationships with Centurion's clients.

volatility of earnings as unrealised gains and losses on all investments throughout the Group that are 'held for trading' will be recognised in Net Earnings in the year in which they occur. We stress that this change in accounting policy will not alter the underlying value of your Company, only the manner in which its activities are reported.

Commissions, management fees and other income rose by 42.2 percent representing the fees earned on additional assets under management and commission received on increased reinsurance premium ceded by our property and casualty operations reflecting growth in gross premiums written.

Operating expenses increased by 13.8 percent in the year primarily as a result of additional investment in information systems and related specialist staff. The need to keep our computer systems up-to-date becomes ever more important as our businesses grow. The Group's operating expenses expressed as a percentage of total revenue saw a year on year decrease from 21.1 to 20.9 percent.

At the beginning of the financial year the Argus share price was $13.18 adjusted for the September, 2006 'one-for-ten' stock dividend. The year-end price of $15.00 thus represents an uplift in value of 13.8 percent. The quarterly cash dividend was raised from 12 to 14 cents per share on the additional number of shares resulting from the stock dividend, equating to an annualised dividend increase of 28.3 percent.

We are pleased to note that A.M. Best reaffirmed the rating of "A" (Excellent) for each of the Group's operating insurance companies in Bermuda, the highest rating enjoyed by any Bermuda-owned insurance company.

PROPERTY AND CASUALTY

This was a successful year for the Group's property and casualty operations with improved underwriting profits in both Bermuda and in Gibraltar, whose results include those of our agency in Malta.

The Bermuda-based business produced the best result for many years, including a small underlying profit in motor. This reflected the very strict underwriting policy imposed upon two-wheeled vehicles and to a lesser extent on cars and commercial vehicles. This has substantially reduced the frequency of claims on our motor book in spite of the continuing rise in road accidents in Bermuda. The fire account provided a satisfactory return in spite of three large claims in the year. The absence of major storms was, naturally, a contributory factor and a blessing – although reinsurance costs for catastrophe cover continue to be burdensome.

On the wider perspective of claims, Argus, along with other local insurers, is aiming to do more to promote road safety and, of course, we continue to advise policyholders and the public in general on windstorm precautions should our islands be threatened during the hurricane season.

In April 2007 Mr. David Crowhurst succeeded Mr. Bob Anderson as the Executive Vice President, Property

Wanda Richardson focuses on strategies that build on the competencies of our employees, that promote accountability and that create an environment which encourages employee satisfaction.

& Casualty. Our thanks go to Bob for his valuable contribution during his tenure of the last three years, which saw a significant improvement in results and a return to profitability. It is our intention to continue the successful strategies of improved risk selection and stricter rating in order to maintain an adequate return from this area of our operations.

Overseas, our Gibraltar and Malta businesses made another satisfactory net underwriting profit particularly on the important motor account. The re-branding of this company as Argus Insurance Company (Europe) Limited was successfully completed during the year. On April 30, 2007, Mr. Andrew Baker took over as Chief Executive of this division following the retirement of Mr. Sandy Guthrie in September 2006. We extend our thanks to Sandy and wish him a long and happy retirement. In addition, we acknowledge the important contribution made by Mr. Mick Derbyshire as Interim Chief Executive during the year.

Currently the outlook for our property and casualty operations in Bermuda, Gibraltar and Malta is positive despite the extremely competitive markets in which we operate. We continue to seek satisfactory returns through sound underwriting and claims management.

GROUP INSURANCE

Health insurance results improved over the prior year as a result of lower than anticipated claims and continuing refinements in the area of claims handling and related processes. Pro-active case management, which when linked to the introduction of premier institutions, such as the Ottawa Heart Institute in Canada, to our roster of accredited providers in the “Argus Network”, has produced lower than expected costs from overseas claimants.

For the second consecutive year we have been able to contain annual average premium adjustments to single digit increases. We remain concerned that, overall, health claims costs rise each year at an alarming rate well above inflation. As discussed in previous reports to shareholders, the two factors driving this inflationary trend are cost and utilisation. Our efforts to manage the cost inflation situation have to date proved successful and we strive to address the utilisation aspect through increased promotion and expansion of the Argus Wellness Programme. This internet-based programme, which is designed to encourage insureds to reduce the number of lifestyle-related risk factors that affect health such as high blood pressure, smoking, excessive drinking and obesity, has proved to be extremely popular since its launch in 2005. The feedback from participants in the Argus Wellness Programme continues to be overwhelmingly positive. We firmly believe that the only long-term solution to rising healthcare claims is to convince healthy people to stay healthy and persuade people who are not healthy to reduce their risk factors by addressing their health-related lifestyle patterns.

ARGUS

John Doherty drives bottom line growth by emphasising careful underwriting practices.

We continue to be a leader in local wellness initiatives as evidenced by the sponsorship and participation in several community-based activities. These included the launching of the Teen Wellness Survey 2006 in conjunction with the Ministry of Health and the Department of Education to all middle and high schools, both public and private, in an effort to increase awareness in our young people of the health implications of their behaviour from an early age. We sponsored the third annual Argus Health Fair in cooperation with the Bermuda Hospitals Board and the Ministry of Health, which, once again, was a tremendous success with well over 2,000 residents participating in free health screenings of cholesterol, blood sugar and blood pressure and acquiring information on a variety of topics. In addition, Argus assisted with the funding of various seminars including one for the public on wellness, "Change your mind....change your future", and the "Cardiology Symposium for Nurses."

Argus continues to play a major role in the direction of healthcare issues in Bermuda with Mrs. Cindy Campbell, Executive Vice President, Group Insurance, as Chairman of the Health Insurance Association of Bermuda. The Bermuda Health Council has been formed and Argus is pleased to provide active support to them in their efforts to regulate, coordinate and enhance the delivery of health services in Bermuda.

Once again our group life and long term disability products continue to provide satisfactory results.

PENSIONS

The value of pension plan balances grew by 14 percent during the year due to a combination of investment performance, acquisition of many new plans and transfers from other pension administrators. We strive to maintain our position as the provider of choice based on our experience, competence and knowledge in all areas of pension administration as we continue to offer pension plans tailored to meet the needs of our clients and the requirements of pension legislation.

During the year we expanded our range of pension options available at retirement in order to meet the personal circumstances and requirements of employees who are about to retire. The Argus Select Funds, utilised by the majority of our clients, are actively managed by Argus Financial Limited to produce consistently stable returns in ever-changing market conditions.

We held a number of retirement planning presentations for the staff of pension clients to highlight the importance of setting adequate retirement income goals in order to enjoy a comfortable old age.

Our improving earnings enable us to increase our charitable giving. This year we were pleased to support the St. George's Foundation and sponsor the installation of a commercial grade kitchen, the 'Argus Scullery', in the World Heritage Centre on Penno's Wharf in St. George's. The 'Argus Scullery' has enabled the World Heritage Centre to host private functions and events allowing the St. George's Foundation to become more self-sufficient.

Joy Pimental at the 'Argus Scullery' in the World Heritage Centre, St. George's

The Argus Wellness Programme continues to evolve, benefiting thousands of people in Bermuda. By promoting exercise and healthy lifestyles we hope to decrease the risk of disease. Ultimately we aim to manage healthcare costs and improve quality of life. Whilst the programme is intended primarily for our clients, the Online Wellness Centre is free for everyone island wide; simply visit our website, www.argus.bm.

Cindy Campbell encourages the community to walk daily

Sheena Smith takes her responsibility to our shareholders seriously by ensuring that adequate financial controls are in place and financial standards and regulations are applied.

INTERNATIONAL LIFE AND ANNUITIES

The international life and annuity operations were significantly enhanced in the year with the acquisition of Tremont International Insurance Ltd. in December 2006. This resulted in a doubling of the in-force policies and an increase in assets under management of 50 percent. Since the year-end, this company has been re-named Argus International Life Bermuda Limited. Having actively pursued the international wealth management market for over a decade, this acquisition now positions Argus as a leading offshore insurance provider in this area. We have begun the task of consolidating these operations and remain confident that this division will emerge as a robust and vibrant contributor to the success of the Group in the years ahead.

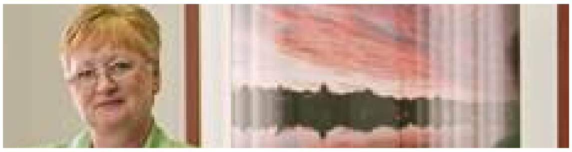
ASSET MANAGEMENT

Following the successful streamlining and rationalisation of assets under administration supporting the Group pension business, Argus Financial Limited has now turned its attention to opportunities in the individual wealth management arena both in Bermuda and overseas. This division has continued to perform in excess of the early expectations of management and is seen as an area for potential growth that we believe will lead to even greater returns in the future.

INFORMATION SYSTEMS

A key component of our success throughout the Group lies in the efficient and timely delivery of information to our clients and staff via computer systems that are reliable and increasingly flexible in this rapidly advancing age of the 'now' society. In order to meet these demands the Group has undertaken several initiatives that will further enhance and streamline the availability of information to allow the Group to keep pace with the ever-changing needs of our clients. The results of these initiatives will be felt in the months and years to come and will allow the Group to grow further as opportunities arise. We are also mindful of the need to control risk in all areas of our businesses and have placed special emphasis recently on all aspects of information systems to ensure the safety, integrity and confidentiality of the data which is so important to the well being of our clients, business partners and shareholders alike.

Andrew Baker's key responsibility is to lead Argus Insurance Company (Europe) Limited through the next stage of its development, introducing new products and identifying new opportunities.



Margaret Atwood is responsible for the standards and procedures governing the operation of our computer systems. Last year she provided oversight for the seamless integration of the systems of our new acquisition.

NEW CORPORATE HEADQUARTERS AND REAL ESTATE

The acquisition of the real estate formerly owned by the Old Colony Club has allowed for the expansion of the new corporate headquarters by approximately 50 percent of useable space whilst only utilising about 10 percent of the land acquired. The building is expected to cost around $33 million and should be ready for occupancy in late 2008. Management and your Board of Directors continue to explore the various options available concerning the land surplus to the immediate needs of the Group.

PERSONNEL AND COMMUNITY

At March 31, 2007 the employee complement in Bermuda was 149 with an additional 21 staff in Gibraltar. We are indeed proud that our staff is loyal and very capable and that Argus is very often seen as an employer of choice for potential new recruits, a position which speaks to our effectiveness in human resource management. That said, as our businesses grow, so does our need to recruit more competent people. In this regard we are pleased to welcome Mrs. Wanda Richardson as Vice President, Organisational Development. She has succeeded Mrs. Nea Dixon, Vice President, Human Resources, who has decided to take early retirement; we wish Nea well and thank her for her contribution.

In April 2007 Mr. John Doherty was promoted to Vice President, Property & Casualty with special responsibility for reinsurance in Bermuda and Gibraltar.

The President's and Vice Presidents' Awards recognise the outstanding contributions of our employees and, as is customary, a picture of this year's recipients is found in this report.

Argus continues to strive to be a good corporate citizen; we actively support and participate in community events to the benefit of all Bermuda. Our corporate donations and sponsorships are directed primarily towards those organisations involved in health, youth development, education, culture, environment and those whose purpose is the relief of suffering and need. In the last year we are proud to have sponsored numerous such worthwhile events including: Argus Open Tennis Tournament, YAO Baseball, Crime Stoppers Walk and Road Race and several junior soccer programmes. We have also adopted two Bermuda parks – the ones with lighthouses in them, naturally!

Finally, we extend our thanks to our employees for their hard work and commitment to the success of the Group, and to our clients and shareholders for their continued loyalty and support.

James A.C. King, *Chairman*

Gerald D.E. Simons, *President & Chief Executive Officer*

June 29, 2007

‘Hurst Holme’ is ‘home’ for two of the recent growth areas of the Argus Group: Argus Financial Limited (“AFL”) and Argus International Life Bermuda Limited. AFL has recently expanded its services to provide a range of investment solutions to private and institutional investors. Argus International Life Bermuda Limited, formerly Tremont International Insurance Ltd., specialises in the issuance of life and annuity contracts for the sophisticated high net worth market.

Lauren Bell, Larry Peck and Henry Perren at Hurst Holme

For the past two years, we have focused on improving the health of our community. We are also helping to improve the health of our environment. This year we officially adopted the two lighthouse parks: Gibb's Hill and St. David's. Working with the Department of Parks and Keep Bermuda Beautiful, we organised two events for Argus employees to volunteer to pick up litter and to plant trees at each park.

David Crowhurst and Andrew Bickham at St. David's Lighthouse Park

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The accompanying consolidated financial statements and other financial information in this Annual Report have been prepared by the Company's management, which is responsible for their integrity, consistency, objectivity and reliability. To fulfill this responsibility, the Company maintains policies, procedures and systems of internal control to ensure that its reporting practices and accounting and administrative procedures are appropriate to provide a high degree of assurance that relevant and reliable financial information is produced and assets are safeguarded. These controls include the careful selection and training of employees, the establishment of well-defined areas of responsibility and accountability for performance, and the communication of policies and code of conduct throughout the Company. In addition, the Company maintains an Internal Auditor who conducts periodic audits of all aspects of the company's operations. The Internal Auditor has full access to the Audit Committee.

These consolidated financial statements have been prepared in conformity with accounting principles generally accepted in Canada, and where appropriate, reflect estimates based on management's judgement. The financial information presented throughout this Annual Report is generally consistent with the information contained in the accompanying consolidated financial statements.

Ernst & Young, the independent chartered accountants appointed by the shareholders, have examined the consolidated financial statements set out on pages 16 through 34 in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the consolidated financial statements. Their report is set out below.

The consolidated financial statements have been further reviewed and approved by the Board of Directors acting through the Audit Committee, which is comprised of directors who are not officers or employees of the Company. The Audit Committee, which meets with the auditors and management to view the activities of each and reports to the Board of Directors, oversees management's responsibilities for the financial reporting and internal control systems. The auditors have full and direct access to the Audit Committee and meet periodically with the committee, both with and without management present, to discuss their audit and related findings.

June 6, 2007

Gerald D. E. Simons
President & Chief Executive Officer

David W. Pugh
Chief Financial Officer & Secretary

AUDITORS' REPORT

To The Shareholders

We have audited the consolidated balance sheet of Argus Group Holdings Limited and subsidiaries as at March 31, 2007 and the statements of consolidated general fund operations, consolidated changes in shareholders' equity and consolidated general fund cash flow for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2007 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young

Hamilton, Bermuda
June 6, 2007

Chartered Accountants

CONSOLIDATED BALANCE SHEET

(In $ thousands)	*Note*	March 31 2007	March 31 2006
GENERAL FUND ASSETS			
Investments	3	437,444	404,004
Cash and short-term investments		11,338	13,074
Interest and dividends receivable		572	2,218
Insurance balances receivable		10,241	11,418
Reinsurers' share of:			
Claims provisions	9	13,280	8,908
Unearned premiums		8,873	6,757
Capital assets	4	37,125	18,419
Intangible assets	5	11,809	2,532
Deferred policy acquisition costs		573	234
Other assets		4,505	3,841
TOTAL GENERAL FUND		535,760	471,405
SEGREGATED FUNDS NET ASSETS	19	1,046,471	966,063
GENERAL FUND LIABILITIES			
Life and annuity policy reserves	8 & 16	123,388	111,713
Deposit administration pension plans		121,820	112,877
Provision for unpaid and unreported claims	9	27,576	24,541
Insurance balances payable		8,297	13,282
Deposit liabilities		8,372	7,608
Unearned premiums		18,126	16,346
Note payable	3	20,000	20,000
Loan payable	10	10,000	-
Deferred net realised gains on bonds and equities		3,256	4,006
Dividends payable		2,664	2,102
Accounts payable and accrued liabilities		13,625	9,495
Non-controlling interest		1,132	821
		358,256	322,791
SHAREHOLDERS' EQUITY			
Share capital	11	15,521	14,146
Contributed surplus		26,189	1,644
General reserve	14	120,000	120,000
Retained earnings		15,460	13,577
Foreign currency translation adjustment		334	(753)
		177,504	148,614
TOTAL GENERAL FUND		535,760	471,405
SEGREGATED FUNDS NET LIABILITIES	19	1,046,471	966,063

On behalf of the Board: James A. C. King, Director
Gerald D. E. Simons, Director

See accompanying notes

CONSOLIDATED STATEMENT OF GENERAL FUND OPERATIONS

(In $ thousands, except per share data)	*Note*	March 31 2007	March 31 2006
REVENUE			
Gross premiums written		132,249	117,021
Reinsurance ceded		(35,042)	(30,480)
Net premiums written		97,207	86,541
Net change in unearned premiums		336	(304)
Net premiums earned		97,543	86,237
Investment income	3	31,689	30,518
Commissions, management fees and other	7	24,582	17,289
		153,814	134,044
EXPENSES			
Claims and adjustment expenses	9	64,716	62,203
Policy benefits		9,994	9,112
Actuarial benefits		6,740	4,604
Commissions		3,079	2,885
Operating expenses		32,118	28,231
Non-controlling interest		240	21
		116,887	107,056
NET EARNINGS FOR THE YEAR		36,927	26,988
Earnings per share	12		
basic		*1.95*	*1.43*
fully diluted		*1.92*	*1.41*

See accompanying notes

ARGUS

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(In $ thousands except share and per share data)	March 31 2007	March 31 2006
SHARE CAPITAL		
Authorised:		
25,000,000 common shares of $1.00 each (2006 – 25,000,000)	25,000	25,000
Issued and fully paid, beginning of year 17,520,161 shares (2006 – 17,488,838 shares)	17,521	17,489
Stock dividend 1,759,708 shares	1,759	-
Cancellation of 377 fractional shares arising from stock dividend (2006 – 332 shares from Group restructure)	-	-
Issue of 139,497 shares from stock options exercised (2006 – 31,655 shares)	139	32
Issued and fully paid, end of year 19,418,989 shares (2006 – 17,520,161 shares)	19,419	17,521
Deduct: Shares held in Treasury,* at cost 388,544 shares (2006 – 352,448 shares)	(3,898)	(3,375)
TOTAL, NET OF SHARES HELD IN TREASURY	15,521	14,146
* The shares held in Treasury are held by Argus Management Services Limited		
CONTRIBUTED SURPLUS		
Balance, beginning of year	1,644	1,292
Stock dividend	23,752	-
Stock options exercised	672	157
Stock-based compensation	121	195
BALANCE, END OF YEAR	26,189	1,644
GENERAL RESERVE		
Balance, beginning of year	120,000	105,000
Transfer from Retained earnings	-	15,000
BALANCE, END OF YEAR	120,000	120,000
RETAINED EARNINGS		
Balance, beginning of year	13,577	9,369
Net earnings for the year	36,927	26,988
Cash dividends	(10,044)	(7,780)
Stock dividend	(25,000)	-
Transfer to General reserve	-	(15,000)
BALANCE, END OF YEAR	15,460	13,577
FOREIGN CURRENCY TRANSLATION ADJUSTMENT	334	(753)
TOTAL SHAREHOLDERS' EQUITY	177,504	148,614

See accompanying notes

CONSOLIDATED GENERAL FUND CASH FLOW STATEMENT

(In $ thousands)	*Note*	March 31 2007	March 31 2006
OPERATING ACTIVITIES			
Net earnings for the year		36,927	26,988
Adjustments to reconcile net earnings to cash basis (Footnote (i) below)		(13,581)	(13,264)
Change in operating balances (Footnote (ii) below)		19,266	10,043
CASH GENERATED FROM OPERATIONS		42,612	23,767
INVESTMENT ACTIVITIES			
Purchase of investments		(233,028)	(318,412)
Sale of investments		217,930	302,180
Net cash paid on acquisition of subsidiary	6	(8,836)	-
Purchase of fixed assets		(20,897)	(4,438)
Non-controlling interest		-	800
Purchase of intangible assets		(850)	-
CASH USED IN INVESTMENT ACTIVITIES		(45,681)	(19,870)
FINANCING ACTIVITIES			
Dividends paid		(9,466)	(7,641)
Share options exercised		811	190
Acquisition of shares held in Treasury		(12)	(1,831)
Proceeds from issuance of loan payable		10,000	-
CASH ACQUIRED/(USED) IN FINANCING ACTIVITIES		1,333	(9,282)
DECREASE IN CASH AND SHORT-TERM INVESTMENTS		(1,736)	(5,385)
CASH AND SHORT-TERM INVESTMENTS, beginning of year		13,074	18,459
CASH AND SHORT-TERM INVESTMENTS, end of year		11,338	13,074
Footnotes			
(i) Adjustments to reconcile net earnings to cash basis:			
Depreciation of capital assets		2,196	2,525
Amortisation of intangible assets		540	364
Compensation expense on vesting of stock options		121	195
Amortisation of net premium discount of bonds		821	1,643
Amortisation of net losses on sale of bonds		-	(10)
Amortisation of net gains on sale and net unrealised appreciation of stocks and other investments		(18,324)	(14,983)
Net gains on sale of stocks and other investments		(333)	(2,424)
Foreign currency translation adjustment		1,087	(595)
Non-controlling interest		311	21
		(13,581)	(13,264)
(ii) Change in operating balances:			
Interest and dividends receivable		1,646	(766)
Insurance balances receivable		1,177	(712)
Reinsurers' share of:			
Claims provisions		(2,823)	14,507
Unearned premiums		(2,116)	(118)
Deferred policy acquisition costs		(339)	(51)
Other assets		(435)	(868)
Life and annuity policy reserves		9,790	6,933
Deposit administration pension plans		8,943	642
Provision for unpaid and unreported claims		3,035	(14,474)
Insurance balances payable		(4,989)	4,053
Deposit liabilities		764	3,096
Unearned premiums		1,780	(1,360)
Deferred net realised gains on bonds and equities		(750)	(2,164)
Dividends payable		562	280
Accounts payable and accrued liabilities		3,021	1,045
		19,266	10,043

See accompanying notes

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2007

1. OPERATIONS

Argus Group Holdings Limited (the "Company") was incorporated with limited liability on May 26, 2005 under the Companies Act 1981. As a result of a reorganisation pursuant to a scheme of arrangement which was approved by the shareholders of Argus Insurance Company Limited on November 24, 2005, Argus Insurance Company Limited became a wholly-owned subsidiary of the Company and the shareholders of Argus Insurance Company Limited became the shareholders of the Company.

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.

2. SIGNIFICANT ACCOUNTING POLICIES

(A) PRINCIPLES OF CONSOLIDATION AND BASIS OF PRESENTATION

These consolidated financial statements have been prepared on the basis of Canadian generally accepted accounting principles since such principles have general application in Bermuda.

The significant accounting policies are:

The consolidated financial statements are stated in Bermuda dollars and include the financial statements of the Company and its subsidiaries. All significant inter-company accounts and transactions have been eliminated. As the reorganisation described above had no impact on the operations and the ultimate ownership of the Group, these consolidated financial statements are presented reflecting the Company as the continuation of Argus Insurance Company Limited and its subsidiaries. Accordingly, these consolidated financial statements include the financial position and results of operations and cash flows of Argus Insurance Company Limited and its subsidiaries as at the dates and for the periods presented.

(B) ASSET VALUATION

(i) Investments:

(a) Bonds are carried at amortised cost and include both accrued interest and short-term cash balances held by investment managers. The amortised cost of bonds is adjusted for amortisation of premiums and accretion of discounts to maturity based on the effective interest rate method. Such amortisation and accretion is included in investment income. Gains and losses arising on sale of bonds are considered to be an adjustment of future portfolio yield and are amortised to income, on the straight-line basis, over the remaining term to maturity of the bonds sold. Interest on bonds is recorded on the accruals basis and is included in investment income.

(b) Stocks and other investments

General Operations:

Stocks and other investments are carried at cost and include short-term cash balances held by, and amounts due from, investment managers. Gains and losses on sale of Stocks and other investments are included in income in the year they are realised. The cost of the securities sold is based on the average cost method.

The Company accounts for its investments in affiliated companies, over which it has significant influence, on the equity basis.

Life Operations:

Stocks and other investments are carried on a moving average market basis whereby the carrying value is adjusted towards market value at 15 percent per annum. Dividends are recorded on the ex-dividend date and included in investment income.

Gains and losses on sale of Stocks and other investments are deferred and amortised to income at 15 percent per annum on the straight-line basis.

(c) Mortgage loans are recorded at their original cost less principal repayments, net of any specific provisions for losses. A mortgage loan is classified as non-performing when, in the opinion of management, there is reasonable doubt as to the timely collectability of the full amount of principal or interest. No interest is taken into income on non-performing mortgage loans.

The allowance for losses on mortgage loans and mortgage loan interest is based on management's assessment of the amount required to meet possible future losses arising on existing mortgage loans. The adequacy of the allowances for losses is continually reviewed by management, taking into consideration matters such as current economic conditions, past experience and individual circumstances which may affect a borrower's future ability to pay. Interest on mortgage loans is recorded on the accruals basis and included in investment income.

(ii) Cash and short-term investments include cash balances and time deposits with maturities of three months or less at the date of purchase. Interest on these balances is recorded on the accruals basis and included in investment income.

(iii) Capital assets are stated at cost less accumulated depreciation. Depreciation is calculated so as to write the assets off evenly over their estimated useful lives at the following rates per annum:

Buildings	2.5%
Computer equipment	20 – 33%
Furniture, equipment and leasehold improvements	10 – 15%

(iv) Intangible assets represent the estimated fair value of the policies and customer lists acquired. Intangible assets are allocated between indefinite and finite life intangible assets. Those with indefinite lives are not amortised whereas those with finite lives are amortised on a straight line basis over their estimated useful lives. Management regularly reviews the remaining portion of intangible assets based upon estimates of future earnings and recognises any permanent impairment in the year in which it is identified.

(C) LIFE AND ANNUITY POLICY RESERVES

(i) Policy actuarial liability reserves are determined by the Group's consulting actuaries and represent the amounts which, together with future premiums and investment income, are required to discharge the obligations under life and annuity contracts and to pay expenses related to the administration of those contracts.

(ii) The policy actuarial liability reserves are determined using (a) generally accepted actuarial practices according to standards established by the Canadian Institute of Actuaries ("CIA"), and (b) accounting recommendations issued by the Canadian Institute of Chartered Accountants ("CICA").

(iii) The CIA and CICA require the use of the Canadian Asset Liability Method ("CALM") for the valuation of actuarial liabilities for all lines of business.

The policy actuarial liability reserves under CALM are calculated by projecting asset and liability cash flows under a variety of interest rate scenarios using best-estimate assumptions, together with margins for adverse deviations with respect to other contingencies pertinent to the valuation. The policy actuarial liability reserves make provision for the expected experience scenario and for adverse deviations in experience.

(D) PROVISION FOR UNPAID AND UNREPORTED CLAIMS

The Provision for unpaid and unreported claims represents the best estimate of the ultimate costs of claims in the course of settlement and claims incurred but not yet reported. The provision is continually reviewed and updated by management and the Group's consulting actuaries. Any adjustments resulting from the review process, as well as differences between estimates and ultimate payments, are reflected in the Consolidated Statement of General Fund Operations in the year in which they are determined.

(E) DEPOSIT ADMINISTRATION PENSION PLANS

Deposit administration pension plans are plans where the Group's liability is linked to contributions received, plus a predetermined and guaranteed return.

(F) INCOME RECOGNITION

(i) General and health premiums written and ceded, are recognised as revenue over the terms of the policies and reinsurance agreements. The reserve for Unearned premiums represents that portion of premiums written and ceded that relates to the unexpired terms of the policies or reinsurance contracts in force. Life and annuity premiums are recognised as income when due.

(ii) Certain policies are subject to agreements providing for the retroactive adjustment of premiums based upon the claims experience of the policyholder. Under these agreements any surplus arising is set off against future deficits or returned to the policyholder. Any deficit that may arise is set off against future surpluses or may be recovered in full, or in part, by lump sum payments from policyholders. As these agreements do not transfer insurance risk, funds received under these agreements are recorded as Deposit liabilities.

(iii) Premiums, benefits paid and underwriting expenses in respect of retrospectively rated policies and Segregated Funds contracts are excluded from the Consolidated Statement of General Fund Operations. The fees earned on these contracts are included in income under Commissions, management fees and other.

(iv) Costs relating to the acquisition of general and health premiums are charged to income over the period of the policy. Acquisition costs are comprised of commissions and those associated with unearned premiums are deferred and are amortised to income over the periods in which the premiums are earned. Policy acquisition costs related to unearned premiums are only deferred to the extent that they can be expected to be recovered from the unearned premiums. If the unearned premiums are insufficient to pay expected claims and expenses, a premium deficiency is recognised by writing down the deferred policy acquisition cost asset.

(v) Commissions, management fees and other are included in income as earned.

(vi) Investment income is described in Note 2 (B) above.

(G) SEGREGATED FUNDS

Segregated Funds are life, annuity and other contracts under which the Group's liabilities are directly linked to the market value of the investments held. As the Group retains no underwriting or investment risk, the assets and liabilities relating to these contracts are not included in the Consolidated Balance Sheet (See Note 19).

(H) TRANSLATION OF FOREIGN CURRENCIES

United States dollars are translated into Bermuda dollars at par. Other foreign currency assets and liabilities are translated into Bermuda dollars at year-end rates of exchange. Income and expenditures are translated at rates of exchange in effect on transaction dates. Translation gains and losses are reflected in current operations. The effects of translating operations of our self-sustaining subsidiaries, with a functional currency other than the Bermuda dollar, are included as a separate component of Shareholders' Equity.

(I) STOCK–BASED COMPENSATION PLAN

Options are granted to key management employees under the Company option plan at exercise prices not less than the fair market value of the Company's common shares on the date the option is granted. Options become exercisable at the rate of 25 percent per year commencing one year after the date of grant and options not exercised lapse ten years after the date of grant. The consideration paid by employees on exercise of share options is credited to Share capital and Contributed surplus. Shares under option and option prices per share

are adjusted for all stock dividends declared subsequent to the date of grant. The Company's accounting policy for stock options is the fair value method. The fair value of these awards is recognised over the applicable vesting period as an increase in compensation expense and Contributed surplus. The fair value of options on the date of grant was determined using the Black–Scholes option pricing model.

(J) POST-RETIREMENT BENEFITS

The Company currently provides medical benefits to eligible retired employees and their spouses. The Company accrues the cost of these employee future benefits over the periods in which the employees earn the benefits. The post-retirement benefit liability is determined by actuarial valuation.

(K) USE OF ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported and disclosed amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ materially from these estimates.

(L) NEW ACCOUNTING PRONOUNCEMENTS

Effective April 1, 2007, the Group will be required to comply with the new provisions of the Canadian Institute of Chartered Accountants ("CICA") Handbook on the accounting for financial instruments. Under the new standards, all financial assets must be classified as 'available for sale', 'held for trading', 'held to maturity', or 'loans and receivables'. All financial instruments classified as 'available for sale' or 'held for trading' are required to be recognised at fair value on the Consolidated Balance Sheet while financial instruments classified as 'held to maturity' and 'loans and receivables' will continue to be measured at amortised cost using the effective interest rate method. Changes in the fair value of financial instruments classified as 'held for trading' will be reported in Net Earnings. Unrealised gains or losses on instruments classified as 'available for sale' will be reported in a new component of Shareholders' equity called 'Other comprehensive income' until they are realised by the Group. As a result of implementing these changes, Investments and total Shareholders' Equity will increase by approximately $85 million on April 1, 2007.

The effect on the components of Shareholders' Equity at April 1, 2007 will be as follows:

(In $ thousands)	$000's
Retained earnings	
At March 31, 2007 brought forward	15,460
Adjusted for:	
Bonds, held for trading	1,568
Stocks and other investments, held for trading	73,473
Retained earnings at April 1, 2007	90,501
Other comprehensive income	
At March 31, 2007 brought forward*	334
Adjusted for:	
Stocks and other investments, available for sale	9,715
Accumulated other comprehensive income at April 1, 2007	10,049

* Represents Foreign currency translation adjustment at March 31, 2007

No change to the Group's method of accounting for mortgages and loans is anticipated.

3. INVESTMENTS

Investments comprise:

(In $ thousands)	2007 Carrying Value	2007 Estimated Fair Value	2006 Carrying Value	2006 Estimated Fair Value
GENERAL OPERATIONS				
Bonds	23,262	23,253	20,297	20,310
Stocks and other investments				
Marketable securities	56,299	72,345	55,307	67,689
Investments in affiliated companies	9,334	9,281	9,057	9,384
Unlisted investments	23,781	23,909	23,624	23,749
	89,414	105,535	87,988	100,822
Mortgage loans	3,780	3,780	3,814	3,814
TOTAL: GENERAL OPERATIONS	116,456	132,568	112,099	124,946
LIFE OPERATIONS				
Bonds	116,518	116,554	113,066	110,792
Stocks and other investments				
Marketable securities	158,429	223,852	135,789	191,591
Unlisted investments	47	47	167	167
	158,476	223,899	135,956	191,758
Mortgage loans	45,994	45,994	42,883	42,883
TOTAL: LIFE OPERATIONS	320,988	386,447	291,905	345,433
TOTAL INVESTMENTS	437,444	519,015	404,004	470,379

(A) BONDS

The amortised cost and estimated fair value of investments in bonds at March 31, 2007, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities in cases where borrowers have the right to call or prepay obligations without prepayment penalties.

(In $ thousands)	Amortised Cost	Estimated Fair Value
Due in one year or less	7,852	7,877
Over 1 year through 5 years	49,598	49,670
Over 5 years through 10 years	66,425	66,306
Over 10 years	15,905	15,954
TOTAL	139,780	139,807
Effective yield	5.8%	5.8%

The bond portfolio is actively managed with the primary intention of increasing the overall yield of the portfolio. The Company has the ability and intent to hold these securities until a market price recovery and does not consider any of the investments to be other-than-temporarily impaired at March 31, 2007.

(B) STOCKS AND OTHER INVESTMENTS

Included in Marketable securities are investments traded on The Bermuda Stock Exchange carried at $110,857,000 with a market value of $165,670,000 (2006 – $89,692,000 and $137,827,000). The fair value of the Unlisted investments is not practical to determine but is, in the opinion of management, no less than their carrying value.

Included in Stocks and other investments is $20,000,000 in the redeemable share capital of an equity investment purchased through the issue of an interest-free promissory note. The note expires in March 2008, at which time the note may be redeemed or the term extended by mutual agreement between the parties.

(C) ACCRUED INTEREST AND SHORT-TERM CASH BALANCES HELD BY INVESTMENT MANAGERS

Included within Bonds and Stocks and other investments are the following short-term accrued interest and cash balances held by investment managers in managed portfolios.

(In $ thousands)	2007	2006
Bonds – accrued interest	1,545	1,539
Bonds – short-term cash balances	963	822
Stocks and other investments – short-term cash balances	1,395	573

(D) MORTGAGE LOANS

Mortgage loans are repayable in monthly or periodic installments over periods not exceeding 20 years and all mortgages are generally callable on 90 days' notice.

Mortgage loans with principal and accrued interest amounting to $942,000 (2006 – $861,000) are considered by management to be non-performing.

The allowance for losses on mortgage loans amounted to $200,000 at March 31, 2007 (2006 – $200,000) and is deducted from mortgage loans in the Consolidated Balance Sheet. No further provision against the non-performing mortgages is considered necessary, as the underlying security held by the Group is sufficient to settle the mortgage balances and any accrued interest in full.

(E) CREDIT RISK

Credit risk is the risk that a borrower will fail to fully honour its obligations to the Group. The Group manages its exposure to credit risk through an emphasis on the quality of its investments and their diversification by issuer, industry and geographical area.

(F) INVESTMENT RETURN RISK

Investment return risk relates to potential losses arising from asset returns insufficient to support product liabilities. The uncertainty related to returns achievable, on both fixed income and non-fixed income investments to be made in the future as recurring premiums are received, and the impact of mismatches between the timing and amount of current assets and the liabilities they support, are the principal components of investment return risk within the Company's General Fund.

ARGUS

(G) INVESTMENT INCOME

(In $ thousands)	2007	2006
Bonds	8,141	8,131
Stocks and other investments	24,671	22,109
Income from affiliates	598	631
Mortgage loans	4,316	4,130
Cash and time deposits	699	607
	38,425	35,608
Deduct: Investment income relating to		
Deposit administration pension plans	(6,736)	(5,090)
GROUP INVESTMENT INCOME	31,689	30,518

4. CAPITAL ASSETS

(In $ thousands)	Cost	Accumulated Depreciation	Net Book Value 2007	Net Book Value 2006
Land and buildings	34,613	4,390	30,223	10,865
Computer equipment	14,873	9,999	4,874	5,453
Other	6,478	4,450	2,028	2,101
TOTAL	55,964	18,839	37,125	18,419

Capital assets include costs of $15,625,000 (2006 – $1,594,000) relating to the construction of the new corporate headquarters. These costs are not being amortised until construction is complete. At March, 2006, land and buildings with a net book value of $9,582,000 were appraised by valuers at $20,794,000 on the basis of their estimated open market value for existing use.

5. INTANGIBLE ASSETS

(In $ thousands)	Cost	Accumulated Amortisation	Net Book Value 2007	Net Book Value 2006
Arising from:				
Continuing businesses	17,076	5,473	11,603	2,207
Run-off business	1,190	984	206	325
TOTAL	18,266	6,457	11,809	2,532

Continuing business represents the accumulated cost of customer lists and policies acquired. An amortisation charge of $540,000 (2006 – $364,000) was recognised during the year and is included in Operating expenses. See note 6.

6. ACQUISITION

Effective December 1, 2006, the Group acquired the entire share capital of Tremont International Insurance Ltd. (“TIIL”) from the Tremont Group. TIIL offers variable annuities and variable life insurance policies with a focus on hedge fund strategies. This company was formed originally in the Cayman Islands and has subsequently been redomiciled by continuance into Bermuda and changed its name to Argus International Life Bermuda Limited.

This acquisition has been accounted for using the purchase method, and the operating results since the date of purchase are included in the Consolidated Statement of General Fund Operations.

The fair values of assets acquired and liabilities assumed were as follows:

(In $ thousands)	
ASSETS	
Investments	506
Cash	632
Reinsurers’ share of claims provisions	1,549
Capital assets	5
Intangible assets	8,968
Other assets	229
TOTAL ASSETS ACQUIRED	11,889
LIABILITIES	
Life and annuity policy reserves	1,885
Insurance balances payable	4
Accounts payable and accrued liabilities	532
TOTAL LIABILITIES ASSUMED	2,421
NET ASSETS ACQUIRED	9,468
TOTAL PURCHASE CONSIDERATION IN CASH, LESS CASH ACQUIRED	8,836

The purchase consideration is subject to certain adjustments at the end of the calendar years 2007 and 2008 dependent upon the persistency and value of the policies assumed upon acquisition. The maximum further consideration payable will not exceed $4.25 million. All further consideration payable will be treated as an addition to Intangible assets as and when it becomes due.

7. COMMISSIONS, MANAGEMENT FEES AND OTHER

Included in Commissions, management fees and other are the fees taken under certain contracts of reinsurance and retrocession where the risk is restricted to counter-party risk and such risk is considered remote. Premiums written and ceded under these contracts in the year totalled $155 million (2006 – $42 million).

8. LIFE AND ANNUITY POLICY RESERVES

Life and annuity policy reserves represent the amount required, together with estimates of future premiums and investment income, to provide for estimated future benefits to policyholders and administration expenses under insurance and annuity contracts. These liabilities are determined in accordance with the standards established by the Canadian Institute of Actuaries.

The Group's financial position may be affected by its investment return risk. If the assets supporting the liabilities do not match the timing and amount of the policy liabilities, investment losses or gains may occur due to future changes in investment returns. To manage and mitigate investment return risk, the Group follows asset and liability management procedures for each business unit.

The actuarial liabilities are as follows:

(In $ thousands)	2007	2006
Annuities	90,220	83,991
Health and accident	5,294	5,388
Life	23,961	18,810
Other benefits	3,913	3,524
TOTAL LIFE AND ANNUITY POLICY RESERVES	123,388	111,713
The changes in the actuarial liabilities are as follows:		
Balance, beginning of year	111,713	104,780
Normal changes	10,303	3,494
Interest rate assumptions	702	(786)
Mortality assumptions	-	4,225
Expense assumptions	614	-
Other	56	-
BALANCE, END OF YEAR	123,388	111,713

9. PROVISION FOR UNPAID AND UNREPORTED CLAIMS

The reconciliation of the provision for unpaid and unreported claims is as follows:

(In $ thousands)	2007	2006
Gross provision, beginning of year	24,541	39,128
Reinsurers' share, beginning of year	(8,908)	(23,415)
Net provision, beginning of year	15,633	15,713
Net claims and adjustment expenses incurred	64,716	62,203
Net claims and adjustment expenses paid	(66,053)	(62,283)
	(1,337)	(80)
NET PROVISION, END OF YEAR	14,296	15,633
Represented by:		
Gross provision, end of year	27,576	24,541
Reinsurers' share, end of year	(13,280)	(8,908)
NET PROVISION, END OF YEAR	14,296	15,633

10. LOAN PAYABLE

Trott Property Limited, a wholly-owned subsidiary (the "Borrower"), obtained a two-year $10 million loan with the Bank of N.T. Butterfield & Son Limited which is repayable in full in January 2009. The loan is secured upon real estate owned by the Borrower and co-collateralised by a guarantee from the Company. Interest is charged at the bank's base rate plus one percent per annum which equated to an effective rate of 6.25 percent in the year.

11. SHARE CAPITAL

As part of the Group reorganisation in November 2005, described in Note 1 above, the par value of the share capital of the Company was converted to $1.00 per share from the $2.40 per share in Argus Insurance Company Limited ("AIC"). Accordingly, the shareholders of AIC received 2.4 shares in the Company for every share of AIC. All figures have been restated to reflect the conversion of $2.40 par value shares in AIC to $1.00 par value shares in the Company.

On September 28, 2006, the Company declared a stock dividend to shareholders of record whereby they received one common share for each ten shares held. The dividend resulted in the issuance of 1,759,708 shares on October 5, 2006 and the payment of cash of $5,000 to those shareholders entitled to fractional shares.

12. EARNINGS PER SHARE

Basic earnings per share presented in the Consolidated Statement of General Fund Operations is calculated by dividing net income by the weighted average number of shares in issue during the year.

For the purposes of calculating fully diluted earnings per share, the weighted average number of shares in issue has been adjusted to reflect the additional shares that would have resulted had all stock options outstanding been exercised and in issue throughout the year.

(In $ thousands)	2007	2006
Net Earnings for the year	36,927	26,988
Weighted average outstanding common shares	18,935	18,920
Dilutive effect of outstanding options using the treasury stock method	339	222
COMMON SHARES AND COMMON SHARE EQUIVALENTS	19,274	19,142

13. STOCK–BASED COMPENSATION

(i) The following table summarises the activity under the Company's stock option plan for the year ended March 31, 2007:

	2007		2006	
	Total number of shares under option	Weighted average exercise price	Total number of shares under option	Weighted average exercise price
Outstanding, at the beginning of year	542,317	$7.91	483,672	$7.22
Changes during the year:				
Granted	92,220	$14.25	90,300	$10.94
Exercised	(139,497)	$5.81	(31,655)	$6.04
Forfeited	(5,438)	$9.05	-	-
Stock dividend	55,761	-	-	-
Outstanding, end of year	545,363	$8.69	542,317	$7.91
Exercisable, end of year	304,278	$6.95	324,846	$6.48

At March 31, 2007, there were 332,666 shares (2006 – 389,700 shares) available for grant. The weighted average remaining contractual life of options outstanding is 6.43 years (2006 – 5.85 years). The range of fair values of options outstanding is $0.85 to $2.72. The total compensation expense recognised in the current year was $121,000 (2006 – $195,000) and has been included in Operating expenses.

(ii) Characteristics as at March 31, 2007 of options:

Fiscal year	Exercise Price	Outstanding Number of shares	Exercisable Number of shares	Weighted Average Contractual Life Remaining
1998	$4.84	6,982	6,982	0.01
1999	$4.84	26,529	26,529	0.10
2000	$4.84	44,450	44,450	0.24
2001	$5.63	49,658	49,658	0.36
2003	$7.92	67,228	67,228	0.65
2004	$6.54	67,293	46,446	0.78
2005	$9.84	89,958	41,613	1.19
2006	$9.94	91,823	21,372	1.38
2007	$12.95	101,442	-	1.72
	$8.69	545,363	304,278	6.43

The fair value of stock options granted in the year ended March 31, 2007 was $2.72 per share, using the Black-Scholes option pricing model using the following assumptions:

Expected dividend yield	3.5%
Risk free interest rate	4.3%
Expected historical volatility	20%
Expected life	10 years

14. GENERAL RESERVE

The General reserve within Shareholders' Equity represents retained earnings of the Group that the Directors do not consider available for distribution.

15. PENSION PLAN

The Company maintains a defined contribution pension plan covering all full-time employees. For the year ended March 31, 2007, the net pension cost recorded in operating expenses was $685,000 (2006 – $567,000).

16. POST-RETIREMENT MEDICAL BENEFITS

Post-retirement medical benefits are included in Life and annuity policy reserves and are summarised as follows:

(In $ thousands)	2007	2006
Accrued benefit liability, beginning of year	3,427	2,859
Current service cost	366	250
Interest cost	223	186
Plan amendments and net actuarial loss	(27)	200
Benefits paid	(76)	(68)
ACCRUED BENEFIT LIABILITY, END OF YEAR	3,913	3,427

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

(i) Current service cost represents benefits earned in the current year. These are determined with reference to the current workforce and the amount of benefits to which they will be entitled upon retirement, based on the provisions of the Company's benefit plan.

(ii) Interest cost on the benefit liability represents the increase in the liability that results from the passage of time.

(iii) Actuarial gains or losses may arise in two ways. Each year 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. Actuarial gains and losses arise when there are differences between expected and actual returns on plan assets.

All post-retirement medical benefits are fully funded by the General Fund assets of the Company.

The significant actuarial assumptions in measuring the Company's accrued benefit liability are as follows:

	2007	2006
Discount rate	7%	7%
Expected long-term rate of return on plan assets	9%	10%

The assumed healthcare cost trend rate is currently estimated at 9.4 percent (2006 – 10 percent) per annum, and the annual employee turnover rate is 9 percent (2006 – 9 percent) per annum.
Healthcare cost calculations are based on trend rate assumptions which may differ from actual results. Changes in trend rate assumptions by one percent in either direction will change the healthcare cost as follows:

(In $ thousands)	Increase	Decrease
Aggregate of current service cost and interest cost	27	(24)
Accrued benefit liability	231	(201)

17. 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, accident, life and long-term disability and employer's indemnity coverage.
(ii) Life and Pensions – including individual life insurance 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 four operating segments of the Group comprising two management companies, two property holding companies, a financial reinsurance company and an investment management services company.

(In $ thousands)		Insured Employee Benefits	Life and Pensions	Property and Casualty	All Other	Total per Financial Statements
Segment revenue	**2007**	**76,629**	**45,509**	**28,220**	**3,456**	**153,814**
	2006	69,338	36,023	28,332	351	134,044
Depreciation of capital assets	**2007**	**1,016**	**662**	**1,013**	**45**	**2,736**
	2006	827	433	1,085	544	2,889
Segment earnings	**2007**	**9,510**	**21,859**	**5,324**	**234**	**36,927**
	2006	6,730	15,766	4,870	(378)	26,988
Segment assets	**2007**	**42,360**	**339,897**	**136,009**	**17,494**	**535,760**
	2006	57,282	307,460	101,830	4,833	471,405
Capital expenditure	**2007**	**545**	**10,039**	**419**	**19,717**	**30,720**
	2006	1,260	505	1,019	1,654	4,438

Notes (a) Intersegment income has been omitted as immaterial
(b) The accounting policies of the segments are as set out in Note 2
(c) Capital assets and Capital expenditure includes Intangible assets

18. UNDERWRITING AND REINSURANCE POLICY

The Group follows the policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of each group company on any one claim. In addition, reinsurance is purchased which limits liability both in the aggregate and in the event of multiple claims arising out of a single occurrence. In the event that a claim made against any of the Group's reinsurers is not recoverable due to the insolvency of the reinsurer, or otherwise, the group company not thus able to recover would be liable for the uncollectable amount. The Group constantly monitors the credit worthiness of the reinsurance companies to which it cedes.

19. SEGREGATED FUNDS AND SEPARATE ACCOUNTS

Assets and liabilities pertaining to certain contracts entered into by the Group's insurance companies are not included in the Consolidated Balance Sheet for the reasons set out in Note 2 (G). At March 31, 2007, these contracts comprised life policies and annuity and other contracts whereby the contract benefits are related directly to the market value of the investments held. These contracts include policies issued by Bermuda Life Insurance Company Limited for which reserves and assets have been allocated to Separate Accounts as authorised by the Bermuda Life Insurance Company (Separate Accounts) Consolidation and Amendment Act 1998.

Changes to Segregated Funds and a summary of the investments held therein are summarised below:

Consolidated Statement of Changes in Segregated Funds

(In $ thousands)	2007	2006
Additions to Segregated Funds		
Premiums, contributions and transfers	89,223	123,019
Net investment income	2,253	2,863
Net increase in fair value of investments	78,706	112,510
	170,182	238,392
Deductions from Segregated Funds		
Withdrawals, benefit payments and transfers to the General Fund	81,089	52,765
Operating expenses	8,685	8,267
	89,774	61,032
Net Additions to Segregated Funds for the year	80,408	177,360
Segregated Funds, beginning of year	966,063	788,703
Segregated Funds, end of year	1,046,471	966,063
Consisting of:		
Bonds	40,011	55,685
Stocks and other investments	935,401	842,914
Policy loans	48,618	46,814
Cash and short-term investments	22,515	20,778
Accounts payable and other liabilities	(74)	(128)
TOTAL SEGREGATED FUNDS NET ASSETS	1,046,471	966,063

Composition of segregated funds net assets

(In $ thousands)	2007	2006
Held by policyholders	1,021,057	938,994
Held by Company	25,414	27,069
TOTAL SEGREGATED FUNDS NET ASSETS	1,046,471	966,063

20. FINANCIAL INSTRUMENTS

Fair value disclosures with respect to certain financial instruments are included separately herein where appropriate. For other financial instruments including Cash and short-term investments, Interest and dividends receivable, Insurance balances receivable and payable, Other assets and Accounts payable and accrued liabilities, the carrying values approximate fair value due to the short-term nature of the balances.

21. DIRECTORS' AND OFFICERS' SHARE INTERESTS AND SERVICE CONTRACTS

The total interests of all Directors and Officers of the Company in the shares of the Company at March 31, 2007 was 3,929,466 shares.

With the exception of the employment contract with the President & Chief Executive Officer, Mr. G. D. E. Simons, there are no service contracts with the Directors.

22. STATUTORY REQUIREMENTS

The Bermuda Insurance Act 1978 and Related Regulations (the "Act") requires the Group's insurance subsidiaries to meet minimum solvency margins. Combined statutory capital and surplus for those companies as at March 31, 2007, was $226,200,000 (2006 – $197,400,000) and the amounts required to be maintained by those companies was $18,350,000 (2006 – $13,000,000). In addition, minimum liquidity ratios must be maintained whereby relevant assets, as defined by the Act, must exceed 75 percent of relevant liabilities.

Each one of the Group's insurance companies meets all requirements of the Act and there are no restrictions on the distribution of Retained earnings or General reserves.

23. COMMITMENTS AND CONTINGENCIES

(a) Capital Commitments and Finance

The Company has committed and contracted for $33 million of capital expenditure on the new corporate headquarters. See note 4.

Subsequent to the year-end, in order to finance this development the Group has arranged mortgage finance of $30 million with the Bank of N.T. Butterfield & Son Limited. The loan is drawable over two years and repayable over 15 years once fully drawn. Interest will be charged at the bank's base rate plus 1.25 percent per annum.

(b) Lease Obligations

The following table summarises the Group's annual commitments under operating leases over the forthcoming five years:

(In $ thousands)	
2008	843
2009	804
2010	764
2011	764
2012	764

(c) Contingent Liabilities

(i) The Company has a 34 percent interest in a company that built an office building in Hamilton, Bermuda. The Company has issued a guarantee in respect of its proportionate share of a term bank loan facility totalling $14 million for this new office building.

(ii) The Group is contingently liable with respect to litigation and claims that arise in the normal course of business.

24. COMPARATIVE FIGURES

Certain of the 2006 comparative figures have been reclassified to conform to the presentation adopted for 2007.

DIRECTORS OF PRINCIPAL OPERATING SUBSIDIARIES

ARGUS INSURANCE COMPANY LIMITED

Sheila E. Nicoll
Chairman

W. Roger Davidson
Deputy Chairman

David J. Crowhurst

Brian C.E. Foster

Reginald S. Minors

David W. Pugh

Gerald D.E. Simons

BERMUDA LIFE INSURANCE COMPANY LIMITED

John D. Campbell
Chairman

Robert D. Steinhoff
Deputy Chairman

Lauren M. Bell

David C. Carruthers

C. Joy Pimental

David W. Pugh

Kathryn R. Siggins

Gerald D.E. Simons

Alan R. Thomson

SOMERS ISLES INSURANCE COMPANY LIMITED

James A.C. King
Chairman

David P. Gutteridge
Deputy Chairman

Cindy F. Campbell

John D. Pereira

C. Joy Pimental

David W. Pugh

Gerald D.E. Simons

CENTURION INSURANCE SERVICES LIMITED

Sheila E. Nicoll
Chairman

Christopher P. Trott
Deputy Chairman

Andrew H. Bickham

David J. Crowhurst

W. Roger Davidson

Brian C.E. Foster

Reginald S. Minors

David W. Pugh

Gerald D.E. Simons

ARGUS INTERNATIONAL LIFE BERMUDA LIMITED

(Formerly Tremont International Insurance Ltd.)

John D. Campbell
Chairman

Robert D. Steinhoff
Deputy Chairman

Lauren M. Bell

Larry A. Peck

David W. Pugh

Gerald D.E. Simons

Alan R. Thomson

ARGUS FINANCIAL LIMITED

Gerald D. E. Simons
Chairman

Geoffrey Matus
Deputy Chairman

James M. Keyes

David W. Pugh

Craig Rimer

E. John Sainsbury

ARGUS INSURANCE COMPANY (EUROPE) LIMITED, Gibraltar

James A.C. King
Chairman

David P. Gutteridge
Deputy Chairman

Robert Anderson

Andrew I. Baker

Andrew H. Bickham

David J. Crowhurst

Gerald D.E. Simons

BERMUDA LIFE WORLDWIDE LIMITED

John D. Campbell
Chairman

Robert D. Steinhoff
Deputy Chairman

Lauren M. Bell

C. Joy Pimental

David W. Pugh

Gerald D.E. Simons

Alan R. Thomson

ANNUAL PRESIDENT'S AND VICE PRESIDENTS' AWARDS

PRESIDENT'S AWARD RECIPIENTS

LEFT TO RIGHT: Jeanette Makad, *Leadership Award*; Gerald Simons *(President & Chief Executive Officer)*; Gwyneth Rawlins, *Performance Excellence Award*

VICE PRESIDENTS' AWARD RECIPIENTS

LEFT TO RIGHT: Catherine Burns, *Leadership*; Maria Batista, *Performance Excellence*; Uel Armstrong, *Performance Excellence*; Terri Watson, *Performance Excellence*; Gerald Simons *(President & Chief Executive Officer)*; Shirlene Roberts, *Performance Excellence*; John Doherty, *Leadership*

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