ARGUS

Insurance • Pensions • Investments

2006 ANNUAL REPORT

As a truly Bermudian company, Argus works to provide a better future for its customers and all who live in Bermuda. As we expand and grow, we strive to maintain our deep roots in Bermuda. The theme of this report shows how Argus is very much like the local flora and fauna – uniquely Bermudian. We are the largest single shareholder of domestic companies quoted on The Bermuda Stock Exchange. Our company in Gibraltar, in truly Bermudian fashion, enables us to act on a larger stage. In the past year we launched several initiatives which will improve the lives of our clients, staff and the public at large. Our new wellness programme tackles the issue of healthy lifestyles head on, and new individual health insurance and pension products provide flexible ways to meet long-standing needs.

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

Argus President & Chief Executive Officer, Gerald Simons planting a Bermuda cedar tree at Admiralty House Park as part of a recent tree planting project.

The Argus Group

(Argus Group Holdings Limited and its subsidiaries)

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

BERMUDA LIFE INSURANCE COMPANY LIMITED
Pensions, Group Life and Long Term Disability Insurance,
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

CENTURION INSURANCE SERVICES LIMITED
Insurance Agent and Licenced Broker

DATA COMMUNICATIONS LIMITED
Information Systems

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

ARGUS PROPERTY LIMITED & TROTT PROPERTY LIMITED
Property Holding Companies

NORWICH UNION INTERNATIONAL INSURANCE LIMITED, *Gibraltar*
Home and Commercial Property,
Contractors' All Risks, Liability, Marine and Motor

WESTMED INSURANCE SERVICES LIMITED, *Gibraltar*
Insurance Brokerage and Agency

Argus Group Holdings Limited is a public company, its shares trading on The Bermuda Stock Exchange. At March 31, 2006 it had 1,060 shareholders; 90.1% of whom were Bermudian, holding 83.3% of the issued shares.

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

COMMITTEES OF THE BOARD

- Nominations and Governance Committee
- Compensation Committee
- Audit Committee

Brian C.E. Foster   Sheena M. Smith   Gerald D. E. Simons   C. Joy Pimental   David W. Pugh   Andrew H. Bickham

Group Management

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

Robert Anderson, ACII
Executive Vice President
Property & Casualty

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

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

Nea L. Dixon
Vice President
Human Resources

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

Alexander C. Guthrie
Chief Executive
Norwich Union International Insurance Limited

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

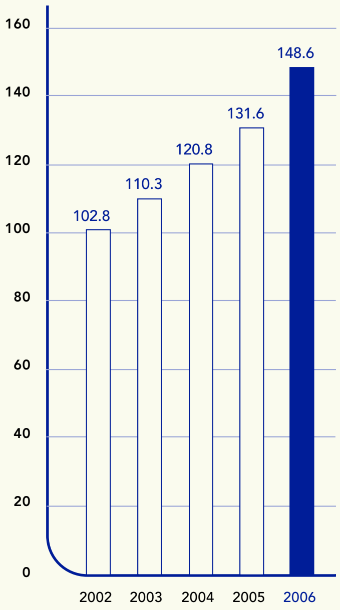
David W. Pugh, FCA
Chief Financial Officer
& Secretary

Sheena M. Smith, CPA
Vice President
Finance

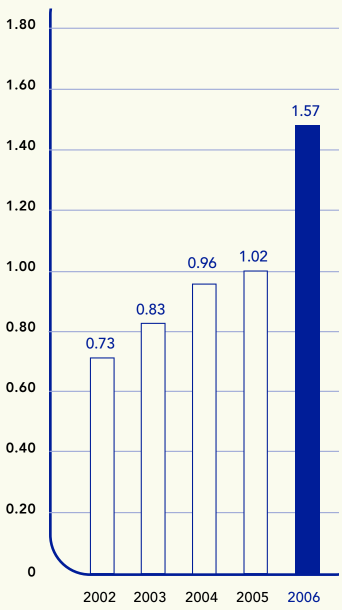
Alexander C. Guthrie | Cindy F. Campbell | Nea L. Dixon | Lauren M. Bell | Margaret Atwood | Robert Anderson

Financial Highlights

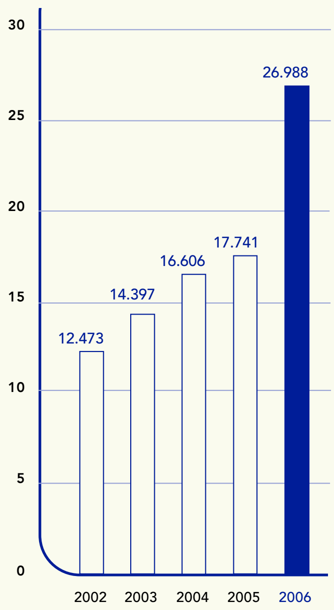
SHAREHOLDERS' EQUITY
Millions of Dollars



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)

	2006	2005	2004	2003	2002
For the Year					
Total revenue	**134,044**	105,232	95,083	83,079	109,562
Earnings for the year	**26,988**	17,741	16,606	14,397	12,473
Cash dividends	**7,780**	7,057	6,218	5,823	5,629
At Year End					
Total General Fund Assets	**470,489**	455,041	358,521	303,548	285,461
Shareholders' Equity	**148,614**	131,590	120,814	110,252	102,801
Financial Ratios					
Earnings per share – fully diluted	**$1.55**	$1.00	$0.95	$0.82	$0.71
Return on average Shareholders' Equity	**19.26%**	14.06%	14.37%	13.51%	12.53%
Cash and stock dividend payout ratio	**28.82%**	39.78%	37.44%	40.45%	45.13%
Shareholder Data					
Shares in issue	**17,520,161**	17,488,838	17,379,055	15,765,967	15,918,310
Book value per share	**$8.48**	$7.52	$6.95	$6.99	$6.47
Number of Employees	**166**	154	130	127	123

Report to Shareholders

The year ended March 31, 2006, was one of restructuring, consolidation and continued growth for all operating areas of the Argus Group ("the Group"). In this vein we are pleased to present to you the first Annual Report of Argus Group Holdings Limited ("the Company").

The Company was created to acquire all of the companies comprising the Group from the former holding company, Argus Insurance Company Limited, under a group reorganisation approved by shareholders at a Special General Meeting in November 2005. This reorganisation had no impact upon the underlying net assets, business or ultimate ownership of the Group and, accordingly, this entire report portrays the Company as the continuation of Argus Insurance Company Limited and its subsidiaries.

Satisfactory results experienced by almost all of our insurance operations, together with significantly enhanced investment returns, have combined to produce record earnings for the Group for the year ended March 31, 2006.

FINANCIAL RESULTS

Net earnings were $27 million for the year ended March 31, 2006, a 52% increase over the results for the previous year, and provided a 20.5% return on opening shareholders' equity. This is primarily due to the strong performance of the Group's investments in general, and its local equity investments in particular.

Total General Fund Assets increased to $470 million from $455 million, whilst assets in our separate account funds grew to $966 million. Overall the Group now has assets of $1.4 billion under its administration. Shareholders' equity at year-end rose to $148.6 million.

Currently, Generally Accepted Accounting Principles followed in Canada, which have general application to Bermuda, allow us to recognise, annually, 15% of the unrealised gains on equities held in our life subsidiaries. This policy applies to Bermuda Life's significant investment in equities quoted on The Bermuda Stock Exchange.

Effective April 1, 2007, this moving average market method will no longer apply and all of our investments will be recorded at market value. Thus, unrealised gains, which in our life operations at March 31, 2006 totalled $55.8 million, will be shown as an adjustment to shareholders' equity and only recognised in income upon disposal or prior impairment.

This change in accounting policy will not alter the underlying value of your Company, but only the manner in which it is reported.

Gross premiums written increased by $26.8 million, or 30%, to $117 million compared to 2005. This is largely due to the inclusion, for the first time, of a full year's income on our two property and casualty acquisitions made on January 1, 2005. The remainder reflects our continuing efforts to achieve our targeted underwriting ratios on all business lines by appropriate adjustments to premiums.

Once again, it was our investment portfolios that provided the bulk of the Group's consolidated earnings. Investment income increased

Ubiquitous Like The Bermudiana, Our New Website Allows Easy Access To Information From Anywhere In The World.

More and more Bermudians are traveling worldwide every year. At Argus our customers know that we are available wherever they go. With a click of a mouse, customers can visit our new website and gain information on overseas health insurance benefits, identify hospitals and physicians in our network or simply check a pension balance or the due date of a home insurance policy.

by 55% to $30.5 million – almost two thirds of which is attributable to our portfolio of Bermuda equities. Overseas investments also contributed and yielded more acceptable returns as equity markets worldwide and rates on fixed interest securities improved in the year.

Commissions, fees and other income rose by 13%, as the increased fees earned in our pensions division were partially offset by the loss of commissions previously enjoyed in property and casualty as the Bermuda-based agency business moved in-house following its acquisition late last year.

Claims and adjustment expenses increased 20% over last year.

Operating expenses increased by 36% in the year as a result of absorbing the cost of a full year of our Gibraltar subsidiary, and the expansion of local operations especially in our investment management and international life insurance divisions. The Group's operating expenses, expressed as a percentage of total revenue, saw a year on year increase of 1.4% to 21% from 19.6%.

At the beginning of the year the Company's share price, adjusted for the conversion to $1.00 par value from the original $2.40 par value, was $10.63 rising to $14.50 at year-end, representing a 36.4% uplift in value. Dividends were increased from 10 cents to 12 cents per quarter, an increase of 20%.

A.M. Best reaffirmed the rating of "A" (Excellent) for each of the Group's insurance subsidiaries in Bermuda. This is the highest rating enjoyed by any of the Bermuda-owned insurance companies.

PROPERTY AND CASUALTY

The past year was a challenging but successful one for the Group's property and casualty business. We completed the integration of the Centurion business and have been working ever more closely with our new colleagues in Gibraltar and Malta. These acquisitions both made satisfactory contributions to our overall results.

We have received approval from the European Union for the re-naming of the Gibraltar based company to Argus Insurance Company (Europe) Limited, and the necessary re-branding work has now begun.

The profitability of the Bermuda-based book of business continued to improve overall through refinements in our selection and rating of the portfolios. We continue our development of more detailed information systems that form an essential part of this process. Most classes of business had a successful year, notably fire and related business, in the absence of severe storms. Bermuda escaped any direct hits or near misses in last year's particularly active season of Atlantic storms. Although we hope to have a similar experience this year, we all can, and should, take suitable precautionary action to mitigate the effects of those storms that do hit us.

Unfortunately, the overall motor account is still not producing a satisfactory return. We continue our efforts to bring about the much needed and permanent reduction of claims costs emanating from the use of motor vehicles on our small island. We have taken steps to reduce our exposure to motorcycle claims by reverting to our former strategy of only insuring motorcycles for our existing property and casualty clients. We believe that this change will assist in the restoration of profitability in the motor account. In addition, cycle theft has been made a more risky pastime as a result of the Datatag initiative, launched in conjunction with the Bermuda Police Service and the other Bermuda motor insurers. This new security system involves the installation of micro chips/dots on new cycles which enables the identification of many of the resultant stolen parts.

Motor claims costs continue to escalate with an ever-increasing number of "accidents", most of which could be avoided through the exercise of a combination of basic courtesy and plain common sense. Excessive speed is a continuing worry on our narrow roads where greater numbers and larger vehicles compete for limited space. Similarly there seems to be an increasing "fashion" amongst some motorcyclists for not fastening crash helmets and driving with only one hand. Alarmingly, the use of hand-held cell phones whilst driving vehicles of all kinds appears to be on the rise. Such actions will not help to avoid or reduce the cost in financial and human terms from the resulting "accidents".

Of similar concern is the number of single vehicle crashes occurring during the hours of darkness. It is surprising how many drivers simply "lose control" whilst driving on uncongested roads. Excessive speed, insufficient sleep, lack of attention or some other cause may be to blame, but most events are avoidable with the exercise of common sense.

Despite the publicity, road deaths and serious injuries are all too frequent events on our beautiful island. As insurers we suffer the financial loss as a result but the community and the families involved must bear the even greater personal losses. We continue to seek ways in which an overall improvement may be achieved.

GROUP INSURANCE

The results of the health insurance division were very much in line with expectations. The low claims volumes of the prior year returned to more normal levels and we continue to experience pressures from rising costs and increased utilisation of healthcare services. We anticipate that claims will rise by over ten percent in the coming year, well above the level of inflation.

We continue to manage claims proactively through the impressive performance of our overseas network, especially in the area of neonatal care. As a result of this and other initiatives, premium increases effective May 1, 2006 were the lowest in several years.

Over the last year Argus has become synonymous with wellness and its promotion in Bermuda. Argus partnered with the Bermuda Hospitals Board and the Department of Health at the second annual Argus Health Fair in April 2006. Information on a wide variety of health-related topics covering all age groups was available, and free health screenings of cholesterol,

JUST AS OUR FOUNDING FATHERS KNEW THAT HOMES IN BERMUDA SHOULD BE BUILT ON A FOUNDATION OF SOLID LIMESTONE, ARGUS KNOWS THAT A SOUND FINANCIAL BASE IS KEY TO A SUCCESSFUL BERMUDA.

Investing in Bermuda is a top priority for Argus. We are committed to building a strong local economy to help to secure a thriving future for all Bermudians. That is why we support major projects and are a significant shareholder in many publicly traded companies in Bermuda.

blood sugar and blood pressure, to name a few, were conducted. We built on the success of last year's fair as the attendance increased by over fifty percent with more than 2,000 children, adults and seniors participating.

The Argus Wellness Programme was officially launched in June 2005, and currently a quarter of our insured population is in a health plan whose sponsor is actively promoting wellness. We intend to increase this percentage substantially in the coming year. It is our belief that we can assist our clients to adopt a corporate "culture of wellness" which will, over time, significantly change health patterns for the better. Through group support, interesting health challenges and educational materials, we aim to encourage everyone to pursue healthy lifestyles. To date, the feedback from participants in the Argus Wellness Programme has been overwhelmingly positive.

Our group life and long term disability products continue to provide satisfactory results.

PENSIONS AND INDIVIDUAL LIFE

The year 2006 was one of growth and development in the pensions division. Pension assets grew by 20% as a result of both investment performance and transfers to Argus of plans formerly administered by other pension providers. Our reputation as the pension administrator of choice is firmly established and has led to a satisfactory flow of new business.

In October 2005, new multi-manager funds were introduced for the investment of pension contributions as a result of the establishment of Argus Financial Limited in July 2005. This new subsidiary actively manages the underlying investments to meet the objectives of the funds that range from Guaranteed (No Risk) to Aggressive (100% Equities). We are very pleased with the performance of the new funds that have been designed to accommodate a broad range of individual risk profiles. The new funds have been very well received by plan members.

In November 2005, we received approval of our prescribed retirement product from the Pension Commission. This product, branded as our Individual Retirement Plan, is available to employees who are terminating or retiring from a registered pension plan.

The division achieved its target returns and we expect favourable results in the future in spite of the ever-increasing expenses associated with maintaining a high level of service to our clients.

We continue to offer customised individual life and investment plans and we are exploring opportunities to develop these products further.

INTERNATIONAL LIFE

The international life operations were boosted in the year by the recruitment of additional specialist staff and the implementation of new computer systems. We remain confident that this division will develop into an exciting growth area for the Group with several initiatives expected to reach fruition in the forthcoming year.

ASSET MANAGEMENT

Argus Financial Limited ("AFL") was incorporated during the year as a fully-licensed investment management company. AFL is a joint venture with Cidel Bank & Trust Inc., which operates principally in Barbados, Canada, and South Africa, where it offers a wide range of investment management services and products. Under the leadership of newly-appointed Chief Operating Officer, Henry Perren, AFL concentrated initially on the streamlining and rationalisation of assets under administration already within the Group, especially within our pensions division. AFL has now turned its attention to opportunities in the individual wealth management arena both in Bermuda and overseas.

NEW WEBSITE AND CUSTOMER SERVICE CENTRE

A significant achievement during the year was the redesign and launch of the new Argus website, which represents the culmination of the largest project in the Group's history. It affected each business unit and our core computer systems, and it would not have been possible without the major investment we have made in our information systems infrastructure over the past five years. Individual customers can now go online to obtain their pension balances, track health insurance claims and see the status of their property and casualty insurance policies. Our commercial clients can now manage their employee benefits and their property and casualty insurance in a very secure environment. We are pleased to note that we have received many positive comments on the new website.

This new website and its underlying data warehouse support our Customer Service Centre located in Craig Appin House on Wesley Street. Our highly-trained representatives ably answer most questions that clients have concerning their employee benefits, and take care of routine transactions in person or over the telephone. For information on the website, customers are encouraged to visit www.argus.bm or to call the Customer Service Centre at 298-0888.

NEW CORPORATE HEADQUARTERS

In April 2006, we broke ground on what will become the new corporate headquarters for the Group. The seven-storey, 60,700 square foot facility, located in the former car park adjacent to the current Argus Building, will extend from Wesley Street through to Trott Road in Hamilton. Completion is set for early 2008.

PERSONNEL AND COMMUNITY

This year 26 new employees joined the Group. Among them was Sheena Smith, our new Vice President Finance, a position formerly held for a number of years by David Pugh, our Chief Financial Officer. At March 31, 2006 the employee complement in Bermuda was 145 with an additional 21 staff in Gibraltar.

SIMILAR TO THE CAHOW, ARGUS SPREADS ITS WINGS ABROAD,

BUT ONLY TO RETURN HOME AS A STRONGER,

PROUDER BERMUDIAN COMPANY.

As its genus name "winged runner" suggests, the Cahow is a powerful bird gaining strength while feeding upon the open ocean, but always returning home to nest and breed. Similarly, Argus realizes the importance of expanding its presence overseas, and with the purchase of Norwich Union International Insurance Company Limited, the leading insurer in Gibraltar, Argus is strengthening its portfolio to make it a sound company for the benefit of all Bermudians.

In recent years we have seen a steady decline in employee turnover, from 19% in 2003 to 11% for the year under review. Employee development has always been a hallmark of the Argus culture, and this year we implemented the first phase of a succession planning strategy designed to focus on the development of our future managers within Argus.

Argus is considered to be an employer of choice in Bermuda. We are proud of our ability to attract and retain skilled and talented people in a highly competitive job market, which speaks to our effectiveness in the area of human resource management.

The President's and Vice Presidents' Awards recognise the outstanding contributions of our employees and this year's winners are once again pictured within this report.

Argus strives to be a good corporate citizen; we actively participate in and support community events to the benefit of all Bermuda. In the last year we are proud to have sponsored many such community events including: YAO Baseball, the Argus Tennis Open, Crime Stoppers Run & Walk and the planting of endemics at Admiralty House Park in recognition of Bermuda's Quincentennial.

Before closing, we note with sadness the passing during the year of two former employees, Mr. J.E.P. Stewart and Mrs. F. Lee Blackwood, and the sudden death in March 2006 of our Secretary and Legal Counsel, Mr. Barrie N. Meade. In the early 1950's Mr. Stewart, the Group's first Managing Director and his secretary, Mrs. Blackwood together formed the entire staff of Somers Isles Insurance Company Limited, the first company of the Group. Mr. Stewart recruited the senior management which led the Group in its first 50 years and was instrumental in establishing the health insurance structure in Bermuda. Mr. Meade, who joined the Group in late 2004, was highly respected and admired by his colleagues for his breadth of knowledge and experience. We offer our deepest condolences to the families of these former employees.

Finally, we once again commend our employees for their hard work and commitment to the progress and success of the Group, and extend thanks 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, 2006

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 15 through 31 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, 2006

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, 2006 and the statements of consolidated general fund operations and retained earnings 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, 2006 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young
Chartered Accountants

Hamilton, Bermuda
June 6, 2006

ARGUS

Consolidated Balance Sheet

(In $ thousands)	Note	March 31 2006	March 31 2005
General Fund			
Assets			
Investments	3	403,813	371,812
Cash and short-term investments		9,358	18,459
Interest and dividends receivable		3,004	1,452
Insurance balances receivable		10,969	10,889
Reinsurers share of:			
Claims provisions	8	9,103	23,415
Unearned premiums		6,757	6,639
Capital assets	4	18,419	16,506
Intangible assets	5	2,532	2,896
Other assets		6,534	2,973
Total General Fund		470,489	455,041
Segregated Funds Net Assets	17	966,063	788,703
General Fund			
Liabilities			
Life and annuity policy reserves	7	111,713	104,780
Deposit administration pension plans		112,877	112,235
Provision for unpaid and unreported claims	8	24,623	39,015
Insurance balances payable		18,451	13,741
Unearned premiums		18,023	17,706
Note payable	3	20,000	20,000
Deferred net realised gains on bonds and equities		4,006	6,170
Accounts payable and accrued liabilities		11,361	9,804
Non-controlling interest		821	-
		321,875	323,451
Shareholders' Equity			
Share capital	9	14,146	16,087
Contributed surplus		1,644	1,292
General reserve	12	120,000	105,000
Retained earnings		13,577	9,369
Foreign currency translation adjustment		(753)	(158)
		148,614	131,590
Total General Fund		470,489	455,041
Segregated Funds Net Liabilities	17	966,063	788,703

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

See accompanying notes

Consolidated General Fund Operations and Retained Earnings

(In $ thousands, except per share data)	Note	March 31 2006	March 31 2005
Revenue			
Gross premiums written		117,021	90,248
Reinsurance ceded		(30,480)	(19,657)
Net premiums written		86,541	70,591
Net change in unearned premiums		(304)	(336)
Net premiums earned		86,237	70,255
Investment income	3	30,518	19,680
Commissions, management fees and other		17,289	15,297
		134,044	105,232
Expenses			
Claims and adjustment expenses	8	62,169	51,714
Policy benefits		9,112	8,188
Actuarial benefits		4,638	5,272
Commissions		3,035	1,731
Operating expenses		28,081	20,586
Non-controlling interest		21	-
		107,056	87,491
Net Earnings for the Year		26,988	17,741
Earnings per share	10		
basic		1.57	*1.02*
fully diluted		1.55	*1.00*
Retained Earnings, beginning of year		9,369	8,685
		36,357	26,426
Appropriations			
Cash dividends		(7,780)	(7,057)
Transfer to General reserve		(15,000)	(10,000)
Retained Earnings, end of year		13,577	9,369

See accompanying notes

ARGUS

Consolidated General Fund Cash Flow Statement

(In $ thousands)	March 31 2006	March 31 2005
Operating Activities		
Earnings for the year	**26,988**	17,741
Adjustments to cash basis (Footnote (i) below)	**(13,264)**	(4,767)
Change in non-cash operating balances (Footnote (ii) below)	**6,322**	42,514
Cash generated from operations	**20,046**	55,488
Investment Activities		
Purchase of investments	**(318,407)**	(638,702)
Sale of investments	**302,180**	611,653
Cash paid on acquisition of subsidiary	**-**	(5,665)
Purchase of capital assets	**(4,438)**	(2,591)
Non-controlling interest	**800**	-
Acquisition of customer list	**-**	(1,521)
Cash used in investment activities	**(19,865)**	(36,826)
Financing Activities		
Dividends paid	**(7,641)**	(6,829)
Share options exercised	**190**	518
Acquisition of shares held in Treasury	**(1,831)**	(447)
Cash used in financing activities	**(9,282)**	(6,758)
(Decrease)/Increase in Cash and Short-Term Investments	**(9,101)**	11,904
Cash and Short-Term Investments, beginning of year	**18,459**	6,555
Cash and Short-Term Investments, end of year	**9,358**	18,459

Footnotes

	2006	2005
(i) Adjustments to cash basis:		
Depreciation of capital assets	2,525	1,742
Amortisation of intangible assets	364	348
Compensation expense on vesting of stock options	195	179
Amortisation of net premium discount of bonds	1,643	898
Amortisation of net gains/(losses) on sale of bonds	(10)	336
Amortisation of net gains on sale and net unrealised appreciation of stocks and other investments	(14,983)	(9,054)
Net gains on sale of stocks and other investments	(2,424)	942
Foreign currency translation adjustment	(595)	(158)
Non-controlling interest	21	-
	(13,264)	(4,767)
(ii) Change in non-cash operating balances:		
Interest and dividends receivable	(1,552)	170
Insurance balances receivable	(80)	(599)
Reinsurer's share of:		
Claims provisions	14,312	(5,285)
Unearned premiums	(118)	(3,331)
Other assets	(3,561)	507
Life and annuity policy reserves	6,933	6,718
Deposit administration pension plans	642	23,480
Provision for unpaid and unreported claims	(14,392)	12,141
Insurance balances payable	4,710	3,865
Unearned premiums	317	5,147
Deferred net realised gains on bonds and equities	(2,164)	(2,606)
Accounts payable and accrued liabilities	1,275	2,307
	6,322	42,514

See accompanying notes

Notes to the Consolidated Financial Statements

March 31, 2006

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 Gilbraltar 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 (2006 – $1,539,000; 2005 – $1,603,000) and short-term cash balances (2006 – $813,000; 2005 – $393,000) 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 (2006 – $573,000; 2005 – $561,000). Dividends are recorded on the ex-dividend date and included in investment income. 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% per annum.

Gains and losses on sale of Stocks and other investments are deferred and amortised to income at 15% 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.

(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 accrual basis.

(iii) Fixed 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 represents the cost of customer lists acquired. Customer lists are amortised to income over their remaining lives which are estimated to be ten years. 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 assets 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 Consolidated General Fund Operations and Retained Earnings 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 and included in Insurance balances payable.

(iii) Premiums, benefits paid and underwriting expenses in respect of retrospectively rated policies and Segregated Funds contracts are excluded from the statement of Consolidated General Fund Operations and Retained Earnings. 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 associated with unearned premiums are deferred.

(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 17).

(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% per year commencing one year after date of grant and options not exercised lapse ten years after 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 outstanding was determined using the Black–Scholes option pricing model.

(J) POST-RETIREMENT BENEFITS

The Company currently provides medical benefits to eligible retired employees and 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 evaluation using assumptions consistent with those used in the evaluation of the pension liability payable to the retiree.

(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.

3. INVESTMENTS

Investments comprise:

(In $ thousands)	2006 Carrying Value	2006 Estimated Fair Value	2005 Carrying Value	2005 Estimated Fair Value
General operations				
Bonds	20,297	20,310	18,636	18,625
Stocks and other investments				
Marketable securities	55,307	67,689	57,722	61,245
Investments in affiliated companies	9,057	9,384	7,290	6,637
Unlisted investments	23,624	23,749	23,755	23,806
	87,988	100,822	88,767	91,688
Mortgage loans	3,623	3,623	23,494	23,494
Total	111,908	124,755	130,897	133,807
Life operations				
Bonds	113,066	110,792	111,126	110,825
Stocks and other investments				
Marketable securities	135,789	191,591	117,948	146,569
Unlisted investments	167	167	144	144
	135,956	191,758	118,092	146,713
Mortgage loans	42,883	42,883	11,697	11,697
Total	291,905	345,433	240,915	269,235
Total investments	403,813	470,188	371,812	403,042

(A) BONDS

The amortised cost and estimated fair value of investments in bonds at March 31, 2006, 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	8,595	8,608
Over 1 year through 5 years	49,249	48,582
Over 5 years through 10 years	59,499	58,180
Over 10 years	16,020	15,732
Total	133,363	131,102
Effective yield	6.1%	6.2%

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, 2006.

(B) STOCKS AND OTHER INVESTMENTS

Included in Marketable securities are investments traded on The Bermuda Stock Exchange carried at $89,692,000 with an indicated value of $137,827,000 (2005 – $68,988,000 and $95,224,000). 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 June 2007, at which time the note may be redeemed or the term extended by mutual agreement between the parties.

(C) 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 $861,000 (2005 – $911,000) are considered by management to be non-performing.

The allowance for losses on mortgage loans amounted to $200,000 at March 31, 2006 (2005 – $350,000) 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.

(D) 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.

(E) 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.

(F) INVESTMENT INCOME

(In $ thousands)	2006	2005
Bonds	8,131	8,074
Stocks and other investments	22,109	13,217
Income from affiliates	631	380
Mortgage loans	4,130	2,251
Cash and time deposits	607	151
	35,608	24,073
Deduct: Investment income relating to		
Deposit administration pension plans	(5,090)	(4,393)
Group investment income	30,518	19,680

4. CAPITAL ASSETS

(In $ thousands)	Cost	Accumulated Depreciation	Net Book Value 2006	Net Book Value 2005
Land and buildings	14,118	3,253	10,865	9,728
Computer equipment	14,090	8,637	5,453	4,794
Other	6,215	4,114	2,101	1,984
Total	34,423	16,004	18,419	16,506

At March 2006, land and buildings with a current net book value of $9,582,000 were appraised by valuers at $20,794,000 on the basis of their open market value for existing use. Capital assets include costs of $1,594,000 (2005 – $54,000) relating to the construction of the new corporate headquarters. These costs are not being amortised until construction is complete.

5. INTANGIBLE ASSETS

(In $ thousands)	Cost	Accumulated Amortisation	Net Book Value 2006	Net Book Value 2005
Arising from:				
Continuing businesses	7,258	5,051	2,207	2,452
Run-off business	1,190	865	325	444
Total	8,448	5,916	2,532	2,896

Continuing business represents the accumulated cost of customer lists acquired. An amortisation charge of $364,000 (2005 – $348,000) was recognised during the year.

6. ACQUISITIONS

Effective January 1, 2005, the Group acquired the entire share capital of Norwich Union International Insurance Limited ("NUIIL") and the Bermuda property and casualty insurance portfolio of CGU International Insurance plc ("CGUII"). NUIIL is the leading insurer in Gibraltar specializing in property and motor insurance, and also has an agency in Malta. The insurance portfolio of CGUII continues to be managed by the Company's subsidiary, Centurion Insurance Services Limited.

These acquisitions were connected to the extent that the two transactions were viewed as one by the vendor, Aviva plc. Accordingly, the Group has apportioned the total purchase consideration of $8,727,000 to reflect the acquisition of net assets of $7,206,000, with the balance of $1,521,000 allocated to Intangible assets representing the additional cost of the acquisition of the client list in Centurion.

These acquisitions have 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 and Retained Earnings.

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

(In $ thousands)	
Cash	1,541
Investments	15,683
Interest and dividends receivable	57
Insurance balances receivable	3,089
Fixed assets	1,017
Other assets	284
Total assets other than cash	20,130
Provision for unpaid and unreported claims	7,809
Insurance balances payable	6,033
Accounts payable and accrued liabilities	623
Total liabilities	14,465
Total purchase price	7,206
Deduct: Cash acquired on purchase of subsidiary	(1,541)
Cash paid net of cash received	5,665

7. 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)	2006	2005
Annuities	83,991	80,372
Health and accident	5,388	3,623
Life	18,810	17,859
Other benefits	3,524	2,926
	111,713	104,780
The changes in the actuarial liabilities are as follows:		
Balance, beginning of year	104,780	95,739
Normal changes	3,494	9,041
Interest rate assumptions	(786)	-
Mortality assumptions	4,225	-
Balance, end of year	111,713	104,780

8. PROVISION FOR UNPAID AND UNREPORTED CLAIMS

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

(In $ thousands)	2006	2005
Gross provision, beginning of year	39,015	25,966
Reinsurer's share, beginning of year	(23,415)	(6,901)
Net provision, beginning of year	15,600	19,065
Net claims and adjustment expenses incurred	62,169	51,714
Net claims and adjustment expenses paid	(62,249)	(55,179)
	(80)	(3,465)
Net provision, end of year	15,520	15,600
Represented by:		
Gross provision, end of year	24,623	39,015
Reinsurer's share, end of year	(9,103)	(23,415)
Net provision, end of year	15,520	15,600

9. SHARE CAPITAL

As part of the Group reorganisation 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.

(In $ thousands)	2006	2005
Authorised 25,000,000 common shares of $1.00 each (2005 – 24,000,000)	25,000	24,000
Issued and fully paid beginning of year 17,488,838 shares (2005 – 17,379,055)	17,489	17,379
Cancellation of 332 shares upon conversion to $1.00 par value	-	-
Issue of 31,655 shares from stock options exercised (2005 – 109,783)	32	110
Issued and fully paid, end of year 17,520,161 shares (2005 – 17,488,838)	17,521	17,489
Deduct: Shares held in Treasury, at cost 352,448 shares (2005 – 167,220)	(3,375)	(1,402)
	14,146	16,087

The shares held in Treasury are held by Argus Management Services Limited.

10. EARNINGS PER SHARE

Basic earnings per share presented in the statement of Consolidated General Fund Operations and Retained Earnings 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)	2006	2005
Net Earnings for the Year	26,988	17,741
Weighted average outstanding common shares	17,200	17,432
Dilutive effect of outstanding options using the treasury method	202	256
Common shares and common share equivalents	17,402	17,688

11. STOCK-BASED COMPENSATION

(i) The following table summarises the activity under the Company's stock option plan for the year ended March 31, 2006:

	Directors & Officers Numbers of shares under option	Total number of shares under option	Weighted average exercise price
Outstanding, at the beginning of year	143,523	483,672	$7.22
Changes during the year:			
Granted	21,120	90,300	$10.94
Exercised	-	(31,655)	$6.04
Outstanding, end of year	164,643	542,317	$7.91
Exercisable, end of year	110,493	324,846	$6.48

At March 31, 2006, there were 389,700 shares (2005 – 480,000 shares) available for grant. The weighted average contractual life of options granted is 5.85 years (2005 – 6.34 years). The range of fair values of options outstanding is $0.82 to $2.16. The total compensation expense recognised in the current year was $195,000 (2005 – $179,000) and has been included in Operating expenses. The amount credited to Contributed surplus in respect of stock-based compensation was $157,000 (2005 – $408,000). The amount credited to share capital in respect of stock-based compensation was $32,000 (2005 – $110,000).

(ii) Characteristics of options granted as at March 31, 2006.

Fiscal year	Exercise Price	Outstanding Number of shares	Exercisable Number of shares	Weighted Average Life Remaining Contractual Life in Years
1997	$3.41	11,261	11,261	1.0
1998	$5.32	44,402	44,402	2.0
1999	$5.32	47,597	47,597	3.0
2000	$5.32	57,978	57,978	4.0
2001	$6.20	59,034	59,034	5.0
2003	$8.71	67,717	49,500	6.0
2004	$7.20	73,788	33,594	7.0
2005	$10.83	90,240	21,480	8.2
2006	$10.94	90,300	-	9.2
	$7.91	542,317	324,846	6.0

The weighted average fair value of stock options granted in the year ended March 31, 2006 was $2.16 per share, using the Black-Scholes option – pricing model with the following weighted average assumptions:

Expected dividend yield	3.5%
Risk free interest rate	4.5%
Expected historical volatility	20%
Expected life	10 years

12. GENERAL RESERVE

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

13. PENSION PLAN

The Company maintains a defined contribution pension plan covering all full-time employees. For the year ended March 31, 2006, the net pension cost recorded in operating expenses was $567,000 (2005 – $500,000).

14. POST-RETIREMENT MEDICAL BENEFITS

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

(In $ thousands)	2006	2005
Accrued benefit liability, beginning of year	2,859	2,324
Current service cost	250	228
Interest cost	212	199
Plan amendments and net actuarial loss	38	39
Benefits paid	68	69
Accrued benefit liability, end of year	3,427	2,859

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:

	2006	2005
Discount rate	7%	8%
Expected long-term rate of return on plan assets	10%	9%

The assumed healthcare cost trend rate is currently estimated at 10% (2005 – 9%) per annum, and the annual employee turnover rate is 9% (2005 – 9%) per annum.

Healthcare cost calculations are based on trend rate assumptions which may differ from actual results. Changes in trend rate assumptions by 1% in either direction will change the healthcare cost as follows:

(In $ thousands)	Increase	Decrease
Aggregate of Current service cost and Interest cost	28	(25)
Accrued benefit liability	223	(195)

15. 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	**2006**	**69,338**	**36,023**	**28,332**	**351**	**134,044**
	2005	62,009	27,328	15,472	423	105,232
Depreciation of Capital Assets	**2006**	**827**	**433**	**1,085**	**544**	**2,889**
	2005	803	444	799	44	2,090
Segment Earnings	**2006**	**6,730**	**15,766**	**4,870**	**(378)**	**26,988**
	2005	7,512	9,489	368	372	17,741
Segment Assets	**2006**	**57,282**	**307,460**	**100,914**	**4,833**	**470,489**
	2005	27,555	277,878	147,772	1,836	455,041
Capital Expenditure	**2006**	**1,260**	**505**	**1,019**	**1,654**	**4,438**
	2005	1,065	1,016	1,989	42	4,112

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

16. 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.

17. 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, 2006, 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)	**2006**	2005
Additions to Segregated Funds		
Premiums, contributions and transfers	**123,019**	185,131
Net investment income	**2,863**	2,591
Net increase in fair value of investments	**112,510**	46,118
	238,392	233,840
Deductions from Segregated Funds		
Withdrawals, benefit payments and transfers to the General Fund	**52,765**	39,668
Operating expenses	**8,267**	7,681
	61,032	47,349
Net Additions to Segregated Funds for the year	**177,360**	186,491
Segregated Funds, beginning of year	**788,703**	602,212
Segregated Funds, end of year	**966,063**	788,703
Consisting of:		
Bonds	**55,685**	72,625
Stocks and other investments	**842,914**	632,470
Policy loans	**46,814**	47,123
Cash and short-term investments	**20,778**	36,524
Accounts payable and other liabilities	**(128)**	(39)
	966,063	788,703

18. 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.

19. 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, 2006, was 3,553,023 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.

20. 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, 2006, was $200,900,000 (2005 – $182,360,000) and the amounts required to be maintained by those companies was $16,380,000 (2005 – $14,639,000). In addition, minimum liquidity ratios must be maintained whereby relevant assets, as defined by the Act, must exceed 75% 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.

21. COMMITMENTS AND CONTINGENCIES

(a) Investments

At March 31, 2006, the Company is committed to invest CAD $400,000 in a seven year closed end fund and this amount is collateralized by an unsecured letter of credit.

(b) Capital Commitments

The Company has committed, but not contracted for, $24 million of capital expenditure on new corporate headquarters to be constructed in the forthcoming two years.

(c) Lease Obligations

At March 31, 2006, the total future minimum lease payments under operating leases over the forthcoming five years are $2,134,000 (2005 – $1,601,000). The annual minimum lease payment under such operating leases is $500,000 (2005 – $416,000).

(d) Contingent Liability

- *(i)* The Company has a 34% 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 $14,700,000 for this new office building.
- *(ii)* On behalf of a client for whom administration services only are provided, the Company has issued a bond to the Bermuda Government in the sum of $500,000 in respect of certain insured benefits under section 25 of the Hospital Insurance Act 1970.
- *(iii)* The Group is contingently liable with respect to litigation and claims that arise in the normal course of business.

22. COMPARATIVE FIGURES

Certain of the 2005 comparative figures have been reclassified to conform to the presentation adopted for 2006.

23. FURTHER ACCOUNTING DEVELOPMENTS

In order to increase harmony with U.S. and international accounting standards, the Canadian Institute of Chartered Accountants has issued a series of pronouncements which will require the Group to revise the method by which it recognises investment income and records asset values. Management is currently evaluating the effect of adoption which may be material.

Annual President's and Vice Presidents' Awards

PRESIDENT'S AWARD RECIPIENT

Esther Singh and Gerald Simons (President & Chief Executive Officer)

VICE PRESIDENTS' AWARD RECIPIENTS

Left to right: Roslyn Francis, Gerald Simons (President & Chief Executive Officer), Mandy Whayman, Scott Johnson, Jacqui Kipfer and Gary Weller

Directors of Principal Operating Subsidiaries

ARGUS INSURANCE COMPANY LIMITED

Sheila E. Nicoll, Chairman
W. Roger Davidson, Deputy Chairman
Robert Anderson
Brian C.E. Foster
Reginald S. Minors
David W. Pugh
Gerald D.E. Simons

ARGUS FINANCIAL LIMITED

Gerald D.E. Simons, Chairman
Geoffrey Matus, Deputy Chairman
James M. Keyes
David W. Pugh
Craig Rimer
E. John Sainsbury

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

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

CENTURION INSURANCE SERVICES LIMITED

Sheila E. Nicoll, Chairman
Christopher P. Trott, Deputy Chairman
Robert Anderson
Andrew H. Bickham
W. Roger Davidson
Brian C.E. Foster
Reginald S. Minors
David W. Pugh
Gerald D.E. Simons

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

NORWICH UNION INTERNATIONAL INSURANCE LIMITED, *Gibraltar*

James A.C. King, Chairman
David P. Gutteridge, Deputy Chairman
Robert Anderson
Andrew H. Bickham
David J. Crowhurst
Alexander C. Guthrie
Gerald D.E. Simons

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