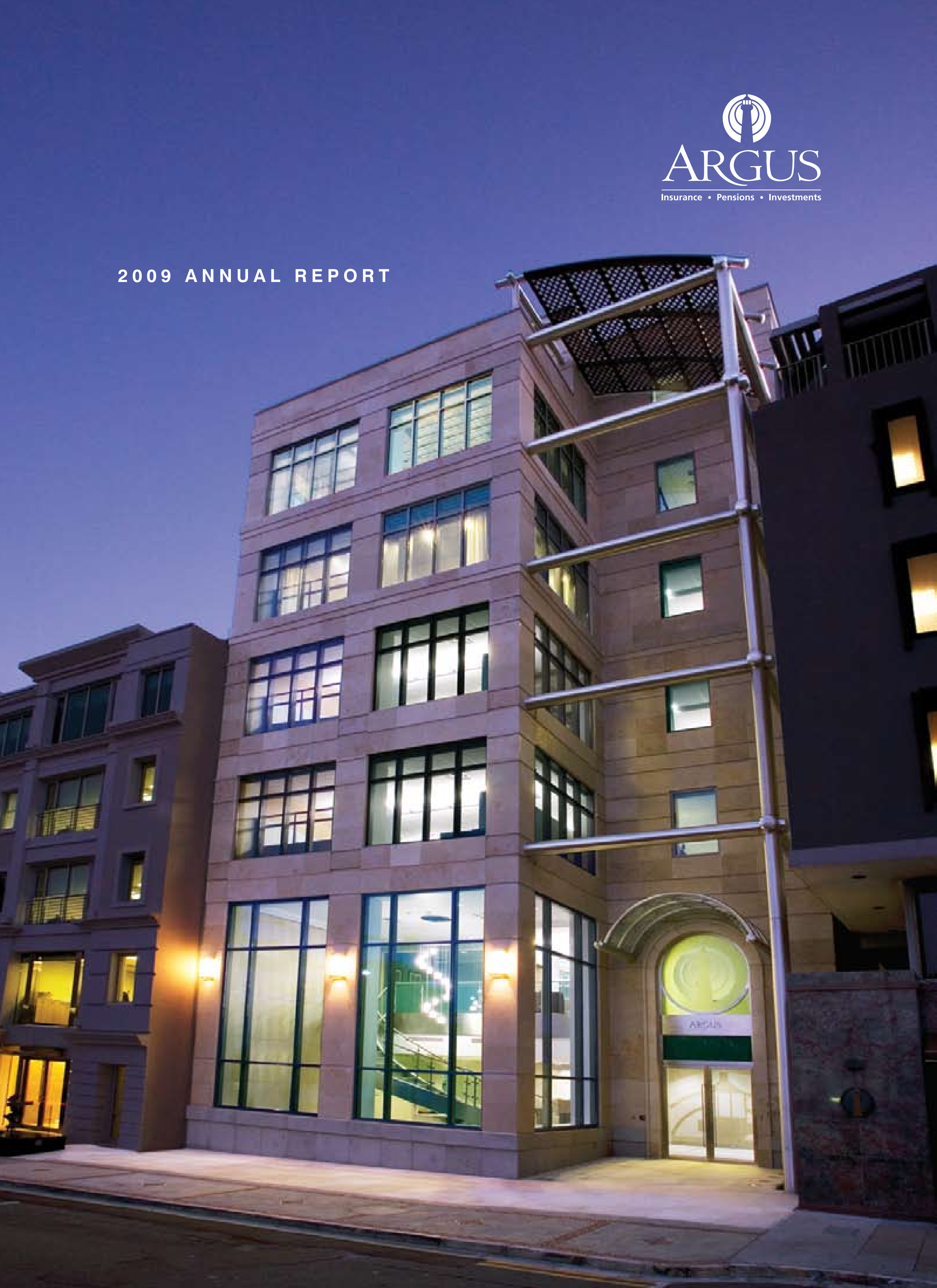
ARGUS

Insurance • Pensions • Investments

2009 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

ARGUS

Insurance • Pensions • Investments

THE ARGUS GROUP

ARGUS GROUP HOLDINGS LIMITED

Group Holding Company

ARGUS INSURANCE COMPANY LIMITED

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

CENTURION INSURANCE SERVICES LIMITED

Insurance Agent and Licensed Broker

ARGUS INSURANCE COMPANY (EUROPE) LIMITED, Gibraltar

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

WESTMED INSURANCE SERVICES LIMITED, Gibraltar

Insurance Brokerage and Agency

BERMUDA LIFE INSURANCE COMPANY LIMITED

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

ARGUS INTERNATIONAL LIFE BERMUDA LIMITED

(Formerly: Tremont International Insurance Ltd.) Individual Life and Annuities

ARGUS INTERNATIONAL LIFE INSURANCE LIMITED

(Formerly: MassMutual Bermuda Ltd.) Individual Life and Annuities (74% Interest)

BERMUDA LIFE WORLDWIDE LIMITED

Individual Life and Annuities (in run-off)

SOMERS ISLES INSURANCE COMPANY LIMITED

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

AFL INVESTMENTS LIMITED

(Formerly: Argus Financial Limited) Investment Management Services (60% Interest)

ARGUS INVESTMENT NOMINEES LIMITED

Nominee Company (60% Interest)

ARGUS INTERNATIONAL MANAGEMENT LIMITED

Company Management

ARGUS MANAGEMENT SERVICES LIMITED

Financial, 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 PROPERTY (GIBRALTAR) LIMITED

Property Holding Company

Argus Group Holdings Limited is a public company, its shares trading on The Bermuda Stock Exchange.
At March 31, 2009 it had 1,209 shareholders; 90 percent of whom were Bermudian, holding 83 percent of the issued shares.

BOARD OF DIRECTORS

*James A. C. King, MD ■ ■
Chairman

David P. Gutteridge ■
Deputy Chairman

Wendall S. F. Brown ■ ■

John D. Campbell, QC, JP ■

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 ■

**Retires July 2009*

GROUP MANAGEMENT

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

David W. Pugh, FCA
Chief Financial Officer
& Secretary

Alison S. Hill, ACMA
Chief Operating Officer

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

AT ARGUS, WE BELIEVE IN BUILDING FOR THE FUTURE. THE NEW ARGUS CORPORATE HEADQUARTERS WILL SERVE THE COMMUNITY FOR MANY YEARS. IT HIGHLIGHTS THE RELATIONSHIP BETWEEN PEOPLE AND THE ENVIRONMENT. NATURAL LIGHT INSPIRES AND UPLIFTS, STONE AND TILE GROUNDS AND FOCUSES, WHILE STEEL STRENGTHENS RESOLVE AND DETERMINATION.

THE NEW ARGUS BUILDING CONTINUES OUR 60-YEAR TRADITION OF LEADERSHIP AND INNOVATION IN THE COMMUNITY AND REPRESENTS OUR COMMITMENT TO TOTAL WELLNESS – PHYSICAL, FINANCIAL, INNER FAMILY, SOCIAL, AND IN THE WORKPLACE – A PHILOSOPHY WE EMBRACE THROUGHOUT THE ORGANISATION.

Gerald D. E. Simons David W. Pugh Alison S. Hill Andrew I. Baker Lauren M. Bell Andrew H. Bickham Cindy F. Campbell Sarah Cook

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

Andrew H. Bickham, ACII
Executive Vice President
Broking

Cindy F. Campbell, CPA, MBA
Chief Operating Officer
AFL Investments Limited

Sarah Cook, ACA
Vice President
International Life

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

John Doherty, CPCU, ARe
Vice President
Property & Casualty

Michelle Jackson, MBA, MSc
Executive Vice President
Group Insurance

Larry A. Peck, FSA, FCIA, MAAA
Executive Vice President
Group Actuary

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

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

Sheena M. Smith, CPA
Vice President
Finance

Philip R. Trussell
Vice President, Managing Director
International Life

Paul Williams
Executive Vice President
Information Systems

BY WORKING TOGETHER, WE CAN ENSURE A SUSTAINABLE, HEALTHY, AND THRIVING COMMUNITY FOR FUTURE GENERATIONS. AT ARGUS, WE CONTINUE TO SUPPORT A WIDE ARRAY OF LOCAL EVENTS AND ORGANISATIONS THAT FOCUS ON HEALTH AND WELL-BEING OF THE PEOPLE OF BERMUDA. WE ARE PROUD TO BE THE MOST TRUSTED BERMUDA-OWNED INSURANCE COMPANY.

David J. Crowhurst   John Doherty   Michelle Jackson   Larry A. Peck   C. Joy Pimental   Wanda E. Richardson   Sheena M. Smith   Philip R. Trussell   Paul Williams

Gerald Simons and David Pugh at the roof wetting ceremony of the new Argus building on November 28, 2008. The traditional pouring of Black Seal Rum on the roof signalled an end to the planning and construction of the base building.

FIVE YEAR SUMMARY

Financial and Shareholder Data

($ thousands, except share data)	2009	2008	2007	2006	2005
FOR THE YEAR					
Total revenue	32,146	138,224	153,814	134,044	105,232
(Loss)/Earnings for the year	(115,701)	15,479	36,927	26,988	17,741
Cash dividends	13,429	12,692	10,044	7,780	7,057
AT YEAR END					
Total General Fund Assets	528,996	643,823	535,760	471,405	455,227
Shareholders' Equity	114,837	260,665	177,504	148,614	131,590
FINANCIAL RATIOS					
(Loss)/Earnings per share – fully diluted	$(5.53)	$0.73	$1.75	$1.28	$0.83
Return on average Shareholders' Equity	(61.62)%	7.07%	22.64%	19.26%	14.06%
SHAREHOLDER DATA					
Shares in issue	21,485,744	21,441,618	19,418,989	17,520,161	17,488,838
Book value per share	$5.34	$12.16	$9.14	$8.48	$7.52
NUMBER OF EMPLOYEES	176	173	170	166	154

REPORT TO SHAREHOLDERS

First and foremost the Argus Group remains very strong despite reporting a net loss of $115.7 million for the year ended March 31, 2009 compared to positive earnings of $15.5 million for the previous year. This year's earnings were severely impacted by this most difficult of financial climates to which none appear to be immune. It is reassuring that, despite these results, our core business units continue to perform well and produce strong cash flow. The Group has more than adequate capital to support its businesses as the minimum statutory requirements are exceeded overall by a factor of four. The Board of Directors has maintained the quarterly dividend of 16 cents per share.

In the 2008 Annual Report and earlier, we forewarned shareholders of the potential for greater volatility in our investment earnings recorded through net income as a result of the adoption of accounting rules that required the majority of the Group's investments to be restated to reflect fair value, rather than following the moving market average methodology employed in the past. This change, coinciding with the unprecedented levels of instability in global financial markets, exacerbated the impact of investment losses on Group results in 2009. The majority of the investment losses reported in 2009 and 2008 are unrealised losses; values should improve as investment markets normalise.

In addition, litigation in the United States arising from clients whose policies were invested in funds affected by Madoff-related entities will be stemmed by a settlement between Argus and the various plaintiffs' counsel which is subject to documentation and court approval (as more fully explained in Note 24 to the financial statements).

FINANCIAL RESULTS

The net loss for the year ended March 31, 2009 reported in the Consolidated Statement of Income is $115.7 million compared to positive earnings of $15.5 million for the previous year.

This, together with Other comprehensive losses of $16.6 million and Dividends paid of $13.4 million, has combined to reduce Shareholders' Equity to $114.8 million, down from $260.7 million one year earlier. To place this better into context, Shareholders' Equity was uplifted at the beginning of the 2008 fiscal year by an $81 million one-time adjustment for unrealised investment gains reflecting the adoption of new accounting rules. This year's results mean that Shareholders' Equity now stands at pre-2005 levels. Thus, whilst the Group was over-capitalised then, today it holds capital well in excess of the minimum required to conduct its various insurance businesses.

Gross premiums written increased by $8.3 million or 6 percent, reflecting new business and the continuing efforts to achieve acceptable underwriting ratios by appropriate adjustments to premiums. Overall, claims and policy benefits rose by 14.6 percent over the prior year, reflecting a return to more normal underwriting results especially in the area of health claims. Once again, we were grateful for the lack of catastrophic events, especially major windstorms in the year. Policy benefits have increased due to the necessary strengthening of actuarial reserves as investment values fell in the year.

Historically, Investment income has been the 'trunk of the tree' – often representing well in excess of 50 percent of Group earnings. The move to fair value accounting in 2008 has exposed the Group's earnings to unprecedented volatility as discussed above. This, coupled with the instability in global financial markets, caused a significant decline in the fair value of our equity portfolios. Our largest individual

AT ARGUS, WE BELIEVE THAT WE ACHIEVE HIGHER LEVELS OF PERFORMANCE THROUGH TEAMWORK. BEAUTY, LIKE SO MANY THINGS, COMES FROM COLLABORATION. NO SINGLE PERSON IS AS STRONG ALONE AS THEY ARE WHEN THEY WORK IN CONJUNCTION WITH OTHERS TO ACHIEVE A SHARED GOAL.

stockholding, the seven percent shareholding in Butterfield Bank, fell by $82.2 million in total value in the year. This holding was valued at $38.2 million on March 31, 2009 versus the acquisition cost of $26.1 million and is still positive from an historic investment cost perspective.

These unrealised investment losses were immediately reflected in earnings this year in Change in fair value of investments. The overall decrease in Net investment income compared to the prior year is $113.4 million primarily driven by the reduction in fair value of 'held for trading' equities of $113.7 million and a $10 million provision which has been made against a loan for the potential reduction in the net realisable value of future amounts receivable. The Argus investment portfolios declined 24 percent in the year under review, compared with the fall in both The Bermuda Stock Exchange Index of 54.5 percent and the Morgan Stanley Capital World Index of 42.2 percent over the 12 months ended March 31, 2009.

In addition, the net unrealised losses recorded as 'Other comprehensive loss' amounted to $13.3 million and arose from the temporary diminution in value of certain trade investments that are classified as 'available for sale'. A further loss of $3.3 million arose from foreign currency translations of the financial statements of our self-sustaining foreign operations as at March 31, 2009.

Commissions, management fees and other income remained stable despite the decrease in the market value of assets under management in our various investment-related businesses. This decrease was offset by enhanced ceding and profit commissions earned by our property and casualty operations.

Careful management of Operating expenses in the underlying business units ensured that cost growth was contained below inflation over the year. However, total Operating expenses increased by 12.2 percent reflecting certain non-recurring legal costs incurred in the year.

Amortisation, depreciation and impairment includes a $7.5 million one-off charge to Intangible assets as the Group recognised an impairment in the value attributed to the acquisition of Tremont International Insurance Ltd. (now renamed Argus International Life Bermuda Limited) as the Madoff fraud came to light. We continue to pursue all aspects of potential recovery available in this regard in the best interests of our policyholders and shareholders.

At the beginning of the financial year the Argus share price was $16.00 and the year-end price of



GROWTH AND OPPORTUNITY ARE ABOUT REACHING HIGHER AND PUSHING FARTHER. AT ARGUS, WE BELIEVE THAT FORWARD MOMENTUM IS ESSENTIAL TO ACHIEVING OUR GOALS AND LOOKING AFTER THE INTERESTS OF OUR CUSTOMERS.

$8.05 thus represents a diminution in value of 50 percent, in line with The Bermuda Stock Exchange Index. The quarterly cash dividend was maintained at 16 cents per share throughout the year, now representing a yield of 8 percent on the year-end market price.

PROPERTY AND CASUALTY

The property and casualty division, which includes our Bermuda and Gibraltar operations as well as the business from our agency in Malta, enjoyed another successful year with all the main classes producing positive underwriting results. The Bermuda-based subsidiaries maintained their disciplined underwriting approach that has enabled us to achieve profits in all main classes, including motor. We are focusing on business retention to ensure we maintain our market position in all classes of business.

In Gibraltar, where Argus dominates the local property and casualty market, we again produced strong growth as did our agency in Malta. Gibraltar suffered two unusually strong storms last autumn and the timely and fair settlement of claims has helped to enhance the Argus brand.

In all of our property and casualty markets we are well served by our tradition of delivering high quality service backed by tailored insurance solutions, which have resulted in above average levels of customer retention. Our claims departments provide excellent service and continually seek to reduce settlement times.

The outlook for property and casualty business in Bermuda, Gibraltar and Malta remains positive in spite of increasing competition. Our focus continues to be on profitability and we will maintain disciplined underwriting and pricing. Future development is centred on new distribution opportunities and the introduction of new products.

GROUP INSURANCE

The health insurance division had a successful year with results in line with expectations. Claims volumes returned to relatively normal levels, after the unusually low levels experienced last year. While medical cost inflation continues to outpace the general rate of inflation, the increase in health insurance premiums in May 2009 of less than seven percent on average was the lowest percentage increase in

WE ARE COMMITTED TO PROVIDING EXEMPLARY CUSTOMER SERVICE. A RECENT SURVEY OF OUR CUSTOMER SERVICE CENTRE INDICATES THAT OUR CUSTOMERS ARE VERY PLEASED WITH THE SERVICE WE PROVIDE, PARTICULARLY IN THE AREA OF FRIENDLINESS AND KNOWLEDGE OF OUR PRODUCTS.

a decade. Argus is working closely with the King Edward VII Memorial Hospital to monitor the impact of changes at the hospital including the switch to a new billing model, the addition of more specialist physicians to the staff and plans to improve the hospital infrastructure. The hospital accounts for close to a third of all our health claims.

The fifth annual Argus Health Fair was held in April 2009, in partnership with the Bermuda Hospitals Board and the Department of Health. The key message to the public was that each individual should take responsibility for his or her own health and well-being. The Argus Health Fair, Argus Wellness Programme and Argus 400 Challenge, which is described later in this report, have helped to solidify the position of Argus as the leading advocate of health and wellness in Bermuda.

Our other group insurance products: life, long term disability, short term disability and workers' compensation also produced satisfactory results this year. A revised Workers' Compensation product was launched on May 1, 2009. This new policy offers enhanced eligibility options including cover for students and part-time or temporary workers. It also offers enhanced wage replacement benefits to supplement the legislated wage replacement benefit.

PENSIONS

During 2009 the Argus Select Funds, used by a large number of our pension clients, performed well compared to other similar funds in the Bermuda pension market even as the turbulence in world investment markets increased. This was due to their emphasis on capital preservation and downside risk protection and was achieved despite a minor exposure to a Madoff feeder fund, Kingate, through our investment in the Pioneer Momentum All-Weather Fund.

The pensions division continued to attract new local and international business and retain its existing portfolio of clients despite instability in investment markets worldwide. We place emphasis on informing pension plan members about market conditions and to encourage them, where possible, to maintain a long-term perspective when it comes to their retirement objectives while ensuring that their investment strategy is aligned with their risk tolerance. A large number of presentations and various press articles were provided in the year to assist in this regard, with particular focus on members who

AT ARGUS, WE DO NOT COMPROMISE INDIVIDUAL OR CORPORATE HONESTY AND INTEGRITY. WE BELIEVE IN THE PRINCIPLE OF EQUAL OPPORTUNITY FOR EVERYONE.

are at, or near, retirement to assist them in their consideration of the various options available as they transition from work into retirement.

INTERNATIONAL LIFE AND ANNUITIES

The International Life and Annuities division suffered dramatically from the exposure of client investments to the Madoff feeder funds, Rye Select Broad Market Insurance Portfolio LDC and Rye Select Broad Market XL Portfolio Limited. This gave rise to an immediate impairment charge of $7.5 million in the year to the Intangible asset recorded on the acquisition of this book of business as part of the purchase of Tremont International Insurance Ltd in 2006.

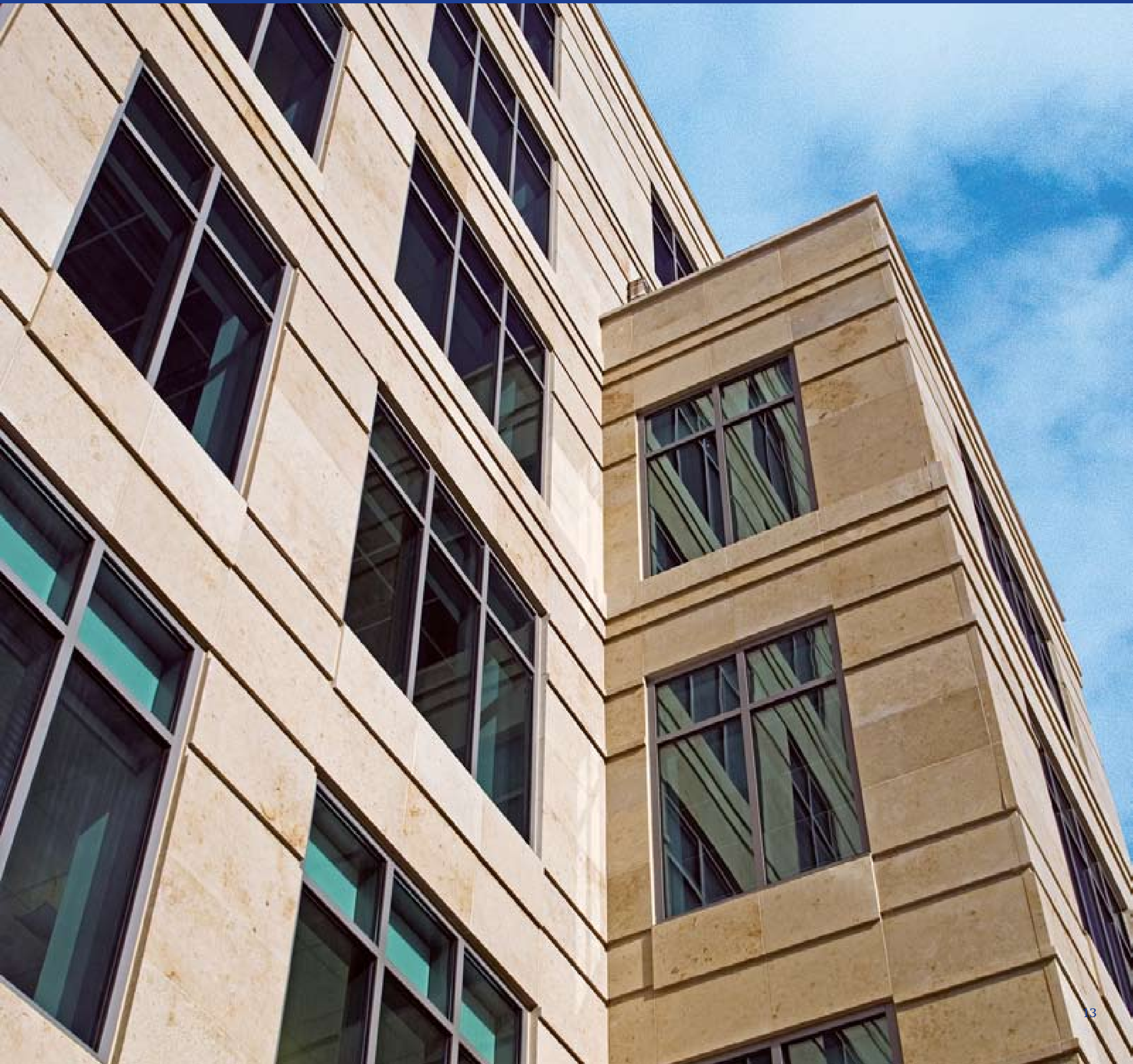
In addition, a group of affected policyholders commenced a class action suit in the United States against certain Argus Group companies and a large number of other defendants. Argus vehemently denies all allegations of wrongdoing or liability whatsoever. Subsequenly, we have successfully negotiated an 'in principle' settlement of this action subject to documentation and court approval, which will effectively remove the Group from all litigation in this regard whilst leaving the way clear for Argus to pursue such legal remedies as are available in an attempt to recover sums due to it on its own behalf and, also, to assist the legal actions of policyholders relating to claims regarding their Madoff-related investments.

While the loss in value of policy related investments, arising both from the Madoff-affected policies and the general decline in investment markets, has significantly decreased the insurance and administration fee income of this division, Management remains confident in its viability and are working assiduously to continue to grow this business. In fact, in recent months a significant amount of new business has been written.

ASSET MANAGEMENT

The year was a difficult one for all investment companies with global equity markets suffering their worst losses since the Great Depression. As a result of the many and various challenges this presented, the business results for the year were below expectations. However, the positive investment results generated in early 2009 showed that this division remains well positioned for growth in the future.

AT ARGUS, HEALTH AND WELLNESS FORM AN INTEGRAL PART OF OUR CORPORATE PHILOSOPHY. WE BELIEVE THAT WORKPLACE WELLNESS CONTRIBUTES TO COMPANY SUCCESS. OUR NEW BUILDING USES STONE, GLASS AND STAINLESS STEEL TO CREATE AN ENVIRONMENT THAT IS BOTH MODERN AND INSPIRING.



NEW CORPORATE HEADQUARTERS AND REAL ESTATE

After a four-year process, the construction of our new corporate headquarters reached substantial completion in February 2009 and we moved into the first three floors of 14 Wesley Street in early April 2009. This move allowed us to consolidate all customer facing services into one location which is more convenient for all concerned. Of the remaining floors, we intend to occupy the fourth floor by August 2009 and rent the remaining three floors. One has been rented and the search for tenants for the remaining two floors continues. Three floors of the old building at 12 Wesley Street have been retained for 'back office' functions with the remaining floors to be rented to external tenants.

Management and your Board continue to explore the various options available concerning the land that is surplus to the immediate needs of the Group.

INFORMATION SYSTEMS

The Group has continued to focus on delivering increased value for money from our information systems expenditure in 2009. We streamlined the department structure and created greater clarity and focus on delivering efficiency and partnering with the businesses. This was achieved through closer alignment with each business unit via the delivery of a number of major applications into our health, pensions and property and casualty businesses. Within the technical environment we have concentrated on simplifying the way in which we support the businesses, removing old technology and reducing our cost base. We have adopted the internationally recognised standard ITIL (Information Technology Infrastructure Library) for service delivery which will improve the quality and reduce the cost of dealing with user incidents. These improvements were achieved against the backdrop of the major move into our new building, which was used as an opportunity to enhance infrastructure, increase resilience and improve operating systems and desktop capability.

PERSONNEL AND COMMUNITY

In March 2009, Ms. Alison Hill joined the Group as Chief Operating Officer to strengthen overall leadership of the Group, to oversee the day-to-day business operations and to drive forward and implement the strategic plan.

We continue to focus on succession planning and leadership development in the year through the introduction of a new in-house leadership development training programme, based on the leadership core competencies which we have identified. A revised performance management system and new non-executive bonus plan were implemented during the year to promote and support a high-performance culture and enhance our ability to attract and retain high quality individuals at all levels within the organisation.

The Group continues to support and participate in a wide variety of community events to the benefit of all of Bermuda. We are the principal sponsor of the Argus Tennis Open, YAO Baseball and Crime Stoppers Walk and Road Race. In keeping with our focus on wellness this year and in celebration of the 400th anniversary of the settlement of Bermuda and the 100th anniversary of the first Bermuda Day Half-Marathon Derby, we sponsored the Argus 400 Challenge. This programme helped over 350 members of the community train for the 2009 Bermuda Day Half-Marathon Derby. In addition, we supported the Bermuda Diabetes Association, the Mid-Atlantic Wellness Institute and contributed to Buy Back Bermuda. We continue to support the Bermuda School of Music, Bermuda Sloop Foundation, Bermuda Zoological Society, Caron Bermuda, Knowledge Quest, Masterworks Foundation and the St. George's Foundation. We were also pleased to assist Project 100 this year with their renovation of the Sandy's Rest Home, now renamed 'West Side Villa'.

FORWARD LOOKING STATEMENTS

Certain statements in this report may be deemed to include 'forward-looking statements' and are based on Management's current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from those included in these statements due to a variety of factors including worldwide economic conditions, success in business retention and obtaining new business and other factors.

NOTE OF APPRECIATION

We express our appreciation to all of our employees for their focus and commitment in this most difficult year. Finally, we would also like to thank our clients and shareholders for their continued loyalty and support.

James A.C. King
Chairman

Gerald D.E. Simons
President & Chief Executive Officer

July 2, 2009

Post Script from Gerald D.E. Simons:

It is appropriate at this juncture to note that, having attained the mandatory retirement age for Directors, Dr. James A.C. King will be stepping down as Chairman and retiring from the Board at this year's Annual General Meeting, after 31 years of service. On behalf of the shareholders, the Board extends their thanks to Dr. King for his wisdom and insight contributed during his tenure. We wish him a long and happy retirement.

FINANCIAL STATEMENTS

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 Canadian generally accepted accounting principles 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.

KPMG, the independent chartered accountants appointed by the shareholders, have examined the consolidated financial statements set out on pages 19 through 47 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.

July 2, 2009

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 2009, and the consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows 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, 2009 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG

Hamilton, Bermuda
July 6, 2009

Chartered Accountants

CONSOLIDATED BALANCE SHEET

(In $ thousands)	*Note*	March 31 2009	March 31 2008
GENERAL FUND ASSETS			
Investments	4	390,925	514,655
Cash and short-term investments		23,184	24,272
Interest and dividends receivable		1,294	730
Insurance balances receivable		14,242	12,460
Reinsurers' share of:			
Claims provisions	11	3,265	4,027
Unearned premiums		8,824	9,476
Capital assets	6	75,366	58,492
Intangible assets	7	6,649	13,887
Deferred policy acquisition costs		664	631
Other assets		4,583	5,193
TOTAL GENERAL FUND		528,996	643,823
SEGREGATED FUNDS ASSETS	21	969,981	1,373,907
GENERAL FUND LIABILITIES			
Life and annuity policy reserves		131,434	122,573
Deposit administration pension plans		158,687	129,808
Total Life and annuity policy reserves	10	290,121	252,381
Provision for unpaid and unreported claims	11	25,193	23,334
Insurance balances payable		7,700	10,548
Deposit liabilities		8,935	7,759
Unearned premiums		18,760	21,449
Note payable	4	16,750	20,000
Loans payable	12	27,753	27,675
Dividends payable		3,354	3,353
Accounts payable and accrued liabilities		14,033	15,039
Non-controlling interest		1,560	1,620
		414,159	383,158
SHAREHOLDERS' EQUITY			
Share capital	13	15,846	16,153
Contributed surplus		52,267	52,025
General reserve	16	-	120,000
Retained earnings		57,299	66,429
Accumulated other comprehensive (loss)/income		(10,575)	6,058
		114,837	260,665
TOTAL GENERAL FUND		528,996	643,823
SEGREGATED FUNDS LIABILITIES	21	969,981	1,373,907

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

See accompanying notes

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

(In $ thousands, except per share data)	*Note*	March 31 2009	March 31 2008
REVENUE			
Gross premiums written		146,406	138,086
Reinsurance ceded		(38,604)	(37,711)
Net premiums written		107,802	100,375
Net change in unearned premiums		2,037	2,720
Net premiums earned		109,839	103,095
Investment income	*4*	6,584	10,865
Change in fair value of investments	*4*	(116,133)	(6,989)
Commissions, management fees and other		31,856	31,253
		32,146	138,224
EXPENSES			
Claims and adjustment expenses	*11*	75,610	64,403
Policy benefits		12,541	12,532
Actuarial benefits		8,067	5,693
Commissions		4,628	4,434
Operating expenses		35,338	31,483
Amortisation, depreciation and impairment		11,320	3,526
Non-controlling interest		343	674
		147,847	122,745
NET (LOSS)/EARNINGS FOR THE YEAR		(115,701)	15,479
(Loss)/Earnings per share:	*14*		
basic		*(5.53)*	*0.74*
fully diluted		*(5.53)*	*0.73*
OTHER COMPREHENSIVE (LOSS)/INCOME			
Net unrealised (loss)/gains on available for sale investments arising during the year		(13,265)	3,433
Reclassification of realised loss included in net income		(65)	(3,773)
Unrealised (loss)/gains on translating financial statements of self-sustaining foreign operations		(3,303)	99
OTHER COMPREHENSIVE LOSS FOR THE YEAR		(16,633)	(241)
COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		(132,334)	15,238

See accompanying notes

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(In $ thousands)	*Note*	March 31 2009	March 31 2008
SHARE CAPITAL			
Authorised:			
25,000,000 common shares of $1.00 each (2008 – 25,000,000)		25,000	25,000
Issued and fully paid, beginning of year 21,441,618 shares (2008 – 19,418,989 shares)		21,442	19,419
Stock dividend nil shares (2008 – 1,947,122)		-	1,947
Cancellation of nil fractional shares arising from stock dividend (2008 – 477 shares)		-	-
Issue of 44,126 shares from stock options exercised (2008 – 75,954 shares)		44	76
Issued and fully paid, end of year 21,485,744 shares (2008 – 21,441,616 shares)		21,486	21,442
Deduct: Shares held in Treasury, at cost 523,372 shares (2008 – 388,544 shares)		(5,640)	(5,289)
Total, net of shares held in Treasury		15,846	16,153
CONTRIBUTED SURPLUS			
Balance, beginning of year		52,025	26,189
Stock dividend		-	25,482
Stock options exercised		247	407
Stock-based compensation expense		304	220
Treasury shares granted to employees	*15*	(309)	(273)
Balance, end of year		52,267	52,025
GENERAL RESERVE			
Balance, beginning of year		120,000	120,000
Transfer to retained earnings		(120,000)	-
Balance, end of year		-	120,000
RETAINED EARNINGS			
Balance, beginning of year		66,429	15,460
Adjustment to opening balance, Section 3855	*2*	-	75,026
Transfer from General Reserve		120,000	-
Net (loss)/earnings for the year		(115,701)	15,479
Cash dividends		(13,429)	(12,692)
Stock dividend		-	(26,844)
Balance, end of year		57,299	66,429
ACCUMULATED OTHER COMPREHENSIVE (LOSS)/INCOME			
Balance, beginning of year		6,058	334
Adjustment to opening balance, Section 3855	*2*	-	5,965
Other comprehensive loss for the year		(16,633)	(241)
Balance, end of year		(10,575)	6,058
TOTAL SHAREHOLDERS' EQUITY		114,837	260,665

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS

(In $ thousands)	Note	March 31 2009	March 31 2008
OPERATING ACTIVITIES			
Net (loss)/earnings for the year		(115,701)	15,479
Adjustments to reconcile net earnings to cash basis (Footnote (i) below)		136,093	15,468
Change in operating balances (Footnote (ii) below)		33,877	14,081
CASH GENERATED FROM OPERATIONS		54,269	45,028
INVESTMENT ACTIVITIES			
Purchase of investments		(206,484)	(189,587)
Sale of investments		192,355	178,473
Purchase of subsidiary, net of cash acquired	7 and 8	282	260
Purchase of capital assets		(19,759)	(23,895)
Sale of Non-controlling interest		-	65
Purchase of intangible assets	8	(1,479)	(2,584)
CASH USED IN INVESTMENT ACTIVITIES		(35,085)	(37,268)
FINANCING ACTIVITIES			
Dividends paid		(13,428)	(12,004)
Share options exercised		291	483
Acquisition of shares held in Treasury		(660)	(1,079)
(Payment of)/proceeds from issuance of note and loan payable		(3,172)	17,675
CASH (USED)/GENERATED FROM FINANCING ACTIVITIES		(16,969)	5,075
FOREIGN CURRENCY TRANSLATION ADJUSTMENT		(3,303)	99
NET (DECREASE)/INCREASE IN CASH AND SHORT-TERM INVESTMENTS		(1,088)	12,934
CASH AND SHORT-TERM INVESTMENTS, beginning of year		24,272	11,338
CASH AND SHORT-TERM INVESTMENTS, end of year		23,184	24,272

Footnotes

(i) Adjustments to reconcile net earnings to cash basis:			
Depreciation of capital assets		2,885	2,528
Amortisation of intangible assets		960	998
Impairment of intangible assets		7,475	-
Compensation expense on vesting of stock options		304	220
Amortisation of net premium discount of bonds		223	218
Net gains on sale and net unrealised depreciation/ (appreciation) of investments		114,306	(1,819)
Provision for mortgages and loans		10,000	12,900
Non-controlling interest		(60)	423
		136,093	15,468
(ii) Change in operating balances:			
Interest and dividends receivable		(564)	(158)
Insurance balances receivable		(1,782)	(2,219)
Reinsurers' share of:			
Claims provisions		762	9,253
Unearned premiums		652	(603)
Deferred policy acquisition costs		(33)	(58)
Other assets		610	(518)
Life and annuity policy reserves		8,861	(815)
Deposit administration pension plans		28,879	7,988
Provision for unpaid and unreported claims		1,859	(4,242)
Insurance balances payable		(2,848)	2,251
Deposit liabilities		1,176	(613)
Unearned premiums		(2,689)	3,312
Other liabilities		(1,006)	503
		33,877	14,081

See accompanying notes

March 31, 2009

1. OPERATIONS

The Company, through its subsidiaries (collectively the "Group"), operates predominantly in Bermuda and Gibraltar underwriting life, health, property and casualty insurance. The Group also provides investment, savings and retirement products, and offers a range of administrative services including company management and accounting services.

The Company's subsidiaries are as follows:

Argus Insurance Company Limited
Centurion Insurance Services Limited
Argus Insurance Company (Europe) Limited, *Gibraltar*
Westmed Insurance Services Limited, *Gibraltar*
Bermuda Life Insurance Company Limited
Argus International Life Bermuda Limited
Argus International Life Insurance Limited
Bermuda Life Worldwide Limited
Somers Isles Insurance Company Limited
AFL Investments Limited
Argus Investment Nominees Limited
Argus International Management Limited
Argus Management Services Limited
Data Communications Limited
St. Martin's Reinsurance Company, Ltd.
Argus Property Limited & Trott Property Limited
Argus Property (Gibraltar) Limited

2. NEW ACCOUNTING PRONOUNCEMENTS

CHANGES IN ACCOUNTING POLICY

CAPITAL DISCLOSURES

Effective April 1, 2008, the Group adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, Capital Disclosures. This section establishes standards for disclosing information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. The new requirements are for disclosure only and did not impact the financial results of the Group. The new disclosure is included in Note 5 of these Consolidated Financial Statements.

FINANCIAL INSTRUMENT DISCLOSURE AND PRESENTATION

Effective April 1, 2008, the Group adopted CICA Handbook Section 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments – Presentation. These sections replace existing Section 3861, Financial Instruments Disclosure and Presentation. Presentation standards are carried forward unchanged. Disclosure standards are enhanced and expanded to complement the changes in accounting policy adopted during 2007 in accordance with Section 3855, Financial Instruments – Recognition and Measurement. The new disclosure is included in Notes 5 and 10 of these Consolidated Financial Statements.

FINANCIAL INSTRUMENTS AND COMPREHENSIVE INCOME

Effective April 1, 2007, the Group adopted the following accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA") Handbook: Section 4211, Life Insurance Enterprises; Section 3855, Financial Instruments – Recognition and Measurement and Section 1530, Comprehensive Income.

Under this guidance, all financial assets were classified as either available for sale, held for trading, held to maturity, or loans and receivables. All financial liabilities, other than actuarial liabilities, were classified as held for trading or other. All financial instruments classified as available for sale or held for trading are recognised at fair value on the Consolidated Balance Sheet while financial instruments classified as loans and receivables or other 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 are reported in Net Earnings. Unrealised gains or losses on instruments classified as available for sale are reported in Other comprehensive income and are reported in Net Earnings when realised.

The guidance introduces the concept of Other comprehensive income, which tracks unrealised gains and losses experienced by the Group on investments classified as available for sale and the currency translation account movement. Consolidated other comprehensive income together with Consolidated net income provides the financial statement reader with Consolidated comprehensive income. Consolidated comprehensive income is the total of all realised and unrealised income, expenses, gains and losses related to the Consolidated Balance Sheet including currency translation gains and losses on self-sustaining foreign subsidiary operations.

Certain investments, primarily investments actively traded in a public market, are classified as held for trading and are measured at their fair value. Changes in the fair value of these investments flow through net earnings. Certain investment portfolios are classified as available for sale with unrealised gains and losses flowing through Other comprehensive income until they are realised. Changes in fair value of held for trading investments backing the life insurance actuarial liabilities flow through net earnings. This impact is largely offset by corresponding changes in fair value of those actuarial liabilities which also flow through net earnings. There have been no changes to the Group's method of accounting for investment in affiliates and loans.

CICA Handbook Section 4211, Life Insurance Enterprises – Specific Items, replaced CICA Handbook Section 4210 in 2007. As a result, realised gains and losses on financial instruments are not deferred and amortised into income but are recognised in net income as fair value changes (for assets designated as held for trading), or on the date of sale. This includes gains and losses on the sales of bonds, stocks and mortgages. Investments held within segregated funds continue to follow the accounting requirements in Section 4211, which are unchanged from Section 4210.

As a result of implementing all of the above changes, Investments and total Shareholders' Equity increased by $81 million on April 1, 2007. The effect on the components of Shareholders' Equity at April 1, 2007 were as follows:

(In $ thousands)	April 1, 2007
Retained earnings	
At March 31, 2007 brought forward	15,460
Adjusted for:	
Bonds, deferred net realised gain	1,290
Bonds, held for trading	264
Equities and other investments, held for trading	73,472
Retained earnings, April 1, 2007	90,486
Other comprehensive income	
At March 31, 2007 brought forward	334
Adjusted for:	
Equities and investments, available for sale	6,212
Bonds, available for sale	(247)
Other comprehensive income, April 1, 2007	6,299

RECENTLY ISSUED ACCOUNTING STANDARDS

GOODWILL AND INTANGIBLE ASSETS

Effective April 1, 2010, the Group will be required to comply with CICA Handbook Section 3064, Goodwill and Intangible Assets. This section replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. This section establishes new standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Provisions concerning goodwill are unchanged from the previous Section 3062. The provisions relating to intangible assets, including internally generated intangible assets, are incorporated from international financial reporting standards. The new section is not expected to have a material impact on the Group's Consolidated Financial Statements.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

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

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

3. 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 consolidated financial statements are stated in Bermuda dollars and include the financial statements of the Company and of all its subsidiaries. All significant inter-company accounts and transactions have been eliminated.

(B) 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.

(C) FINANCIAL INVESTMENTS

Bonds

Investments in bonds are designated as held for trading, held to maturity or available for sale on the Consolidated Balance Sheet. Held for trading bonds are recognised at fair value with realised and unrealised gains and losses reported as Investment income in the Consolidated Statement of Income and Comprehensive Income. Held to maturity bonds are recognised at amortised cost and are adjusted for amortisation of premiums and accretion which is included in Investment income in the Consolidated Statement of Income and Comprehensive Income. Available for sale bonds are recognised at fair value with unrealised gains and losses recorded as Other comprehensive income in the Consolidated Statement of Income and Comprehensive Income. Realised gains and losses are reclassified from Other comprehensive income and recorded in Investment income when the available for sale bond is sold. Market values for publicly traded bonds are determined using quoted market prices. Carrying values for bonds when there is no active market are carried at amortised cost, net of any provision for losses.

Equities

Investments in equities are designated as available for sale or held for trading. Equities designated as held for trading are recognised at fair value with realised and unrealised gains and losses reported as Investment income (as disclosed in Note 4 (D)) in the Consolidated Statement of Income and Comprehensive Income. Equities designated as available for sale are recognised at fair value with unrealised gains and losses recorded as Other comprehensive income in the Consolidated Statement of Income and Comprehensive Income. Realised gains and losses are reclassified from Other comprehensive income and recorded in Investment income when the available for sale equity is sold. Market values for public equities are generally determined by the last bid price for the security from the exchange where it is principally traded. Carrying values for equities for which there is no active market are carried at cost, net of any provision for losses.

Mortgages and Loans

Investments in Mortgages and loans not actively traded on a public market are classified as loans and receivables and are carried at amortised cost, net of any provisions for losses.

Investment in Affiliates

Investments in affiliates are included in Investments on the Consolidated Balance Sheet. The Company accounts for its investments in affiliated companies, over which it has significant influence, on the equity basis.

Impairment of Assets

The carrying amounts of the Group's financial instruments are reviewed regularly for impairment. The Group considers various factors in the impairment evaluation process, including, but not limited to, the financial condition of the issuer, specific adverse conditions affecting an industry, decline in fair value, bankruptcy or defaults and delinquency in payments of interest or principal.

(i) Held to Maturity

Impairment losses are recognised in income when the investment is considered to be other than temporarily impaired or when the Group does not have the intent to hold the investment until the value has recovered. Once an impairment loss is recorded to income, it is not reversed.

(ii) Available for Sale

Impairment losses are recognised in income when the investment is considered to be other than temporarily impaired. Other than temporary impairment occurs when fair value has declined significantly below cost for a prolonged period of time and there is no objective evidence to support recovery in value.

When there is objective evidence that an available for sale asset is impaired and the decline in value is considered other than temporary, the loss accumulated in Other Comprehensive Income is reclassified to the Income Statement in Investment income. Once an impairment loss is recorded to income, it is not reversed.

(iii) Held for Trading

Since held for trading investments are recorded at fair value with changes in fair value recorded to income, any reduction in value of the asset due to impairment is reflected in Investment income.

(iv) Mortgages and Loans

Mortgages and loans are 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 mortgages and loans. The allowance for losses on mortgages and loans is based on management's assessment of the net realisable value of future cash flows. 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 income earned and realised gains and losses on the sale of investments classified as loans and receivables are included in investment income.

(D) CASH AND CASH EQUIVALENTS

Cash and cash equivalents 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.

(E) CAPITAL ASSETS

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%

(F) INTANGIBLE ASSETS

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.

(G) LIFE AND ANNUITY POLICY RESERVES

(i) Policy liability reserves are determined by the Group's 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 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 liability reserves make provision for the expected experience scenario and for adverse deviations in experience.

(H) 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 actuaries. Any adjustments resulting from the review process, as well as differences between estimates and ultimate payments, are reflected in the Consolidated Statement of Income and Comprehensive Income in the year in which they are determined.

(I) 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.

(J) 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 Income and Comprehensive Income. 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 accrued to the Balance Sheet date.

(K) SEGREGATED FUNDS

Segregated Funds are life, annuity and other contracts under which the policyholder's liabilities are directly linked to the market value of the investments held. As the Group assumes no underwriting or investment risk, the assets and liabilities relating to these contracts are not included in the Consolidated Balance Sheet (see Note 21).

(L) TRANSLATION OF FOREIGN CURRENCIES

United States dollars are translated into Bermuda dollars at par. Other foreign currency monetary 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 in Accumulated Other Comprehensive Income.

(M) STOCK–BASED COMPENSATION

The Company has two stock-based compensation plans for eligible employees which are accounted for under the fair value method. The fair value of stock-based awards is determined using the Black-Scholes option pricing model and is amortised into earnings over the vesting period of the award (see Note 15).

(N) POST-EMPLOYMENT 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 (see Note 18).

4. INVESTMENTS

(A) CARRYING VALUES AND ESTIMATED MARKET VALUES OF INVESTMENTS

Carrying values and estimated market values of investments are as follows:

(In $ thousands)	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Bonds				
Bonds – held to maturity	6,238	3,408	6,623	5,785
Bonds – available for sale	54,752	54,752	51,522	51,522
Bonds – held for trading	82,368	82,368	73,731	73,731
	143,358	140,528	131,876	131,038
Equities				
Equities – available for sale	46,767	46,767	56,832	56,832
Equities – held for trading	115,711	115,711	237,393	237,393
	162,478	162,478	294,225	294,225
Affiliates and other	13,020	11,458	12,315	11,567
Mortgages and loans	72,069	70,982	76,239	75,506
TOTAL INVESTMENTS	390,925	385,446	514,655	512,336

(B) EQUITIES AND OTHER INVESTMENTS

Included in Equities – available for sale is an investment of $42.2 million (2008 – $52.9 million) of which $16,750,000 (2008 – $20,000,000) is redeemable share capital of an unlisted equity investment purchased through the issue of an interest-free promissory note. The note expires in March 2010, at which time the note may be redeemed or the term extended by mutual agreement between the parties.

Included in Equities – held for trading are investments traded on The Bermuda Stock Exchange at a carrying and market value of $62,830,000 (2008 – $156,268,000), the largest single shareholding being $38.2 million (2008 – $120.4 million). The remaining held for trading equity investments of $52.9 million (2008 – $81.1 million) are invested in a diversified portfolio of investments, substantially all of which are US listed investments.

The fair value of the unlisted investments included in Equities – available for sale and Affiliates and other is not practical to determine but is, in the opinion of management, no less than their carrying value.

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

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

(In $ thousands)	2009	2008
Bonds – accrued interest	1,876	1,721
Bonds – short-term cash balances	2,640	563

(D) NET INVESTMENT INCOME

(In $ thousands)	2009	2008
Interest Income		
Bonds – held to maturity	491	505
Bonds – available for sale	2,775	2,546
Bonds – held for trading	1,795	1,847
Mortgages and loans	7,460	7,483
Cash and other	717	871
	13,238	13,252
Dividend Income		
Equities – available for sale	363	437
Equities – held for trading	6,719	7,250
	7,082	7,687
Net Realised gains/(losses) on sale of investments		
Realised gains/(losses) on sale of equities – available for sale	-	3,337
Realised gains/(losses) on sale of equities – held for trading	695	3,180
Realised gains/(losses) on sale of bonds – available for sale	(65)	(150)
Realised gains/(losses) on sale of bonds – held for trading	76	50
	706	6,417
Amortisation of premium on bonds	(223)	(218)
Gains on investment in affiliates	1,070	1,300
Impairment charges	(10,593)	(13,000)
Other	(10)	55
Deduct: Investment income relating to Deposit administration pension plans	(4,686)	(4,628)
Investment Income	6,584	10,865
Change in fair value of held-for-trading assets		
Bonds	(2,387)	2,855
Equities	(113,746)	(9,844)
Change in fair value of investments	(116,133)	(6,989)
TOTAL NET INVESTMENT INCOME	(109,549)	3,876

5. FINANCIAL INSTRUMENT RISK MANAGEMENT

The Group has policies relating to the identification, measurement, monitoring, mitigating, and controlling of risks associated with financial instruments. The key risks related to financial instruments are credit risk, liquidity risk and market risks which include currency, interest rate and other price risks including equity risks. The following describe how the Company manages these risks:

- Portfolios are monitored continuously and reviewed regularly with the Board of Directors and the Investment Committee of the Board of Directors.
- Credit ratings are determined by recognised external credit rating agencies.
- Investment guidelines specify collateral requirements.
- Reinsurance is placed with counterparties that have a strong credit rating. Management continuously monitors and performs an assessment of creditworthiness of reinsurers.

(A) CREDIT RISK

The Group has exposure to credit risk, which is the risk that a counterparty will suffer a deterioration in perceived financial strength or be unable to pay amounts in full when due.

The concentrations of credit risk exposures held by insurers may be expected to be greater than those associated with other industries, due to the specific nature of reinsurance markets and the extent of investments held in financial markets. In both markets, the Group interacts with a number of counterparties who are engaged in similar activities with similar customer profiles, and often in the same geographical areas and in industry sectors. Consequently, as many of these counterparties are themselves exposed to similar economic characteristics, one single localised or macroeconomic change could severely disrupt the ability of a significant number of counterparties to meet the Group's agreed contractual terms and obligations.

(i) Maximum Exposure to Credit Risk

The following table summarises the Group's maximum exposure to credit risk related to financial instruments. The maximum credit exposure is the carrying value of the assets net of any allowances for losses.

(In $ thousands)	2009	2008
Cash and short-term investments	23,184	24,272
Interest and dividends receivable	1,294	730
Bonds	143,358	131,876
Mortgages and loans	72,069	76,239
Affiliates and other	13,020	12,315
Insurance balances receivable	14,242	12,460
Reinsurers' share of claims provisions	3,265	4,027
TOTAL BALANCE SHEET MAXIMUM CREDIT EXPOSURE	270,432	261,919

Credit risk is mitigated by entering into collateral agreements for mortgages and loans. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Management monitors the value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable.

(ii) Concentration of Credit Risk

Concentrations of credit risk arise from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics in that they operate in the same geographic region or in similar industries. The characteristics are similar in that changes in economic or political environments may impact their ability to meet obligations as they come due.

The following table provides details of the carrying value of bonds by industry sector and geographic distribution at March 31, 2009 and 2008.

(In $ thousands)	2009	2008
Bonds issued or guaranteed by:		
Banking and finance	56,409	56,115
Agency	23,929	25,239
Federal government	16,003	6,695
Pharmaceutical	10,440	6,813
Utilities and energy	9,989	6,338
Transportation	7,082	4,539
Supra National	1,940	9,902
Other	17,566	16,235
TOTAL BONDS	143,358	131,876

(In $ thousands)	2009	2008
Geographic distribution is as follows:		
United States	82,755	76,403
Bermuda	2,532	2,788
Supra National	10,750	9,902
United Kingdom	9,911	7,473
Netherlands	9,774	10,713
Germany	6,503	7,029
Other	21,133	17,568
TOTAL BONDS	143,358	131,876

The geographic location for all mortgages and loans is Bermuda and the following table provides details of the carrying value split into residential and non-residential. Residential mortgages include mortgages for both single and multiple family dwellings.

(In $ thousands)	2009	2008
Mortgages		
Residential	9,333	9,390
Non-residential	47,191	44,147
Loans		
Subordinated debt	15,545	22,702
TOTAL MORTGAGES AND LOANS	72,069	76,239

Mortgages are secured by Bermuda real estate.

(iii) Asset Quality

The following table provides an analysis of the carrying value of bonds by rating.

(In $ thousands)	2009	2008
Bond Portfolio Quality:		
AAA	65,201	62,259
AA	39,677	40,325
A	28,078	23,708
B and lower	4,436	2,565
Not Rated	3,326	2,456
Cash	2,640	563
TOTAL BONDS	143,358	131,876

Mortgages and Loans Past Due or Impaired

The distribution of mortgages and loans by credit quality as at March 31 is shown as follows:

(In $ thousands)	2009 Carrying Value	2009 Allowance for Losses	2008 Carrying Value	2008 Allowance For Losses
Not past due:	45,509	-	65,759	-
Past due:				
Past due less than 90 days	556	-	846	-
Past due 90 to 179 days	545	-	748	-
Past due 180 days or more	960	-	1,209	-
Impaired	24,499	23,100	7,677	13,100
BALANCE, END OF YEAR	72,069	23,100	76,239	13,100

Changes in the allowance for credit losses are as follows:

(In $ thousands)	2009	2008
Balance, beginning of year	13,100	200
Net recoveries in year	-	(100)
Net provisions made in year	10,000	13,000
BALANCE, END OF YEAR	23,100	13,100

Included in Mortgages and loans, Subordinated debt with a carrying value of $15,545,000 (2008 – $22,702,000) is stated net of a provision for impairment of $10 million (2008 – $ nil).

Past due mortgages and loans of $2,061,000 at March 31, 2009 ($2,803,000 at March 31, 2008) do not have an allowance for losses because at a minimum, either the fair value of the collateral or the expected future cash flows exceed the carrying value of the mortgages and loans.

Restructured Mortgages and Loans

Mortgages and loans with a carrying value of $16,519,000 have had their terms renegotiated during the year ended March 31, 2009 ($ nil in 2008).

Possession of Collateral/Foreclosed Assets

The Group did not take possession of real estate collateral it held as security for mortgages in the year (2008 –$ nil).

Temporarily Impaired Available for Sale Assets

The available for sale assets disclosed in the following table exhibit evidence of impairment; however, the impairment loss has not been recognised in net income because the diminution in value is considered temporary. Held for trading assets are excluded from the following table as changes in fair value are recorded to net investment income. Available for sale bonds, equities and other invested assets have generally been identified as temporarily impaired if their amortised cost as at the end of the period was greater than their fair value, potentially resulting in an unrealised loss. In connection with the Group's investment management practices and review of its investment holdings, it is believed that the contractual terms of these investments will be met and/or the Group has the ability to hold these investments until recovery in value occurs.

(In $ thousands)	2009 Carrying Value	2009 Unrealised Losses	2008 Carrying Value	2008 Unrealised Losses
Bonds – available for sale	22,328	2,665	12,507	494
Equities – available for sale	43,690	7,427	-	-
Other – available for sale	9,210	1,550	8,892	749

Other Than Temporarily Impaired Available for Sale Assets

The Group wrote down $ nil of impaired available for sale assets recorded at fair value during 2009 (2008 – $ nil).

Impairment of Held for Trading Assets

The Group generally maintains distinct asset portfolios for each line of business. Changes in the fair value of these assets are largely offset by changes in the fair value of actuarial liabilities, when there is an effective matching of assets and liabilities. When assets are designated as held for trading, the change in fair value arising from impairment is not required to be separately disclosed under Canadian generally accepted accounting principles. The reduction in fair values of held for trading assets attributable to impairment results in an increase in life actuarial liabilities charged through the Consolidated Statement of Income for the year.

During 2009, the net charge to the income statement attributable to impairments for held for trading assets backing life actuarial liabilities amounted to $ nil (2008 – $ nil).

(B) LIQUIDITY RISK

Liquidity risk is the risk that the Group will not be able to meet all cash outflow obligations as they come due. The Group's asset-liability management process allows it to maintain its financial position by ensuring that sufficient liquid assets are available to cover its potential funding requirements. The Group invests in various types of assets with a view of matching them with its liabilities of various durations. To strengthen its liquidity further, the Group actively manages and monitors its capital and asset levels, diversification and credit quality of its investments and cash forecasts and actual amounts against established targets.

Based on the Group's historical cash flows and current financial performance, management believes that the cash flow from the Group's operating activities will continue to provide sufficient liquidity for the Group to satisfy debt service obligations and to pay other expenses.

The maturity profile of investments by contractual maturity as of March 31, 2009 is shown below.

(In $ thousands)	Effective Interest Rate Ranges	Within 1 Year	2 – 5 Years	6 – 10 Years	Over 10 Years	Carrying Value
Bonds	2.14% – 8.42%	12,360	73,105	43,045	14,848	143,358
Mortgages and loans	6.17% – 12.55%	12,260	20,086	19,086	20,637	72,069
		24,620	93,191	62,131	35,485	215,427

The maturity profile of investments by contractual maturity as of March 31, 2008 are shown below.

(In $ thousands)	Effective Interest Rate Ranges	Within 1 Year	2 – 5 Years	6 – 10 Years	Over 10 Years	Carrying Value
Bonds	2.77% – 8.81%	8,790	59,013	47,180	16,893	131,876
Mortgages and loans	6.70% – 12.55%	27,098	10,915	23,802	14,424	76,239
		35,888	69,928	70,982	31,317	208,115

The following is an analysis by liability type of the estimated timing of net cash flows based on the Group's liabilities at March 31,2009. The settlement profile is based on current estimates and historical trends and the actual timing of future cash flows may differ materially from the disclosure below.

(In $ thousands)	Within 1 Year	2 – 5 Years	6 – 10 Years	Over 10 Years	2009 Total
Life and annuity policy benefits	11,250	38,165	43,714	142,618	235,747
Deposit administration pension plans	17,514	141,173	-	-	158,687
Provision for unpaid and unreported claims	25,193	-	-	-	25,193
Insurance balances payable	7,700	-	-	-	7,700
Deposit liabilities	-	8,935	-	-	8,935
Note payable	16,750	-	-	-	16,750
Loan payable	6,000	21,753	-	-	27,753
Dividends payable	3,354	-	-	-	3,354
Accounts payable and accrued liabilities	14,033	-	-	-	14,033
	101,794	210,026	43,714	142,618	498,152

(In $ thousands)	Within 1 year	1 – 5 Years	5 – 10 Years	Over 10 Years	2008 Total
Life and annuity policy benefits	10,493	36,431	41,907	143,299	232,130
Deposit administration pension plans	10,978	118,830	-	-	129,808
Provision for unpaid and unreported claims	23,334	-	-	-	23,334
Insurance balances payable	10,548	-	-	-	10,548
Deposit liabilities	-	7,759	-	-	7,759
Note payable	20,000	-	-	-	20,000
Loan payable	10,000	-	-	17,675	27,675
Dividends payable	3,354	-	-	-	3,354
Accounts payable and accrued liabilities	15,039	-	-	-	15,039
	103,746	163,020	41,907	160,974	469,647

The short-term (less than one year) liquidity needs are more than adequately met by maturing bonds and mortgages and loans as well as by current operating cash flows. Historically, the Deposit administration pension plan liabilities renew for further periods upon maturity and remain with the Group. Longer duration cash flows are also backed by a broader range of asset classes including equity and other non-fixed income assets. Re-investment strategies and policies are in place for maturing assets backing longer-term liabilities and are reflected in the Life and annuity policy reserves.

(C) MARKET RISK

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market factors. Market factors include three types of risk: currency risk, interest rate risk and equity risk.

(i) Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The following policies and procedures are in place to mitigate the Group's exposure to currency risk.

- The Group constantly monitors the effect of currency translation fluctuations.
- Investments are normally made in the same currency as the liabilities supported by those investments.

- The majority of the Group's assets, liabilities and earnings are denominated in Bermuda or United States dollars.
- The assets and liabilities of the self-sustaining foreign operatives are held in the appropriate currency. The net currency exposure arising from the net equity within these operations amounts to £5 million and €1.2 million (2008 – £6 million and €953,000).

(ii) Interest Rate Risk

Interest rate risk is the potential for financial loss arising from changes in interest rates. Change in market interest rates can impact the reinvestment of matured investments, as the returns available on the new investment may be significantly different from the returns previously achieved. The Company manages these risks through:

- Asset allocation and diversification of the investment portfolio
- Investing in fixed income assets that closely match the life liability product cash flows for products with fixed and highly predictable benefit payments
- Quantifying and reviewing regularly the risk associated with the mismatch in portfolio duration and cash flow.

The impact of interest rate risk for the Group's actuarial liabilities and the assets supporting those liabilities is included in Note 10. Management considers that there is no material interest rate risk on fixed-income investments which support non-life insurance liabilities.

(iii) Equity Risk

The majority of the equities are held to back long-term liabilities or those where it is expected that the liabilities will renew at maturity at then current market rates. Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. Overall, it is expected that the impact of an immediate 10 percent increase in value across all equity markets would be an increase in Net income and Other comprehensive income of $16.2 million; conversely the impact of a 10 percent decrease would have an equal but opposite effect.

(D) LIMITATIONS OF SENSITIVITY ANALYSIS

The sensitivity information given in (A) to (C) above and in Note 10 demonstrates the estimated impact of a change in a major input assumption while other assumptions remain unchanged. In reality, there are normally significant levels of correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear and larger or smaller impacts should not be interpolated or extrapolated from these results. Furthermore, estimates of sensitivity may become less reliable in unusual market conditions such as instances when risk free interest rates fall towards zero.

6. CAPITAL ASSETS

(In $ thousands)	Cost	Accumulated Depreciation	Net Book Value 2009	2008
Land and buildings	70,786	4,471	66,315	51,087
Computer equipment	21,536	14,087	7,449	5,609
Other	6,557	4,955	1,602	1,796
TOTAL	98,879	23,513	75,366	58,492

Capital assets include costs of $53,132,000 (2008 – $36,627,000) relating to the new corporate headquarters, which will be amortised from April 1, 2009 following substantial completion and occupation of the premises. Interest has been capitalised as disclosed in Note 12 (B).

During the year the charge for depreciation of capital assets was $2,885,000 (2008 – $2,528,000).

7. INTANGIBLE ASSETS

Intangible assets comprise:

(In $ thousands)	Cost	Accumulated Amortisation and Other	Net Book Value 2009	2008
Arising from:				
Continuing businesses	21,630	14,981	6,649	13,800
Run-off business	1,190	1,190	-	87
TOTAL	22,820	16,171	6,649	13,887

The following table summarises the movement in the net book value of Intangible assets:

(In $ thousands)	2009	2008
Balance, beginning of year	13,887	11,809
Acquisition	1,479	492
Adjustment to prior year acquisition costs	(282)	-
Contingent consideration	-	2,584
Impairment	(7,475)	-
Amortisation for the year	(960)	(998)
BALANCE, END OF YEAR	6,649	13,887

Continuing business represents the accumulated cost of customer lists and policies acquired. An amortisation charge of $960,000 (2008 – $998,000) was recognised during the year and is included in the Consolidated Statement of Income and Comprehensive Income as Amortisation.

During the year, the Group determined that the future expected revenue in the International Life business unit was impaired arising from the exposure of client investments to certain Madoff feeder funds. A write-down of $7,475,000 was taken during the year and is included in Amortisation, depreciation and impairment in the Consolidated Statement of Income and Comprehensive Income.

8. ACQUISITION

Solrac & Co.

Effective April 1, 2008, the Group acquired the customer list of Solrac & Co., an insurance agency in Gibraltar. The Group has applied the total purchase consideration of $1,479,000 to Intangible assets (see Note 7).

Argus International Life Insurance Limited

Effective February 28, 2008, the Group acquired 74 percent of the share capital of MassMutual (Bermuda) Ltd. This company offers variable life and annuity products and has changed its name to Argus International Life Insurance Limited ("AILIL"). The purchase consideration is subject to certain adjustments at the end of the calendar years 2009 and 2010 dependent upon the persistency and value of the policies assumed upon acquisition. The maximum further total consideration payable cannot exceed $200,000. All further consideration payable will be treated as an addition to Intangible assets as and when it becomes due.

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

(In $ thousands)	AILIL 2008
ASSETS	
Cash	1,257
Intangible assets	492
Other assets	170
TOTAL ASSETS ACQUIRED	1,919
LIABILITIES	
Unearned premiums	11
Accounts payable and accrued liabilities	911
TOTAL LIABILITIES ASSUMED	922
NET ASSETS ACQUIRED	997
TOTAL PURCHASE CONSIDERATION IN CASH LESS CASH ACQUIRED	(260)

9. 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 $ nil (2008 – $197 million).

10. 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 net of amounts recoverable from reinsurers. 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 Life and annuity policy reserves, net of reinsurance recoverable, are as follows:

(In $ thousands)	2009	2008
Annuities	262,916	226,322
Long term disability	1,254	1,291
Life	20,706	20,527
Other benefits	5,245	4,241
	290,121	252,381
The changes in the actuarial liabilities are as follows:		
Balance, beginning of year	252,381	237,516
Normal changes	31,351	11,811
Interest rate assumptions	5,727	3,370
Mortality assumptions	-	-
Expense assumptions	109	(432)
Other	553	116
BALANCE, END OF YEAR	290,121	252,381

Assets supporting the Life and annuity policy reserves are as follows:

(In $ thousands)			2009			
	Bonds	Mortgages	Equities	Real Estate	Cash	Total
Annuities	131,085	34,518	67,163	17,150	13,000	262,916
Long-term disability	-	1,254	-	-	-	1,254
Life	3,252	14,082	3,372	-	-	20,706
Other Benefits	-	2,400	2,845	-	-	5,245
	134,337	52,254	73,380	17,150	13,000	290,121

(In $ thousands)			2008			
	Bonds	Mortgages	Equities	Real Estate	Cash	Total
Annuities	119,592	32,663	74,066	-	-	226,322
Long term disability	-	1,291	-	-	-	1,291
Life	6,624	10,973	2,621	-	310	20,527
Other Benefits	-	-	4,241	-	-	4,241
	126,216	44,927	80,928	-	310	252,381

Assumptions

The risks associated with insurance contracts and in particular with life and annuity insurance contracts are complex and subject to a number of variables that complicate quantitative sensitivity analysis. Delays in the notification of claims necessitate the holding of significant reserves for liabilities that may only emerge a number of accounting periods later.

To recognise the uncertainty involved in determining the best estimate assumptions a provision for adverse deviation ("PfAD") is established. The PfAD is determined by including a margin for conservatism for each key assumption to allow for possible deterioration in experience and to help ensure the policy reserves will be adequate to pay for future benefits. The PfAD assumptions tend to be in the conservative end of the ranges suggested by the Canadian Institute of Actuaries.

The following is a description of the process used to establish the assumptions used in the valuation of the policy reserves:

(A) MORTALITY

Mortality refers to the likelihood of death. The mortality assumption is based on industry standard life insurance and standard annuity past and emerging experience. The Group's life insurance and annuity business is not sufficient to use company specific mortality tables.

To offset some of the mortality risk, the Group reinsures the mortality risk with reinsurers. The impact of the reinsurance is to reduce the policy reserves.

The mortality experience is monitored against the assumptions used in the policy reserves.

A five percent decrease in the best estimate assumption for annuitant mortality would increase the policy reserves by $1.74 million (1.69 percent).

(B) MORBIDITY

Morbidity refers to the incidence of accident and sickness as well as the recovery from the incidence. The morbidity assumptions are based on the industry standard morbidity tables for the long term disability business. The frequency of claims is low and the risk is substantially reinsured.

(C) INVESTMENT RETURNS AND INTEREST RATE RISK

Assets are allocated to the different business segments. For each significant business segment the Canadian Asset Liability Method ("CALM") is used to project the cash flows from the supporting assets and the cash flows from the liabilities. The projected asset cash flows are combined with the projected cash flows from future asset sales and purchases to determine the expected investment returns for all future years.

The Standards of Practice prescribe several representative reinvestment scenarios to determine the sensitivity of the Group's business to possible reinvestment risk. These scenarios provide for interest rate movements significantly in excess of one percent, but to provide a representative example a one percent increase in the best estimate investment return assumption decreases the total life and annuity policy reserves by $15.3 million. A one percent decrease in the best estimate assumption increases the total life and annuity policy reserves by $18 million.

(D) CREDIT RISK

Credit risk is provided for by reducing investment yields assumed in the calculation of the policy reserves. Past company and industry experience over the long term, in addition to ongoing reviews of the current portfolio, are used to project credit losses. In addition to the allowances for losses on invested assets due to interest rate risk, the policy reserves include a provision of $2.2 million to provide for future asset defaults and loss of asset value on current assets and future purchases.

(E) EXPENSES

Operating expense assumptions reflect the projected costs of servicing and maintaining the in-force policies. The assumptions are derived from an internal review of operating costs and include an allowance for inflation.

A 10 percent increase in the best estimate assumption for unit expenses would increase the policy reserves by approximately $797,000.

(F) POLICY TERMINATION AND PERSISTENCY

Policy termination refers to policy surrenders and lapses where lapses represent the termination of policies resulting from non-payment of premiums. Policy surrenders are voluntary. The policy termination rates are based on industry experience because there is an insufficient amount of data to use internal studies only.

(G) REINSURANCE

In order to reduce the mortality risk to the Group, part of the business is ceded to reinsurers. Reinsurance ceded does not discharge the Group of its liability towards its insureds. Therefore, failure of reinsurers to honour their obligations could result in losses for the Group. Each year, the Group ascertains that its reinsurers exceed the minimum capitalisation required by the regulatory authorities. Life and annuity policy reserves are reported net of reinsurance ceded. Reserves, before and after reinsurance ceded are shown below:

(In $ thousands)	**2009**	2008
Gross life and annuity policy reserves	**149,815**	135,521
Impact of reinsurance ceded	**(18,381)**	(12,948)
LIFE AND ANNUITY POLICY RESERVES	**131,434**	122,573

11. PROVISION FOR UNPAID AND UNREPORTED CLAIMS

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

(In $ thousands)	2009	2008
Gross provision, beginning of year	23,334	27,576
Reinsurers' share, beginning of year	(4,027)	(13,280)
Net provision, beginning of year	19,307	14,296
Net claims and adjustment expenses incurred		
Current year	76,583	70,287
Prior year	(973)	(5,884)
Total	75,610	64,403
Net claims and adjustment expenses paid		
Current year	(63,599)	(57,381)
Prior year	(9,390)	(2,011)
Total	(72,989)	(59,392)
Movement in the year	2,621	5,011
NET PROVISION, END OF YEAR	21,928	19,307
Represented by:		
Gross provision, end of year	25,193	23,334
Reinsurers' share, end of year	(3,265)	(4,027)
NET PROVISION, END OF YEAR	21,928	19,307

12. LOANS PAYABLE

(A) TROTT PROPERTY LIMITED

In 2007, Trott Property Limited, a wholly-owned subsidiary (the "Borrower"), obtained a two-year $10 million loan from the Bank of N.T. Butterfield & Son Limited which was paid in full in January 2009. The loan was secured upon real estate owned by the Borrower and co-collateralised by a guarantee from the Company. Interest was charged at the bank's Bermuda dollar base rate plus one percent per annum which equated to an effective rate of 4.75 percent in the year (2008 – 5.25 percent).

(B) ARGUS PROPERTY LIMITED

In April 2007 Argus Property Limited, a wholly-owned subsidiary ("the Borrower"), obtained mortgage finance of $30 million from the Bank of N.T. Butterfield & Son Limited in order to finance the development of the new corporate headquarters. The loan, drawable over two years, is repayable over a maximum of 15 years once fully drawn. 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 Bermuda dollar base rate plus one percent per annum and is added to the loan principal until the loan is fully drawn. At March 31, 2009, the loan outstanding was $27.7 million (2008 – $17.7 million) which includes accrued interest of $1,909,000 (2008 – $832,000) which has been capitalised.

13. SHARE CAPITAL

The Company declared cash dividends of $13,429,000 (2008 – $12,692,000) during the year. There were no stock dividends declared during the year. In the prior year, 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 1,947,122 shares and the payment of $6,000 to those shareholders entitled to fractional shares.

14. EARNINGS PER SHARE

Basic earnings per share presented in the Consolidated Statement of Income and Comprehensive Income is calculated by dividing net income (loss) 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. When an enterprise has a loss before discontinued operations and extraordinary items, no potential common shares are included in the computation of calculating fully diluted earnings per share.

(In $ thousands)	**2009**	2008
Net (Loss)/Earnings for the year	**(115,701)**	15,479
Weighted average outstanding common shares	**20,940**	20,920
Dilutive effect of outstanding options using the treasury stock method	**-**	244
COMMON SHARES AND COMMON SHARE EQUIVALENTS	**20,940**	21,164

15. STOCK–BASED COMPENSATION

As at March 31, 2009, the Company has two stock-based compensation plans, which are described below. The total compensation cost that has been charged against net income for these plans for the year ended March 31, 2009 was $304,000 (2008 – $220,000).

(i) Stock Option Plan

Under the Company's 2004 Stock Option Plan, options were granted to key management employees at exercise prices not less than the fair market value of the Company's shares on the date the option was 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 fair value of these awards is recognised over the applicable vesting period as compensation expense and Contributed surplus. The fair value of options on the date of grant was determined using the Black-Scholes option pricing model.

At the Annual General Meeting of Shareholders held on July 26, 2007, the Directors were granted authority to cease issuing further stock options under the Company's 2004 Stock Option Plan and, in its stead, adopted the 2007 Restricted Stock Plan as described in note (ii) below. Stock options granted prior to this date remain valid and the terms and conditions of the 2004 Stock Option Plan continue to apply thereto until expiration. There were no stock options granted in the year ended March 31, 2009 or 2008.

The following table summarises the activity under the Company's stock option plan for the year ended March 31, 2009:

	2009 Total number of shares under option	2009 Weighted average exercise price	2008 Total number of shares under option	2008 Weighted average exercise price
Outstanding, at the beginning of year	516,988	$8.22	545,363	$8.69
Changes during the year:				
Exercised	(44,126)	$6.59	(75,954)	$5.81
Forfeited	(11,996)	$10.49	(1,574)	$6.38
Stock dividend	-	-	49,153	-
Outstanding, end of year	460,866	$8.32	516,988	$8.22
Exercisable, end of year	383,478	$7.81	355,428	$7.22

The weighted average remaining contractual life of options outstanding is 4.91 years (2008 – 5.78 years). The range of fair values of options outstanding is $2.72 to $5.17. The total compensation expense recognised in the current year was $114,000 (2008 – $129,000) and has been included in Operating expenses.

The characteristics as at March 31, 2009, of options granted in earlier years are as follows:

Fiscal year	Exercise Price	Number of Outstanding	Shares Exercisable
2000	$4.40	22,225	22,225
2001	$5.12	48,697	48,697
2003	$7.20	59,617	59,617
2004	$5.95	60,571	60,571
2005	$8.95	85,948	85,948
2006	$9.04	85,867	60,766
2007	$11.77	97,941	45,654
	$8.22	460,866	383,478

(ii) Restricted Stock Plan

The purpose of the 2007 Restricted Stock Plan is to enhance the Company's ability to attract and retain the services of certain key employees and to incent such persons to devote their utmost effort and skill to the growth of the Company by providing them with an interest in its long-term growth and stability. Under the Restricted Stock Plan, the maximum number of shares that may be granted is 250,000 over the five-year life of the plan.

Shares are granted unvested and vest at the rate of 33 1/3 percent at the end of each year for three years. The fair value of each share granted under the Restricted Stock Plan was based upon the market price at the date of grant. During the year ended March 31, 2009, 21,976 shares (2008 – 17,599) were granted and 1,645 shares (2008 – nil) were forfeited and the net fair value was $309,000 (2008 – $273,000) which will be amortised through earnings over the vesting period. The total compensation cost recognised in the current year was $190,000 (2008 – $91,000) and has been included in Operating expenses. At March 31, 2009 there was $304,000 (2008 – $182,000) of total unrecognised compensation cost related to non-vested shares granted under the plan which is expected to be recognised over the next two years.

16. GENERAL RESERVE

For the year ended March 31, 2009, the Directors considered the General reserve within Shareholders' Equity to be available for distribution and transferred the balance to Retained Earnings.

17. PENSION PLAN

The Company maintains a defined contribution pension plan covering all full-time employees. For the year ended March 31, 2009, the net pension cost recorded in operating expenses was $791,000 (2008 – $797,000).

18. POST-EMPLOYMENT MEDICAL BENEFITS

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

(In $ thousands)	2009	2008
Accrued benefit liability, beginning of year	4,241	3,913
Current service cost	421	336
Interest cost	276	254
Plan amendments and net actuarial gain	397	(170)
Benefits paid	(88)	(92)
ACCRUED BENEFIT LIABILITY, END OF YEAR	5,247	4,241

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-employment 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 estimated as follows:

	2009	2008
Discount rate	7%	7%
Expected long-term rate of return on plan assets	9%	9%

The assumed healthcare cost trend rate is currently estimated at 6.5 percent (2008 – 9.4 percent) per annum, and the annual employee turnover rate is 3.6 percent (2008 – 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	48	(40)
Accrued benefit liability	372	(321)

19. SEGMENT INFORMATION

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

(i) Insured Employee Benefits – including group health, life and long term disability and employer's indemnity coverage.

(ii) Life and Pensions – including individual life insurance, annuities and group retirement income plans.

(iii) Property and Casualty – including fire and windstorm (home and commercial property), all risks, liability, marine and motor coverage.

(iv) All Other – representing the combined operations of the remaining components of the Group comprising two management companies, three property holding companies, a financial reinsurance company 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	**2009**	**94,430**	**(83,244)**	**16,513**	**4,447**	**32,146**
	2008	83,497	14,092	35,406	5,229	138,224
Depreciation of capital assets	**2009**	**1,146**	**8,706**	**1,409**	**59**	**11,320**
	2008	1,038	1,148	1,302	38	3,526
Segment earnings	**2009**	**12,983**	**(117,069)**	**(11,560)**	**(55)**	**(115,701)**
	2008	13,941	(10,695)	11,379	854	15,479
Segment assets	**2009**	**57,351**	**333,388**	**106,701**	**31,556**	**528,996**
	2008	53,840	417,735	138,990	33,258	643,823
Capital expenditure	**2009**	**1,277**	**1,435**	**2,641**	**15,885**	**21,238**
	2008	1,088	4,004	775	21,104	26,971

Notes (a) Inter-segment 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

20. 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.

21. 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 3 (K). At March 31, 2009, 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. The reserves and assets for these contracts have been allocated to Separate Accounts as authorised by the Bermuda Life Insurance Company (Separate Accounts) Consolidation and Amendment Act 1998 and the Argus International Life Insurance Limited Consolidated and Amendment Act 2008.

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

Consolidated Statement of Changes in Segregated Funds

(In $ thousands)	2009	2008
Additions to Segregated Funds		
Premiums, contributions and transfers	113,868	123,121
Net investment income	1,160	1,946
Net (decrease)/increase in fair value of investments	(399,649)	20,778
Segregated funds acquired	3,117	275,829
	(281,504)	421,674
Deductions from Segregated Funds		
Withdrawals, benefit payments and transfers to the General Fund	109,066	81,859
Operating expenses	13,356	12,379
	122,422	94,238
Net (Reductions)/Additions to Segregated Funds for the year	(403,926)	327,436
Segregated Funds, beginning of year	1,373,907	1,046,471
Segregated Funds, end of year	969,981	1,373,907
Consisting of:		
Bonds	13,602	43,753
Stocks and other investments	714,621	1,233,509
Policy loans	38,879	39,635
Cash and short-term investments	203,184	57,097
Accounts payable and other liabilities	(305)	(87)
TOTAL SEGREGATED FUNDS NET ASSETS	969,981	1,373,907

Composition of segregated funds net assets

(In $ thousands)	2009	2008
Held by policyholders	949,516	1,344,733
Held by the Group	20,465	29,174
TOTAL SEGREGATED FUNDS NET ASSETS	969,981	1,373,907

22. 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, 2009, was 4,329,554 shares.

One of the Directors is a principal in the construction company which is the main contractor for construction of the new corporate headquarters as described in Note 6.

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

23. CAPITAL MANAGEMENT AND STATUTORY REQUIREMENTS

The Company's capital base is structured to exceed regulatory targets and desired capital ratios, maintain strong credit ratings and provide flexibility to take advantage of growth opportunities and provide an adequate return to shareholders. Capital is managed on a consolidated basis under principles that consider all the risks associated with the business. It is also managed at the business unit level under the principles appropriate to the jurisdiction in which it operates.

Management monitors the adequacy of the Company and its operating subsidiaries' capital from the perspective of both the Bermuda and Gibraltar Insurance and Companies Acts. The Company maintained levels above the minimum local regulatory requirements at March 31, 2009 and 2008 as further described below.

The Company's capital base consists of share capital, contributed surplus, retained earnings and accumulated other comprehensive income as disclosed on the Consolidated Balance Sheet.

The Bermuda Insurance Act 1978 and Related Regulations and the Gibraltar Insurance Act (the "Acts") require the Group's insurance subsidiaries to meet minimum solvency margins. Combined statutory capital and surplus for those companies as at March 31, 2009, was $100,500,000 (2008 – $227,200,000) and the amounts required to be maintained by those companies was $24,129,000 (2008 – $19,981,000). In addition, minimum liquidity ratios must be maintained whereby relevant assets, as defined by the Acts, must exceed 75 percent of relevant liabilities.

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

24. COMMITMENTS AND CONTINGENCIES

(a) Capital Commitments

The Group has committed and contracted for $8 million of capital expenditure relating to fit-out costs for the new corporate headquarters of which $4 million has been incurred to date. (See Note 6).

(b) Lease Obligations

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

(In $ thousands)	
2010	1,093
2011	913
2012	700
2013	750
2014	750

(c) Contingencies

(i) The Company has a 35 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 $12.5 million for this office building.

(ii) In January 2009, the Company and Argus International Life Bermuda Limited ("AILBL") were named with various other defendants in a class action suit filed in the United States relating to investment losses caused by Bernard L. Madoff Investment Securities LLC.

Subsequent to March 31, 2009, the Company and AILBL reached an agreement in principle to settle this class action.

The terms of the settlement, which are subject to documentation and court approval, incorporate a broad package of relief including loans to policyholders, the assignment of certain AILBL claims to a litigation trust and cooperation by AILBL in connection with litigation of the assigned claims. In exchange, the Company and AILBL will obtain broad releases relating to the claims in the litigation and other protections and relief. No financial settlement will be paid to policyholders.

The Company and AILBL continue to deny all allegations of wrongdoing or liability whatsoever with respect to the litigation but have agreed 'in principle' to settle the case to eliminate the burden, expense and uncertainty of litigation as well as the concomitant distraction of resources and efforts from their businesses.

(iii) In May 2009, the Company, Bermuda Life Insurance Company Limited and AILBL filed with the Supreme Court of Bermuda a claim against Tremont Group Holdings Inc and Tremont (Bermuda) Limited. The Company bought Tremont International Insurance Ltd ("TIIL") from the Tremont Group in December 2006, and subsequently changed the company's name to AILBL. The Company is pursuing a number of claims, amongst them a claim for damages for breach of warranties in the purchase agreement due to the overstatement by Tremont of the assets of TIIL.

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

25. COMPARATIVE FIGURES

Certain of the 2008 comparative figures have been reclassified to conform to the presentation adopted for 2009.

DIRECTORS OF PRINCIPAL OPERATING SUBSIDIARIES

ARGUS INSURANCE COMPANY LIMITED

Sheila E. Nicoll
Chairman

James A. C. King
Deputy Chairman

David J. Crowhurst

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

Wendall S. F. Brown

C. Joy Pimental

David W. Pugh

Gerald D.E. Simons

Alan R. Thomson

SOMERS ISLES INSURANCE COMPANY LIMITED

James A.C. King
Chairman

David P. Gutteridge
Deputy Chairman

Michelle A. Jackson

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

James A. C. King

Reginald S. Minors

David W. Pugh

Gerald D.E. Simons

ARGUS INTERNATIONAL LIFE BERMUDA LIMITED

John D. Campbell
Chairman

Robert D. Steinhoff
Deputy Chairman

Lauren M. Bell

Wendall S. F. Brown

Peter R. Burnim

David W. Pugh

Gerald D.E. Simons

Alan R. Thomson

ARGUS INSURANCE COMPANY (EUROPE) LIMITED, Gibraltar

James A.C. King
Chairman

David P. Gutteridge
Deputy Chairman

Andrew I. Baker

Andrew H. Bickham

David J. Crowhurst

David W. Pugh

Gerald D.E. Simons

ARGUS FINANCIAL LIMITED

Geoffrey Matus
Chairman

Gerald D. E. Simons
Deputy Chairman

James M. Keyes

Sheila E. Nicoll

David W. Pugh

Craig Rimer

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