



Delivering our **global values**



**ARGO GROUP**

*Get there together*



# Corporate Profile

A.M. BEST rating | 'A' (Excellent)

Argo Group International Holdings, Ltd. (NASDAQ: AGII) is an international underwriter of specialty insurance and reinsurance products in areas of the property and casualty market. Through its operating subsidiaries, Argo Group offers a comprehensive line of products and services designed to meet the unique coverage and claims-handling needs of its clients in four business segments. Excess & Surplus Lines focuses on risks that the standard (admitted) market is unwilling or unable to underwrite because of the nature of their businesses, their particular risk exposures or their loss histories.

Commercial Specialty provides standard-market property and casualty insurance and surety coverages to highly specialized commercial and public entities. Our International Specialty segment writes both insurance and reinsurance business worldwide through the broker market, with offerings including specialty property catastrophe reinsurance along with excess casualty and professional insurance. Syndicate 1200 operates through a Lloyd's of London syndicate offering property, specialty and liability coverage. Argo Group International Holdings, Ltd. is headquartered in Bermuda.

## Financial Highlights

(in millions, except per share amounts)

For the Years Ended December 31,

	2013	2012	2011
Gross written premiums	\$ 1,888.4	\$ 1,745.7	\$ 1,544.8
Net written premiums	1,351.3	1,244.5	1,071.8
Net earned premiums	1,303.8	1,186.5	1,082.0
Net investment income and realized gains	171.3	144.5	175.0
Total revenue	1,470.2	1,336.3	1,258.4
Net income (loss)	\$ 143.2	\$ 52.3	\$ (81.9)
Net income (loss) per common share:			
Basic	\$ 5.33	\$ 1.86	\$ (2.74)
Diluted	\$ 5.14	\$ 1.83	\$ (2.74)
Combined ratio	97.5%	104.6%	119.8%
Total assets	\$ 6,591.0	\$ 6,688.9	\$ 6,378.3
Shareholders' equity	\$ 1,563.0	\$ 1,514.1	\$ 1,463.0
Weighted average number of shares outstanding <sup>(a)</sup> :			
Basic	26.9	28.1	29.9
Diluted	27.9	28.7	29.9
Book value per share <sup>(a)</sup>	\$ 58.96	\$ 55.22	\$ 50.54

<sup>(a)</sup> Per share amounts adjusted for the effects of the 10% stock dividend declared in May 2013.

### NOTICE

The financial highlights herein are a summarized version of Argo Group's audited consolidated financial statements and do not contain sufficient information to allow as full an understanding of the financial position, results of operations, changes in financial position or cash flows of Argo Group as would be provided by the complete financial statements of Argo Group. A registered shareholder of Argo Group receiving these summarized financial statements may notify Argo Group in writing that they elect to receive the complete financial statements for the period for which the summarized financial statements are prepared, or for subsequent periods, or both.

# Letter to the Shareholders

## **For Argo, the past year proved rewarding in many respects.**

We added to our talented team. We made significant progress on our systems and information infrastructure. We made strategic enhancements to our investment portfolio that position us well to perform in a difficult investing environment. We engineered new processes to service the needs of our customers and, throughout the year, we pushed hard to become a locally present, globally active specialty insurer.

All of our segments made underwriting profits last year as our focus on specialty underwriting continued to produce stable returns for our shareholders, notwithstanding the rise in interest rates and the decline in the bond market. In our active pursuit of new technologies, we completed pilot testing and began to implement portions of our new end-to-end business delivery platform (BDP) in 2013. I am pleased with early results from BDP and look forward to its broader expansion in 2014 to deliver greater efficiency and flexibility, making us more responsive to market conditions and customer needs.

## **A year of performance.**

In 2013, our strong performance was reflected in continued year-over-year

improved underwriting profits in every business. We ended the year with consolidated gross written premium of \$1.9 billion, an increase of 8.2% over 2012, while our Excess & Surplus Lines, Syndicate, and International Specialty businesses all experienced strong double-digit growth for the year. For the Group as a whole, we ended the year with diluted book value just shy of \$59 per share, up 7% from the end of 2012.

## **Growth at the core.**

**OUR EXCESS & SURPLUS LINES BUSINESS** grew its premium by nearly 16% in 2013, with the strongest increase coming from a core casualty business we've been successfully underwriting at Colony for 20 years. These gains are testament to the diligent work and focused marketing efforts of our E&S team. Even as we expanded this business, we continued to refine our underwriting appetite, trimming back less profitable lines such as those in our transportation business. As we look ahead to continued growth in areas where we see the best profit potential, the introduction of new technology and expansion of our underwriting teams will enable us to build on this momentum. Our efforts over the year resulted in an improved combined ratio of 88% compared with almost 92% for 2012.

## **Achieving balance.**

**OUR COMMERCIAL SPECIALTY SEGMENT MADE SIGNIFICANT PROGRESS** in 2013, with a return to profitability after a difficult year in 2012. Argo Insurance—our admitted grocery, restaurant and dry cleaning business—refocused on leveraging its core areas of expertise, and we're generally pleased with the results. Trident—our public entity business—is again producing its historic levels of underwriting margin, achieving greater profitability in our public entity accounts. Rockwood—our mining business—continued to thrive in spite of a challenging regulatory environment impacting the coal mining industry. Overall premium for the segment declined for the year by a little over 4% (reflecting our continued re-underwriting of the portfolio), yet we continued to secure rate increases where needed. The segment's combined ratio improved to 98% for the year compared to 115% for 2012. On the heels of that significant improvement, we said good-bye to Mike Arledge as President of Commercial Specialty. Mike retired at the end of the year after having spent the past 13 helping us build this business. I thank him for all his efforts, leadership and friendship over the years. I'm sure he's proud to have wrapped up the year on such a strong note, and we all wish him the best in retirement.

### **Strict discipline. Good decisions.**

**OUR INTERNATIONAL BUSINESS SEGMENTS PERFORMED WELL THROUGHOUT THE YEAR.** We were particularly pleased with the year's results for our Lloyd's market business, Syndicate 1200. Gross written premiums were up 9.5% for the full year. Net written premiums were up even more as we retained a greater portion of the risk we underwrite. Here, our strategy is to diversify into products that have historically performed well in the Lloyd's market, while maintaining a focused discipline on risk concentration and good underwriting decisions. And that strategy has resulted in a second consecutive year of strong results after the challenges we faced in 2010 and 2011.

*In May we welcomed David Harris as the new Managing Director of Syndicate 1200. David took over for Jeff Radke, who guided the remarkable progress of our Lloyd's operations since 2011.*

Our other international business platforms continued to gain traction in their respective markets. During the fourth quarter, we opened another branch of ArgoGlobal SE in Zurich to serve the market for professional lines within Continental Europe. We closed the year with a combined ratio of 95.4% for our International Specialty segment.

### **Navigating the changing environment.**

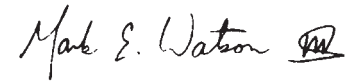
#### **ON THE CAPITAL AND INVESTMENT FRONTS, NEW SOURCES OF CAPITAL ARE CHANGING THE LANDSCAPE.**

Competition has increased as the broader investment community recognizes insurance as a market in which to deploy capital effectively. We now compete side-by-side with new players including hedge funds and pension funds eager to bring more capacity to the market. We welcome their challenge and the new environment it creates and we'll continue to look for competitive advantage in an investment market we know well. We believe our emphasis on total return over income best serves our goal of maximizing shareholder value in the long run—and the long run as always is our focus.

*Capital management has been a key part of our strategy. We have returned more than \$300 million of capital to shareholders over the last six years. We will continue to invest in our stock and deliver capital back to shareholders, but weighed carefully against the risk-adjusted returns of other capital uses. And we will remain devoted to our core values, which distinguish us among competitors and help drive sustainable growth.*

As always, the professionalism of our staff is the reason for our progress and the greatest assurance of our ongoing success. In 2013, my colleagues in every corner of Argo Group proved their ability to serve with courage, innovation, commitment and, ultimately, excellence. I remain grateful for, and inspired by, our team and our trading partners in each segment of the business. I am confident that we will continue to improve performance and efficiency throughout our company in 2014 and beyond. Thank you for your continued support.

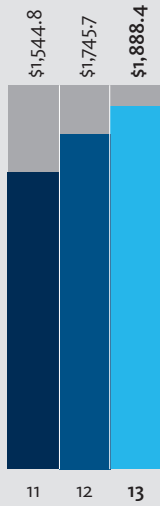
Regards,



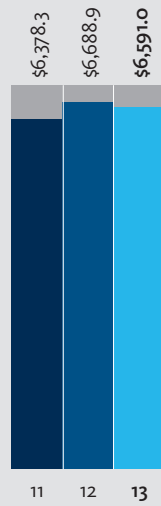
**Mark E. Watson III**  
President and Chief Executive Officer



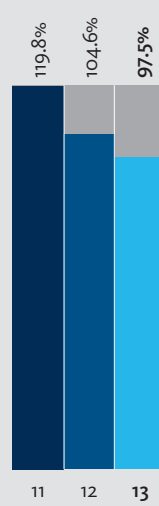
## ARGO GROUP (Consolidated)



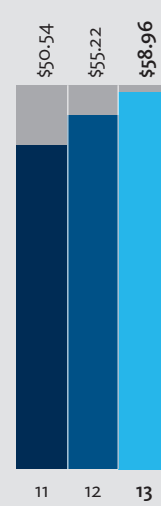
**Gross Written Premiums**  
(dollar amounts in millions)



**Total Assets**  
(dollar amounts in millions)



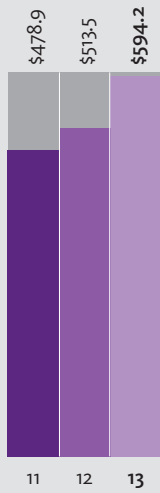
**Combined Ratio**



**Book Value per Share**

## GROSS WRITTEN PREMIUMS BY SEGMENT

(dollar amounts in millions)



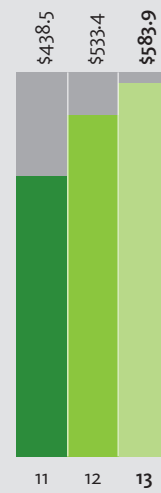
**Excess & Surplus Lines**



**Commercial Specialty**



**International Specialty**



**Syndicate 1200**

# Financial Results

2013 at a glance

## SEGMENTS

For the Years Ended December 31,

(dollar values in millions)

	2013	2012	2011
<b>EXCESS &amp; SURPLUS LINES</b>			
Gross written premiums	\$ 594.2	\$ 513.5	\$ 478.9
Earned premiums	\$ 460.2	\$ 399.3	\$ 405.3
Losses and loss adjustment expenses	244.0	223.3	247.1
Other reinsurance-related expenses	4.9	—	—
Underwriting, acquisition and insurance expenses	157.2	143.9	139.8
Underwriting income	54.1	32.1	18.4
Net investment income	42.2	51.1	56.0
Interest expense	(6.9)	(9.1)	(8.5)
Income before income taxes	\$ 89.4	\$ 74.1	\$ 65.9
Loss ratio	53.6%	55.9%	61.0%
Expense ratio	34.5%	36.0%	34.5%
Combined ratio	88.1%	91.9%	95.5%
Loss reserves at December 31	\$ 1,171.8	\$ 1,209.0	\$ 1,271.8

## COMMERCIAL SPECIALTY

Gross written premiums	\$ 419.1	\$ 437.0	\$ 428.8
Earned premiums	\$ 299.0	\$ 317.5	\$ 316.7
Losses and loss adjustment expenses	194.0	257.0	236.4
Other reinsurance-related expenses	0.9	—	—
Underwriting, acquisition and insurance expenses	97.4	108.3	106.7
Underwriting income (loss)	6.7	(47.8)	(26.4)
Net investment income	22.8	27.6	27.7
Interest expense	(3.8)	(5.9)	(5.0)
Fee (expense) income, net	(4.3)	1.3	0.1
Income (loss) before income taxes	\$ 21.4	\$ (24.8)	\$ (3.6)
Loss ratio	65.1%	81.0%	74.6%
Expense ratio	32.7%	34.1%	33.7%
Combined ratio	97.8%	115.1%	108.3%
Loss reserves at December 31	\$ 653.4	\$ 660.0	\$ 622.8

## INTERNATIONAL SPECIALTY

Gross written premiums	\$ 290.6	\$ 260.2	\$ 198.2
Earned premiums	\$ 142.4	\$ 130.1	\$ 101.3
Losses and loss adjustment expenses	79.9	73.5	149.1
Other reinsurance-related expenses	6.2	9.4	—
Underwriting, acquisition and insurance expenses	50.1	43.8	30.8
Underwriting income (loss)	6.2	3.4	(78.6)
Net investment income	8.4	12.3	10.9
Interest expense	(3.3)	(4.4)	(3.2)
Income (loss) before income taxes	\$ 11.3	\$ 11.3	\$ (70.9)
Loss ratio	58.7%	60.9%	147.1%
Expense ratio	36.7%	36.2%	30.4%
Combined ratio	95.4%	97.1%	177.5%
Loss reserves at December 31	\$ 295.6	\$ 257.3	\$ 237.9

## SYNDICATE 1200

Gross written premiums	\$ 583.9	\$ 533.4	\$ 438.5
Earned premiums	\$ 401.7	\$ 337.9	\$ 259.3
Losses and loss adjustment expenses	208.6	184.0	222.6
Other reinsurance-related expenses	6.7	7.5	—
Underwriting, acquisition and insurance expenses	156.2	133.9	119.0
Underwriting income (loss)	30.2	12.5	(82.3)
Net investment income	11.0	15.3	17.2
Interest expense	(3.3)	(3.7)	(3.2)
Fee (expense) income, net	(0.6)	4.0	1.3
Income (loss) before income taxes	\$ 37.3	\$ 28.1	\$ (67.0)
Loss ratio	52.8%	55.7%	85.8%
Expense ratio	39.6%	40.5%	45.9%
Combined ratio	92.4%	96.2%	131.7%
Loss reserves at December 31	\$ 777.0	\$ 738.9	\$ 755.3

# Excess & Surplus Lines

Early in the year, we promoted Art Davis to the position of President of Excess & Surplus Lines. Art plans to build on the success he's achieved within the Argo organization since 2001, particularly within our contract binding business in Colony Specialty. For 2013, gross written premiums in our Excess & Surplus (E&S) segment surpassed \$594 million, an increase of more than 15% over the previous year.

Focused on providing superior underwriting solutions for risks typically not underwritten by the standard market, our E&S segment operates through two underwriting platforms: Colony Specialty for property and casualty risks and Argo Pro for professional lines risks. With offices across the US including Richmond, Atlanta, Chicago, Denver, and Scottsdale, we strive to provide our distribution partners with superior service and responsiveness. Our focus on building and maintaining long-term partner relationships helps ensure that we're delivering the specialized solutions that our clients value most.

Colony Specialty underwrites risks on both an admitted and non-admitted basis through six business units: Casualty, Contract, Environmental, Specialty Property, Transportation and Allied Medical. Coverage is provided to a broad range of commercial enterprises including contractors, manufacturers,

distributors, environmental contractors and consultants, retailers, restaurants and smaller social service and medical facilities.

Argo Pro, our mid-market professional lines platform for the US, provides a broad portfolio of errors and omissions and management liability products for our wholesale and retail distribution partners. Targeting commercial and select financial institution risks, Argo Pro offers customized primary as well as excess coverage for risks on both an admitted and non-admitted basis. Our underwriting focus provides risk management solutions for accountants, architects and engineers, directors and officers, providers of information technology services and other professional disciplines.

Overall, our E&S segment experienced strong growth throughout the year, particularly in our higher margin businesses. Gross written premiums in our environmental, allied medical and core casualty lines all increased in excess of 25% over the previous year. We launched an inland marine product early in the year and were pleased that it exceeded our expectations for its first year of premium production. Our management liability unit established a presence on the US West Coast, and saw substantial growth throughout 2013. Conversely, our transportation lines encountered softening market conditions that

caused us to reduce our risk profile by shrinking our total book of business, exiting problematic markets and increasing rates on accounts we chose to keep.

We continued to make it easier for our customers to do business with us. We hit key milestones in the implementation of our new business delivery platform, a multi-year technology initiative that will enable us to operate more nimbly and efficiently through a unified standard platform Group-wide.





# Courage

**WE HAVE THE COURAGE TO  
DO THE RIGHT THING.**

Underwriting expertise relies on a high degree of specialized knowledge and judgment—and it's not unusual for experts to disagree. But it takes courage to be a dissenting voice among colleagues rather than relent to the shared opinion of others. At Argo, we encourage our associates to challenge conventional thinking. **Greg Roblek** demonstrated the courage we value as he stood his ground and made the case to his colleagues that a previously accepted underwriting model needed to be reconsidered.

# Commercial Specialty

As planned, gross written premiums for our Commercial Specialty segment were down 4.1% from 2012, closing the year with \$419 million. We ended 2013 in a much improved position with pre-tax operating income of \$21.4 million and a combined ratio of 97.8%, whereas prior year loss development and catastrophe losses contributed to a pre-tax operating loss of \$24.8 million in 2012.

Argo Group's Commercial Specialty segment focuses on targeted lines of business where our specialized expertise allows us to provide superior products, tailored solutions, and enhanced loss control and claims handling services. The segment comprises six risk-bearing business units: Argo Insurance, Rockwood, Commercial Programs, Argo Surety, Trident and ARIS. In addition, we operate a variety of non-risk-bearing agency and brokerage businesses that generate fee income under the Alteris brand.

The core of our Commercial Specialty business is written through independent agents and, to a lesser extent, regional brokers and direct writers, offering products designed to meet the needs of small- to medium-sized commercial risks. Specific target industry sectors include: grocery stores, dry cleaners, specialty retail, restaurants, mining, non-construction surety products, municipal and county government entities.

Under the leadership of Commercial Specialty President Mike Arledge and incoming Argo Group US President Kevin Rehnberg, this segment returned to profitability in 2013. This was accomplished through a series of strategic underwriting initiatives to reduce underperforming accounts and focus on core segments. In addition, we were able to achieve significant rate increases in our Argo Insurance and Trident units.

We also grew successfully in key areas where market conditions created an opportunity for us to expand or increase profitability in our existing lines. An improving labor market and increased employment in the housing sector generated increased workers' compensation payrolls for the State Funds program within Alteris. Argo Surety took advantage of favorable commercial opportunities within the oil and gas segment to grow gross written premium by more than 30% over the previous year. And underwriting discipline combined with intimate knowledge of workers' compensation pricing enabled Rockwood to generate \$23.3 million of underwriting profit for the year; this despite reduced payrolls in the coal mining industry, which Rockwood has traditionally served.

In the fall we named Ron Vindivich as President of Trident. Having joined Argo Group in 2006, Ron spent seven years in various leadership roles within our E&S segment, most recently as Senior Vice President of the Casualty Division of Colony Specialty. The close of the year marked the retirement of Mike Arledge as President of our Commercial Specialty segment, a position he had held since 2008. Mike joined the Argo family as President of Trident in 2000 and, since that time, put his heart and soul into building and growing a leading specialty underwriting business. His leadership, compassion, approach to business, and sense of humor have left an indelible mark on our company. We will miss him and wish him the very best in his retirement.



# Innovation

WE APPLY ORIGINAL THINKING.

Developing new ways to meet the needs of our clients is the core of what we do. Utilizing the latest digital technology, **Eduardo Pitombeira** built a cutting-edge suite of products for Argo Seguros in Brazil, providing brokers and insureds with quick, easy access to information, account options and service.

# International Specialty

For the year, our International Specialty segment produced gross written premiums of \$290.6 million, an increase of 11.7% over 2012. Underwriting income increased from \$3.4 million in 2012 to \$6.2 million for 2013, while the combined ratio for the segment improved to 95.4% for the year.

Our International Specialty segment includes our established Bermuda-based reinsurance and insurance lines as well as more recently launched specialty insurance and reinsurance operations in key global insurance markets in Brazil, Dubai and Continental Europe.

Argo Re underwrites specialty property catastrophe reinsurance and other selected risks worldwide presented through the broker market. Notwithstanding a highly competitive environment in terms of rate and the emergence of new and increasing sources of capital seeking to participate in the reinsurance marketplace, Argo Re had a strong year in 2013. While natural catastrophe activity was lower than in recent years, it was far from loss free. Loss events included severe flooding in Canada and across a widespread portion of Europe, and several significant hailstorms in Germany. During the fourth quarter, we announced the promotion of Matthew Wilken to President of Argo Re. Matthew joined Argo Re shortly after its formation in 2008 and has served as our Chief Underwriting Officer.

He takes the reins from Andrew Carrier who will continue to serve as Group Chief Underwriting Officer for all of Argo Group.

Our insurance company in Brazil, Argo Seguros, completed its second full year of operation and continues to establish a solid reputation and brand presence in that market. During the year, Argo Seguros was recognized with a prestigious award for product innovation from one of Brazil's leading insurance industry publications, *Revista Cobertura*.

Our excess casualty business is written through our Bermuda platform and our MENA unit. The business continued to increase its market share and build strong business relationships. Our professional lines business is written through our operations in Bermuda, MENA, and our business in Continental Europe, ArgoGlobal SE. We established a new location in Zurich that will house a branch office for ArgoGlobal SE, a marketing unit for our reinsurance business and a coverholder for our Lloyd's Syndicate. Our new presence in Zurich enables us to be closer to market opportunities and key broker relationships within the region.



# Commitment

**WE ARE COMMITTED TO OUR CLIENTS  
AND TO EACH OTHER.**

Successfully resolving complex claims is one of the most challenging assignments for claims professionals who are responsible for supporting the commitments that are made to our clients and our company. During the past year, **Dave Gleason** worked tirelessly with an insured school district and its agent to handle a complex claim resulting from a devastating accident that severely damaged several schools. His commitment helped the district's students return to classrooms on schedule for the new school year, an outcome of significant importance to the community and its school system.

# Syndicate 1200

Argo Group's Syndicate 1200 segment underwrites worldwide property, specialty and non-US liability insurance within the Lloyd's of London global franchise. Backed by the resources of a large company, the Syndicate operates with the attitude of a small one to provide superb underwriting solutions and claim services.

Our underwriters are organized in four divisions to provide deep, specialized knowledge to each of the different markets we serve. Our property division focuses on underwriting short-tail risks with an emphasis on commercial properties that are exposed to catastrophes and other man-made or natural disasters.

Our liability division underwrites professional indemnity, general liability and directors and officers insurance. Our new specialty division underwrites cargo, energy, yachts and hull insurance, and offers coverage related to political risks and trade credit. Lastly our aerospace division underwrites space and aviation risks. Together, these four divisions use their specialist expertise and innovative thinking to develop market-leading products and service solutions. Our development has been consistent with the strategy to diversify into lines that historically perform well in the Lloyd's market, while maintaining a focused discipline on risk concentration and solid underwriting.

This year included a number of key management appointments. In February, Bruno Ritchie was named Director of Underwriting to provide leadership to our teams in Lloyd's and across the Syndicate's expanding European platforms. A specialist in aerospace, Bruno has 17 years experience in underwriting, business development and large business risk strategy. In May, David Harris joined as Managing Director, taking the helm from Jeff Radke who moved to a new role as Head of Global Operations. David's reputation, relationships and experience—including more than 25 years in the London insurance market—make him ideally suited to lead the Syndicate.

Throughout the year we continued to attract and retain exceptional underwriting talent. The performance of two team members in particular drew high industry praise for themselves and Argo International. In July, Gracechurch Consulting placed our head of property Neil Chapman among London's top ten underwriters regarded as leaders in proactively building new business. At *Insurance Day's* London Market Awards in December, Samantha Wotton was named Young Underwriter of the Year—in clear recognition of her outstanding skills and commitment to the highest levels of service.

In addition to strong underwriting results, we posted very solid claims performance during 2013 and our commitment to strong, long-term broker relationships that add value remains paramount. We also remain dedicated to continually enhancing operating efficiencies, as we build on demonstrable improvements made in 2012.

We ended 2013 with gross written premiums of \$583.9 million, an increase of 9.5% from year-end 2012. Pre-tax operating income increased to \$37.3 million while underwriting income improved from \$12.5 million in 2012 to \$30.2 million for 2013. We closed the year with a combined ratio of 92.4%.



# Excellence

WE DESIRE TO EXCEL.

Argo employees are continuously looking for opportunities to enable their businesses to thrive. In London, **Rita Mistry Rodi** developed customized D&O/management liability rate models for the Syndicate's Canadian coverholder business, creating new distribution channels for Argo products and a platform for us to grow our business in Canada.

# Executive Leadership

## BOARD OF DIRECTORS

Gary V. Woods	Chairman of the Board <sup>(1)</sup> <sup>(3)</sup> <sup>(4)</sup> <sup>(5)</sup>
F. Sedgwick Browne	Director <sup>(2)</sup> <sup>(3)</sup> <sup>(5)</sup>
H. Berry Cash	Director <sup>(3)</sup> <sup>(4)</sup>
Hector De Leon	Director <sup>(1)</sup> <sup>(2)</sup> <sup>(3)</sup>
Nabil N. El-Hage	Director <sup>(4)</sup>
Mural R. Josephson	Director <sup>(2)</sup>
Kathleen A. Nealon	Director <sup>(2)</sup>
John R. Power, Jr.	Director <sup>(2)</sup> <sup>(3)</sup> <sup>(5)</sup>
John H. Tonelli	Director <sup>(3)</sup> <sup>(4)</sup>
Mark E. Watson III	Director <sup>(1)</sup> <sup>(4)</sup>

(1) Member of the Executive Committee of the Board of Directors

(2) Member of the Audit Committee of the Board of Directors

(3) Member of the Human Resources Committee of the Board of Directors

(4) Member of the Investment Committee of the Board of Directors

(5) Member of the Nominating Committee of the Board of Directors

## SENIOR MANAGEMENT

### Argo Group International Holdings, Ltd.

Mark E. Watson III	President and Chief Executive Officer
Jay S. Bullock	Executive Vice President and Chief Financial Officer
Andrew Carrier	Group Chief Underwriting Officer
Kurt G. Elia	Senior Vice President and Chief Human Resources Officer
Michael Fusco	Senior Vice President and Chief Actuary
George Luecke	Senior Vice President and Treasurer
Farid Nagji	Senior Vice President and Chief Information Officer
Anastasios Omiridis	Senior Vice President and Chief Accounting Officer
Jeff Radke	Head of Global Operations
Mark H. Rose	Senior Vice President and Chief Investment Officer
Susan Spivak Bernstein	Senior Vice President Investor Relations

### Argo Group US

Kevin J. Rehnberg	President
Michael Fleischer	Chief Underwriting Officer

### Excess & Surplus Lines

Arthur Davis	President
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### Commercial Specialty

Joshua C. Betz	President, Argo Surety
William T. Meisen	President, Argo Insurance – US Retail
Hilbert Schenck II	President, Alteris
Ronald Vindivich	President, Trident
John P. Yediny	President, Rockwood

### International Specialty

Nigel Mortimer	Managing Director, International Specialty Insurance
Pedro Purm, Jr.	President, Argo Seguros
Matthew Wilken	President, Argo Re

### Syndicate 1200

David Harris	Managing Director
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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### The Board of Directors and Shareholders of Argo Group International Holdings, Ltd.

We have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Argo Group International Holdings, Ltd. (the Company) at December 31, 2013 and 2012 and the related consolidated statements of income (loss), comprehensive income (loss), shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2013 (not presented separately herein) and in our report dated February 28, 2014, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated financial statements as of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013 (presented on pages 16 through 19) is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated February 28, 2014 (not presented separately herein) expressed an unqualified opinion thereon.

*Ernst & Young LLP*

February 28, 2014

## Summary of Significant Accounting Policies

**Business.** Argo Group International Holdings, Ltd. and subsidiaries (collectively, “we” or “Argo Group”) is an international underwriter of specialty insurance and reinsurance products in the property and casualty market.

**Basis of Presentation.** The condensed consolidated financial statements of Argo Group have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The information in the Condensed Consolidated Balance Sheets, the Condensed Consolidated Statements of Income and the Condensed Consolidated Statements of Cash Flows, shown on pages 17 through 19, is derived from the information in the Consolidated Balance Sheets, the Consolidated Statements of Income and the Consolidated Statements of Cash Flow in Argo Group International Holdings, Ltd. 2013 Form 10-K. For complete financial statements, including notes, please refer to the Consolidated Financial Statements beginning on Page F-1 of Argo Group International Holdings, Ltd. 2013 Form 10-K. See also Management’s Discussion and Analysis of Financial Condition and Results of Operations and other information in the 2013 Form 10-K.

The financial statements include the accounts and operations of Argo Group. All material intercompany accounts and transactions have been eliminated.

**10% Stock Dividend.** On May 7, 2013, our Board of Directors declared a 10% stock dividend, payable on June 17, 2013, to shareholders of record at the close of business on June 3, 2013. As a result of the

stock dividend, 2,447,839 additional shares were issued. Cash was paid in lieu of fractional shares of our common shares. All references to share and per share amounts in these condensed consolidated financial statements have been adjusted to reflect the stock dividend for all periods presented.

**Investments.** Investments in fixed maturities at December 31, 2013 and 2012 include bonds and structured securities. Equity securities include common stocks. Other investments consist of private equity funds and limited partnerships. Short-term investments consist of money market funds, funds on deposit with Lloyd’s as security to support the corporate member’s capital, United Kingdom short-term government gilts, US Treasury bills, sovereign debt and interest-bearing cash accounts. Short-term investments, maturing in less than one year, are classified as investments in the consolidated financial statements.

**Goodwill and Intangible Assets.** Goodwill is the result of the purchase prices of our business combinations being in excess of the identified net tangible and intangible assets. Goodwill is recorded as an asset and is not amortized. Intangible assets with a finite life are amortized over the estimated useful life of the asset. Intangible assets with an indefinite useful life are not amortized. Goodwill and intangible assets are tested for impairment on an annual basis or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. If the goodwill or intangible asset is impaired, it is written down to its fair value with a corresponding expense reflected in the Consolidated Statements of Income. Goodwill and intangible assets are allocated to the segment in which the results of operations for the acquired company are reported.

Amortization expense incurred in 2013 and 2012 associated with assets having a finite life were \$6.1 million and \$5.2 million, respectively.

**Earned Premiums.** Premium revenue is recognized ratably over the policy period, with an adjustment, where appropriate, to reflect the risk profile of certain classes of business particularly those exposed to seasonal weather related events. Premiums that have yet to be earned are reported as “Unearned premiums” in the Condensed Consolidated Balance Sheets.

**Reserves for Losses and Loss Adjustment Expenses.** Liabilities for unpaid losses and loss adjustment expenses include the accumulation of individual case estimates for claims reported as well as estimates of incurred but not reported claims and estimates of claim settlement expenses. Reinsurance recoverables on unpaid claims and claim expenses represent estimates of the portion of such liabilities that will be recoverable from reinsurers. Amounts recoverable from reinsurers are recognized as assets at the same time and in a manner consistent with the unpaid claims liabilities associated with the reinsurance policy.

**Income Taxes.** Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in net income in the period in which the change is enacted.

(Further information on our accounting policies can be found in Argo Group’s 2013 Form 10-K: in the Critical Accounting Policies section of Management’s Discussion and Analysis and also in Note 1 to the Financial Statements).

## Condensed Consolidated Balance Sheets

(in millions, except number of shares and per share amounts)

	As of December 31,	
	2013	2012
<b>Assets</b>		
Investments:		
Fixed maturities, at fair value:		
Available-for-sale (cost: 2013 - \$2,760.1; 2012 - \$2,993.1)	\$ 2,814.4	\$ 3,154.0
Equity securities, at fair value (cost: 2013 - \$346.9; 2012 - \$373.5)	534.3	521.4
Other investments (cost: 2013 - \$377.4; 2012 - \$294.8)	378.9	291.0
Short-term investments, at fair value (cost: 2013 - \$351.6; 2012 - \$234.3)	351.6	234.3
<b>Total investments</b>	<b>4,079.2</b>	<b>4,200.7</b>
Cash	157.4	95.8
Premiums receivable and reinsurance recoverables	1,611.9	1,681.9
Goodwill and other intangibles, net of accumulated amortization	239.8	245.3
Current income taxes receivable, net	—	12.9
Ceded unearned premiums	196.3	193.6
Other assets	306.4	258.7
<b>Total assets</b>	<b>\$ 6,591.0</b>	<b>\$ 6,688.9</b>
<b>Liabilities and Shareholders' Equity</b>		
Reserves for losses and loss adjustment expenses	\$ 3,230.3	\$ 3,223.5
Unearned premiums	779.1	730.2
Ceded reinsurance payable, net	354.7	612.1
Senior unsecured fixed rate notes	143.8	143.8
Other indebtedness	66.3	63.8
Junior subordinated debentures	193.3	193.3
Current income taxes payable, net	5.2	—
Deferred tax liabilities, net	28.7	43.8
Other liabilities	226.6	164.3
<b>Total liabilities</b>	<b>5,028.0</b>	<b>5,174.8</b>
Shareholders' equity:		
Common shares - \$1.00 par, 500,000,000 shares authorized, 34,066,889 and 31,384,271 shares issued and outstanding at December 31, 2013 and 2012, respectively	34.1	31.4
Additional paid-in capital	827.3	722.7
Treasury shares (7,558,345 and 6,459,613 shares at December 31, 2013 and 2012, respectively)	(250.6)	(205.5)
Retained earnings	804.4	776.0
Accumulated other comprehensive income, net of taxes	147.8	189.5
<b>Total shareholders' equity</b>	<b>1,563.0</b>	<b>1,514.1</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 6,591.0</b>	<b>\$ 6,688.9</b>

Please see accompanying "Summary of Significant Accounting Policies" on page 16.

## Condensed Consolidated Statements of Income (loss)

(in millions, except number of shares and per share amounts)

	For the Years Ended December 31,		
	2013	2012	2011
<b>Premiums and other revenue:</b>			
Earned premiums	\$ 1,303.8	\$ 1,186.5	\$ 1,082.0
Net investment income	100.0	118.8	125.8
Fee (expense) income, net	(4.9)	5.3	1.4
Net realized investment and other gains	71.3	25.7	49.2
<b>Total revenue</b>	<b>1,470.2</b>	<b>1,336.3</b>	<b>1,258.4</b>
<b>Expenses:</b>			
Losses and loss adjustment expenses	742.0	747.6	863.1
Other reinsurance-related expense	19.2	27.3	5.9
Underwriting, acquisition and insurance expenses	510.8	464.5	425.7
Interest expense	20.2	23.7	22.1
Debt extinguishment costs	—	2.2	—
Foreign currency exchange (gain) loss	(1.7)	4.3	3.5
<b>Total expenses</b>	<b>1,290.5</b>	<b>1,269.6</b>	<b>1,320.3</b>
Income (loss) before income taxes	179.7	66.7	(61.9)
Provision for income taxes	36.5	14.4	20.0
<b>Net income (loss)</b>	<b>\$ 143.2</b>	<b>\$ 52.3</b>	<b>\$ (81.9)</b>
<b>Other comprehensive income (loss), net of tax:</b>			
Foreign currency translation adjustments	\$ (2.8)	\$ (2.3)	\$ (6.4)
Defined benefit pension plans net gain (loss) arising during the period	1.3	(0.6)	(1.4)
Unrealized gains on securities:			
Gains arising during the period	0.2	63.0	28.7
Reclassification adjustment for gains included in net income (loss)	(40.4)	(10.4)	(28.7)
<b>Other comprehensive (loss) income, net of tax</b>	<b>(41.7)</b>	<b>49.7</b>	<b>(7.8)</b>
<b>Comprehensive income (loss)</b>	<b>\$ 101.5</b>	<b>\$ 102.0</b>	<b>\$ (89.7)</b>
<b>Net income (loss) per common share:</b>			
Basic	\$ 5.33	\$ 1.86	\$ (2.74)
Diluted	\$ 5.14	\$ 1.83	\$ (2.74)
Cash dividend declared per common share:	\$ 0.59	\$ 0.44	\$ 0.44
<b>Weighted average common shares:</b>			
Basic	26,851,341	28,095,210	29,887,249
Diluted	27,869,533	28,650,448	29,887,249

Please see accompanying "Summary of Significant Accounting Policies" on page 16.

## Condensed Consolidated Statements of Cash Flows

(in millions)

	For the Years Ended December 31,		
	2013	2012	2011
Cash flows from operating activities:			
Net income (loss)	\$ 143.2	\$ 52.3	\$ (81.9)
Adjustments to reconcile net income (loss) to net cash (used) provided by operating activities:			
Amortization and depreciation	39.6	36.6	30.8
Share-based payments expense	23.3	10.5	4.6
Excess tax (benefit) expense from share-based payments arrangements	(0.2)	—	0.1
Deferred federal income tax provision, net	3.8	5.0	10.2
Net realized investment and other gains	(71.3)	(25.7)	(49.2)
Loss on disposal of fixed assets, net	0.2	0.3	1.0
Debt extinguishment costs	—	2.2	—
Change in:			
Receivables	86.7	24.9	53.6
Reserves for losses and loss adjustment expenses	(8.9)	(78.9)	138.9
Unearned premiums	51.4	72.6	4.1
Ceded reinsurance payable and funds held	(246.4)	(67.5)	(97.4)
Other assets and liabilities, net	(21.6)	(1.8)	(32.5)
Cash (used) provided by operating activities	(0.2)	30.5	(17.7)
Cash flows from investing activities:			
Sales, maturities and mandatory calls of investments	2,248.1	1,613.7	1,821.6
Purchases of investments	(1,975.8)	(1,621.5)	(1,778.4)
Change in short-term investments, foreign regulatory deposits and voluntary pools	(153.0)	37.7	70.1
Settlements of foreign currency exchange forward contracts	(3.9)	0.4	7.7
Other, net	5.4	(34.0)	(18.9)
Cash provided (used) by investing activities	120.8	(3.7)	102.1
Cash flows from financing activities:			
Proceeds from issuance of senior unsecured fixed rate notes, net	—	138.7	—
Redemption of trust preferred securities, net	—	(117.2)	—
Activity under stock incentive plans	2.6	1.2	1.1
Repurchase of Company's common shares	(46.5)	(44.2)	(49.5)
Excess tax expense (benefit) from share-based payment arrangements	0.2	—	(0.1)
Payment of cash dividend to common shareholders	(15.8)	(12.3)	(13.1)
Cash used by financing activities	(59.5)	(33.8)	(61.6)
Effect of exchange rate changes on cash	0.5	0.1	(3.6)
Change in cash	61.6	(6.9)	19.2
Cash, beginning of period	95.8	102.7	83.5
Cash, end of period	\$ 157.4	\$ 95.8	\$ 102.7

Please see accompanying "Summary of Significant Accounting Policies" on page 16.

# Shareholder Information

## Stock Listing

Argo Group International Holdings, Ltd. common stock trades on NASDAQ under the symbol AGII.

## Stock Transfer Agent

Questions regarding stock registration, change of address, change of name, or transfer should be directed to:

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Brooklyn, NY 11219

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## Forward-Looking Statements Disclosure

This report contains certain statements that are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are qualified by the inherent risks and uncertainties surrounding future expectations generally and also may differ materially from actual future experience involving any one or more of such statements. For a more detailed discussion of such risks and uncertainties, see Argo Group’s filings with the SEC. The inclusion of a forward-looking statement herein should not be regarded as a representation by Argo Group that Argo Group’s objectives will be achieved. Argo Group undertakes no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise.



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