Getting There Together

ARGO GROUP

Annual Report 2014

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, 2012	2013	**2014**
Gross written premiums	$ 1,745.7	$ 1,888.4	**$ 1,905.4**
Net written premiums	1,244.5	1,351.3	**1,367.9**
Net earned premiums	1,186.5	1,303.8	**1,338.1**
Net investment income and realized gains	144.5	171.3	**180.6**
Total revenue	1,331.0	1,475.1	**1,518.7**
Net income	$ 52.3	$ 143.2	**$ 183.2**
Net income per common share:			
Basic	$ 1.86	$ 5.33	**$ 7.02**
Diluted	$ 1.83	$ 5.14	**$ 6.90**
Combined ratio	104.6%	97.5%	**96.2%**
Total assets	$ 6,688.9	$ 6,591.0	**$ 6,356.3**
Shareholders' equity	$ 1,514.1	$ 1,563.0	**$ 1,646.7**
Weighted average number of shares outstanding:			
Basic	28.1	26.9	**26.1**
Diluted	28.7	27.9	**26.6**
Book value per share	$ 55.22	$ 58.96	**$ 64.04**

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

Change is nothing new in our industry, yet it certainly seems as if the pace of change is faster than ever before. A company's ability to anticipate and respond to change can make all the difference in its success. Across Argo Group, an authentic understanding of the environment—the set of conditions, restrictions, opportunities, trends and expectations—has enabled us to set an appropriate strategy.

Our industry continues to face a particularly challenging set of conditions. Interest rates on investments have been unusually low, drawing new investment capital—and more competition—into our space. The war for talent is escalating. The size and number of mergers and acquisitions in our sector have risen. New technologies are disrupting the longstanding insurance value chain.

All these factors shape a challenging environment. Yet I am confident that Argo has the right strategy and can build the right products to navigate this environment and secure the future with outstanding success.

Over the past year we have carefully examined how we deliver our products and services. We've adapted the way we do things to better serve customers' evolving needs. We have changed our organizational structure to leverage our resources and direct them where they can make the most difference. We have simplified management and decision-making, allowing us to swiftly identify and act on changes in our environment. We're working to better enable business lines to exploit new opportunities and meet expectations. And we continue bringing on new talent, adding to our solid base of knowledgeable and experienced professionals and enhancing our capacity to think strategically, forecast accurately, execute smartly and adapt rapidly in a challenging market. In fact, I think we now have the best management team I've ever had the pleasure of working with.

During 2014 we welcomed Axel Schmidt as our new Group Chief Underwriting Officer. Axel brings us more than 20 years of global underwriting leadership, having served with companies such as Zurich and Aviva. To lead our critical talent management initiatives, Kurt Elia joined our team as Chief Human Resources Officer. We also asked Nigel Mortimer to take on the new role of Executive Vice President of Strategy and Business Development as we heighten our emphasis on growing lines and developing new products that address the changing business environment and customer needs.

Working together, we've delivered another year of strong financial results. In 2014, Argo Group achieved record net income of $6.90 per diluted share, an increase of 34% over 2013, while operating earnings per share grew 16% to $3.54. To you, our shareholders, we delivered an 11.4% return on average shareholder equity. Overall, our consolidated gross written premiums increased slightly to $1.9 billion while our underwriting income increased significantly to $51.5 million from $31.8 million in 2013.

Our diversified platform is serving us well, enabling us to meet the challenges posed by an increasingly complex external environment. Continued positive prior year development across most of our businesses, along with a low frequency of catastrophe activity, helped to offset intensifying competition, economic challenges and political instability in certain areas of the world. Internally, particularly as some of our newer operations grow and mature, we have continued to find ways to streamline and improve business processes and organizational structure. As we do so, we remain focused on working together to meet the increasingly complex customer needs by delivering expert solutions and making it easier to do business with us.

Argo's U.S. businesses, under the leadership of Kevin Rehnberg, delivered another strong year. Our **E&S Lines** segment saw strong growth in its higher margin businesses: Allied Medical, Environmental, Casualty, Contract, and Management Liability. Overall growth in the segment was essentially flat as we discontinued writing stand-alone Commercial Auto. Despite a challenging rate environment, our E&S segment produced record underwriting income of $75.6 million and a combined ratio of 84.4% for 2014. Our investment in technology for our new business delivery platform, Argo Edge, is making it faster and easier for distribution partners to do business with us, enabling us to increase our premium base by responding more quickly to business opportunities.

Our **Commercial Specialty** segment achieved a 5% increase in gross written premiums from the previous year. Our public entity business, Trident, continued to improve results through disciplined underwriting, a proactive approach to producer management, and a strong focus on rate adequacy. Our Commercial Programs unit added an owner-operated taxi program to the growing portfolio of products during the fourth quarter and continued to build a robust pipeline of new

opportunities for future offerings. Rockwood extended its track record of excellent results for our specialty mining business despite a challenging economic and regulatory environment in the U.S. coal mining industry. Rockwood generated $20 million in underwriting income, once again demonstrating the value of commitment and leadership in a niche market. While the 2014 hurricane season was uneventful, other storms across the U.S. resulted in greater than planned catastrophe losses for this segment during the season quarter. The segment ended the year with a combined ratio of 100.2%.

Underwriting income in our **International Specialty** segment grew substantially to $16 million in 2014, up from $6.2 million in 2013. A quiet CAT year contributed to better than expected results at Argo Re. Driven by solid performance from our teams in Bermuda and Dubai, our worldwide casualty lines achieved solid growth despite increased competition and a flat rate environment, with our worldwide professional lines also achieving a modest underwriting profit. Efforts to expand our existing professional lines business in Europe during 2014 continued to be stymied by the difficult economic climate, with few opportunities for profitable growth being presented. Results for Argo Seguros, our business in Brazil, were mixed. Disappointing bottom line losses were driven by continued economic instability and higher than expected losses in our Property and Engineering, and Financial Lines businesses. That said, our Cargo Marine unit at Argo Seguros posted good results for the year, and we look forward to seeing the future benefit of initiatives undertaken in 2014 to grow the operational capabilities and sophistication of our platform in Brazil.

Within the Lloyd's market, **Syndicate 1200** marked its third consecutive year of improvement in underwriting income as well as in loss and combined ratios. In fact, Syndicate 1200 posted its best results since Argo Group entered the Lloyd's market in 2008. Given the fact that the current Lloyd's market environment has been particularly challenging, this trend of positive results is a strong indication of the talented team and sound strategy we have in place in London.

Capital management remains a key component of Argo Group's strategy. Our philosophy is threefold: first and foremost, maintain a strong capital position; have capital available to take advantage of opportunities as they arise; and actively and effectively return excess capital to our shareholders. During 2014, we repurchased 1.1 million shares of stock at an average price of $48.48 for a total value of $50.8 million. Over the past seven years, we've returned more than $374 million of capital to our shareholders.

In closing, I'm proud of the solid financial results Argo Group posted for 2014 and the improvement we are seeing across our business lines. Our focus and commitment to specialty underwriting, the diversification of our platform and the strength, depth, intelligence and passion of our talent bode well for 2015 and beyond. The environment has changed and presented us with a complex set of challenges. But we know where we're going, we know how to get there, and we know what to do to take advantage of the opportunities before us, and to continue our growth as a leading specialty-insurance company operating globally. I look forward to ongoing success at delivering outstanding solutions to our customers and outstanding results to our shareholders.

Thank you for your continued support.

Regards,

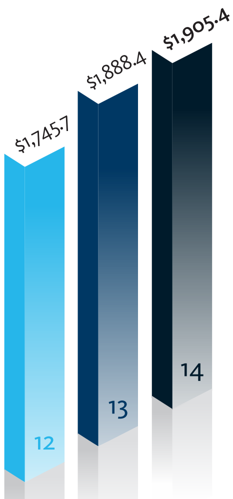
MARK E. WATSON III
President and Chief Executive Officer

Working together, we've delivered another year of strong financial results.

Financial Results

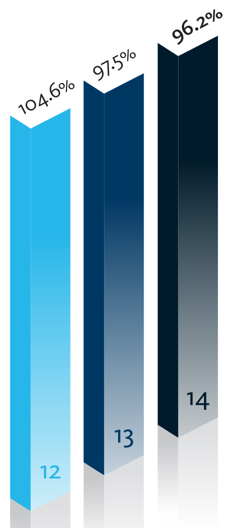
2014 at a glance

ARGO GROUP
(Consolidated)

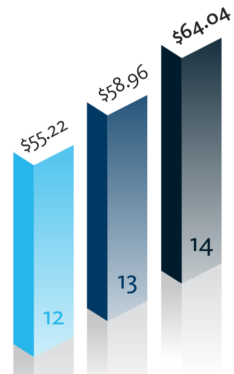


Gross Written Premiums
(dollar amounts in millions)

Total Assets
(dollar amounts in millions)

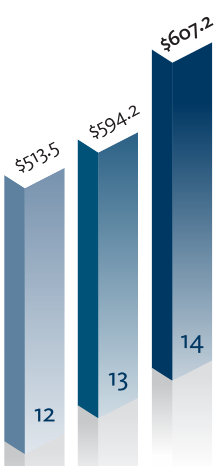


Combined Ratio

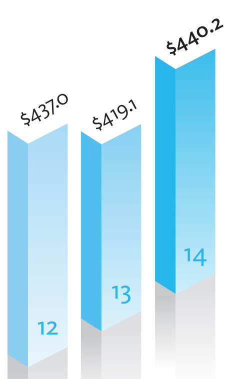


Book Value per Share

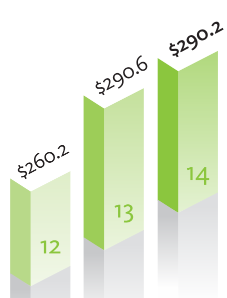
GROSS WRITTEN PREMIUMS BY SEGMENTS
(dollar amounts in millions)



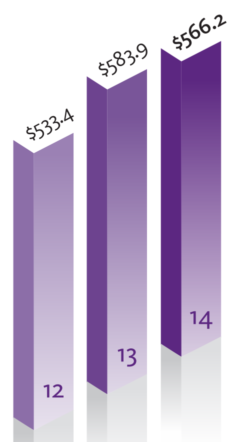
Excess & Surplus Lines



Commercial Specialty



International Specialty



Syndicate 1200

Segments

For the Years Ended December 31,

(dollar values in millions)	2012	2013	**2014**
Excess & Surplus Lines			
Gross written premiums	$ 513.5	$ 594.2	**$ 607.2**
Earned premiums	$ 399.3	$ 460.2	**$ 485.2**
Losses and loss adjustment expenses	223.3	244.0	**248.0**
Other reinsurance-related expenses	—	4.9	**—**
Underwriting, acquisition and insurance expenses	143.9	157.2	**161.6**
Underwriting income	32.1	54.1	**75.6**
Net investment income	51.1	42.2	**36.7**
Interest expense	(9.1)	(6.9)	**(6.3)**
Income before income taxes	$ 74.1	$ 89.4	**$ 106.0**
Loss ratio	55.9%	53.6%	**51.1%**
Expense ratio	36.0%	34.5%	**33.3%**
Combined ratio	91.9%	88.1%	**84.4%**
Loss reserves at December 31	$ 1,209.0	$ 1,171.8	**$ 1,165.4**
Commercial Specialty			
Gross written premiums	$ 437.0	$ 419.1	**$ 440.2**
Earned premiums	$ 317.5	$ 299.0	**$ 291.9**
Losses and loss adjustment expenses	257.0	194.0	**189.1**
Other reinsurance-related expenses	—	0.9	**—**
Underwriting, acquisition and insurance expenses	108.3	97.4	**103.5**
Underwriting (loss) income	(47.8)	6.7	**(0.7)**
Net investment income	27.6	22.8	**18.7**
Interest expense	(5.9)	(3.8)	**(3.2)**
Fee (expense) income, net	1.3	(4.3)	**(2.5)**
Impairment of intangible assets	—	—	**(3.4)**
Income (loss) before income taxes	$ (24.8)	$ 21.4	**$ 8.9**
Loss ratio	81.0%	65.1%	**64.8%**
Expense ratio	34.1%	32.7%	**35.4%**
Combined ratio	115.1%	97.8%	**100.2%**
Loss reserves at December 31	$ 660.0	$ 653.4	**$ 652.2**
International Specialty			
Gross written premiums	$ 260.2	$ 290.6	**$ 290.2**
Earned premiums	$ 130.1	$ 142.4	**$ 148.3**
Losses and loss adjustment expenses	73.5	79.9	**77.8**
Other reinsurance-related expenses	9.4	6.2	**—**
Underwriting, acquisition and insurance expenses	43.8	50.1	**54.5**
Underwriting income	3.4	6.2	**16.0**
Net investment income	12.3	8.4	**8.2**
Interest expense	(4.4)	(3.3)	**(3.1)**
Income before income taxes	$ 11.3	$ 11.3	**$ 21.1**
Loss ratio	60.9%	58.7%	**52.5%**
Expense ratio	36.2%	36.7%	**36.7%**
Combined ratio	97.1%	95.4%	**89.2%**
Loss reserves at December 31	$ 257.3	$ 295.6	**$ 306.3**
Syndicate 1200			
Gross written premiums	$ 533.4	$ 583.9	**$ 566.2**
Earned premiums	$ 337.9	$ 401.7	**$ 411.1**
Losses and loss adjustment expenses	184.0	208.6	**208.1**
Other reinsurance-related expenses	7.5	6.7	**—**
Underwriting, acquisition and insurance expenses	133.9	156.2	**167.8**
Underwriting income	12.5	30.2	**35.2**
Net investment income	15.3	11.0	**10.2**
Interest expense	(3.7)	(3.3)	**(3.2)**
Fee income (expense), net	4.0	(0.6)	**1.9**
Income before income taxes	$ 28.1	$ 37.3	**$ 44.1**
Loss ratio	55.7%	52.8%	**50.6%**
Expense ratio	40.5%	39.6%	**40.8%**
Combined ratio	96.2%	92.4%	**91.4%**
Loss reserves at December 31	$ 738.9	$ 777.0	**$ 600.0**

Excess & Surplus Lines

Argo Group's Excess and Surplus Lines (E&S) segment achieved strong results in all key measures for 2014, including record underwriting income of $75.6 million and a combined ratio of 84.4%. Through its Colony Specialty and Argo Pro platforms, the segment provides superior underwriting solutions for risks typically not underwritten by the standard market.

Colony Specialty underwrites property and casualty risks on both an admitted and non-admitted basis through six divisions: Casualty, Contract, Environmental, Specialty Property, Transportation, and Allied Medical. We provide coverage to a broad group of commercial enterprises including contractors, manufacturers, distributors, environmental contractors and consultants, retailers, restaurants and smaller social service and medical facilities.

During 2014, premium growth at Colony Specialty was focused on our higher margin businesses. A combination of new product offerings and great customer service drove 21% growth in our Environmental division. Our Allied Medical division grew by 13% in spite of significantly increased competition for new business. And our Casualty and Contract divisions both experienced strong growth. Premiums declined for the year in our Special Property division as the extraordinarily competitive market saw increased capacity from both U.S. and London markets throughout the year. In our Transportation division, premiums declined as we successfully exited the majority of our stand-alone Commercial Auto book and shifted our focus to continued growth in a strong book of Garage business.

Providing responsive, client-focused service has been a hallmark of the Colony Specialty business. Our investment in the Argo Edge platform has made it faster and easier for more than 80 of our Contract business client partners to transact business with us. We continue to roll the system out to additional contract agencies with overwhelmingly positive feedback.

Argo Pro underwrites small to medium size professional liability risks on both an admitted and non-admitted basis with a focus on Management Liability and Errors & Omissions (E&O) coverages. We target a specialized group of commercial enterprises including accountants, architects, engineers, lawyers and providers of information technology and services, as well as select financial institutions in the middle market and upper middle market segments.

Argo Pro increased gross written premiums by 36% in 2014 as the team continued to develop and strengthen relationships with key specialty retail and wholesale brokers and introduced new commercial crime and not-for-profit organization product offerings. Late in the year, Argo Group reached an agreement to purchase renewal rights for OneBeacon's Lawyers' Professional Liability book of business, which joins Argo Pro beginning in 2015.

For 2014, gross written premiums in our E&S segment increased to $607.2 million, with pre-tax operating income of $106 million. Catastrophe losses for the year totaled $2.3 million.

Argo Group's Excess and Surplus Lines (E&S) segment achieved a record underwriting income of $75.6 million and a combined ratio of 84.4%.

Building a platform for progress

Designing a system solution that enhances speed and efficiency for both the insurer and the client is a winning proposition for everyone. Although the commitment required to develop such a solution can be daunting, it has been clearly evident throughout Argo Group and partner organizations as we've worked to launch Argo Edge, a revolutionary platform for quoting, underwriting, issuing policies and handling billing and claims. Focused initially on our Casualty and Contract lines of business within our E&S Segment, the platform is showing immediate benefits as it is rolled out to agencies doing business with Colony Specialty's Contract division. The individuals pictured here represent scores of employees throughout Argo Group who have worked diligently with system developers and our business partners to deliver a cutting-edge solution that is beneficial to all.

THE EXCESS & SURPLUS LINES TEAM
RICHMOND

(L to R)

Tania Williams - *VP Underwriting Contract*

Ronda L. Shaffer - *AVP IT Project Delivery*

Marlo M. Edwards - *SVP Casualty Practice Leader US Operations*

Eli Khoffie - *IT Project Manager*

Commercial Specialty

The Commercial Specialty segment of Argo Group serves niche industries and business classes that can benefit from specially designed insurance programs, tailored loss control solutions and expert claims handling services. Six of the segment's divisions are risk-bearing businesses, delivering custom insurance products and services through a broad distribution platform. These include Rockwood, Trident, Argo Surety, Argo Insurance, Commercial Programs, and ARIS. In addition, under our Alteris brand, we operate a variety of non-risk-bearing agency and brokerages businesses that generate fee income.

The majority of our product offerings are distributed through independent agents. We also work with regional brokers as well as direct writers for certain business lines. Our primary target industry sectors include grocery stores, mining, specialty retail, restaurants, non-construction surety products, and municipal and county government entities.

Our **Rockwood** division, a leading specialty underwriter of workers compensation for the mining industry, continued to produce excellent results. Rockwood generated underwriting income of $20 million for 2014 in spite of a challenging economic and regulatory environment in the U.S. coal mining industry.

Trident, our public entity business, continued to build on a number of improvements that began last year. The division strengthened its talent base across all disciplines, enhanced its analytical tools and achieved strong rate increases in key lines while improving its renewal retention rates. Results for the year were impacted by spring tornado and hailstorm losses in the South and Midwest regions.

Argo Surety posted another strong year, generating nearly $10 million in underwriting income and adding talent to build its Credit and Risk Management team. Together with SureTec Financial Corp., Argo Surety now provides expanded capacity for the middle market contract surety segment and has also increased its commercial surety capacity to $100 million for qualified clients. To better serve the needs of the marketplace, the Surety business established an office in Hamilton, New Jersey. The office will be fully operational in 2015.

Argo Insurance, which specializes in grocery and other specialty retail coverages, experienced better than expected renewal retention and strong new business production from Managed Risk accounts. An unusual number of unrelated property losses had a negative impact on results for the year.

Our **Commercial Programs** business continued to build a robust pipeline of new program opportunities and launched an owner-operator Taxi program during the fourth quarter of the year.

ARIS, our title insurance company for fine art and collectibles, embarked on an initiative with the State University of New York at Albany to establish industry standards for authenticating art and collectibles. This collaborative effort brings together key stakeholders in the art industry and the scientific and legal communities to create an open architecture solution and standards similar to those found in industries such as pharmaceuticals and timber.

Businesses operating under our **Alteris** brand offer managing general agencies and insureds access to a broad array of exclusive risk solutions for specialty programs and alternative risks. During 2014, the Alteris Public Risk Solution division launched a new specialty insurance program for large water-related entities in the contiguous U.S.

For the year, gross written premiums for our Commercial Specialty segment increased to $440.2 million. Moderate catastrophe losses and net unfavorable prior year reserve development contributed to an underwriting loss of $0.7 million and a combined ratio of 100.2%.

For the year, gross written premiums for our Commercial Specialty segment increased to $440.2 million.

Crafting programs to support niche industries

Having established a solid foundation with its WineryPlus program, the team at Alteris leveraged its expertise and partnerships to address the needs of brokers serving the burgeoning craft beer industry by introducing the BreweryPlus program. Underwriting Manager Tonya Fuller forged the non-paid endorsement with the California Craft Brewers Association. Courtney Nelson of Bidwell Insurance Agency represents 50 craft beer insureds. Alteris provides the underwriting, claims, risk control and distribution for our risk bearing partner. The resulting partnership builds connectivity between the trade group, expert niche brokers and Alteris to offer a best-in-breed product to craft brewers.

THE COMMERCIAL SPECIALTY TEAM
SAN FRANCISCO

(L to R)

Tonya Fuller - *Underwriting Manager, WineryPlus/BreweryPlus*

Brandon Seymour - *Underwriter-Trainee*

Courtney Nelson - *Specialty Craft Beer Broker, Bidwell Insurance Agency (Chico/CA)*

International Specialty

Since its inception in 2007 with our Bermuda-based reinsurance business, Argo Group's International Specialty segment has grown to more than $290 million in gross written premiums with businesses in Bermuda, Brazil, Malta and Dubai.

Argo Re is a specialty underwriter of property catastrophe reinsurance and other selected risks worldwide. The Argo Re team maintains strong, established relationships within the broker market. Competition in the reinsurance market remains significant as new sources of capital continue to enter the marketplace. Nonetheless, the past year was a quiet one in terms of catastrophes, which helped Argo Re post its best underwriting result in the past five years and a combined ratio of 68.9%.

The Casualty and Professional Lines units of our **Argo Insurance** division underwrite on behalf of Argo Re. The majority of this business is underwritten from Bermuda; additional casualty and professional lines business is underwritten through **Argo Re (DIFC)** in Dubai while **ArgoGlobal SE**, based in Malta, underwrites professional lines business for clients in Continental Europe.

As with other lines of business, the marketplace for worldwide casualty lines has become increasingly competitive. Nonetheless, Argo Group's gross written premiums increased to more than $65 million. Late in the year, our Bermuda-based casualty business increased its maximum gross line from $50 million to $75 million. The professional lines businesses ended the year with a total of $35 million in gross written premiums. The European business remains slow; however, both Bermuda and European renewal retention ratios were strong at 96% and 92% respectively.

Our insurance company in Brazil, **Argo Seguros**, which was launched in 2011, continued year-over-year growth in premiums. The company underwrites Cargo and Marine, Property and Engineering, and Financial Lines in the Brazil commercial insurance market. The company continues to grow and build its reputation as a recognized and differentiated player in its target markets. Its innovative digital product platform, Protector, continues to gain traction in the marketplace.

Gross written premiums for the International Specialty segment were flat overall at $290.2 million, while underwriting income at $16 million and a combined ratio of 89.2% were the strongest results in the past four years.

Underwriting income at $16 million and a combined ratio of 89.2% were the strongest results in the past four years.

Bringing innovative thinking to the market

Each of the businesses within Argo Group's International Specialty segment works continuously to provide innovative thinking, insights and products to address current and future client needs. By maintaining an intimate knowledge of those needs, studying evolving technologies and ways of working, and anticipating the impact of a wide array of trends on the risk management needs of businesses, the International Specialty businesses of Argo Group are at the forefront of innovation. New structured deal products offered by the Argo Re team are just one example.

THE INTERNATIONAL SPECIALTY TEAM
BERMUDA

(L to R)

Tariq Ahmed - *Catastrophe Risk Analyst, Group Risk Modeling*

Amit Shah - *Senior Underwriter, Alternative Risks*

Matthew Wilken - *President, Argo Re*

Mike Cornish - *Chief Underwriter, Argo Re*

Syndicate 1200

Despite an extremely challenging and competitive environment, our Syndicate 1200 segment produced $35.2 million in underwriting income and achieved a combined ratio of 91.4%—the best results for Argo Group since we entered the Lloyd's market in 2008.

Operating within the Lloyd's of London global franchise, Syndicate 1200 underwrites worldwide property, specialty and non-U.S. liability insurance with five divisions providing deep, specialized knowledge to meet the needs of our clients. The property division concentrates on North American commercial properties, but is also active in the residential sector. The segment's Liability division underwrites professional indemnity, general liability, medical malpractice, casualty and motor treaty, and directors and officers insurance, with emphasis on Canada, Australia and the U.K. The Marine and Energy division underwrites cargo, upstream and downstream energy, yachts, hull and marine liability insurance. The Aerospace division underwrites airline, general aviation, products and operators' liability and satellite insurance. The Specialty division underwrites personal accident, political risk, trade credit, terrorism and contingency insurance.

Based in the heart of the London insurance market, Syndicate 1200 also underwrites through the Lloyd's platform in Brazil, Singapore and Shanghai. To better align the marketing of Argo Group's expanding global businesses, Syndicate 1200—known previously as Argo International—was rebranded to **ArgoGlobal** during 2014. Throughout the year, we continued to build a strong reputation for service with brokers who value our innovation and expertise. We added senior underwriting talent to enhance our teams in each of our divisions. Our focus on recruiting and retaining experienced talent, combined with our graduate recruitment program focused on attracting promising professionals to our industry, have enhanced our reputation as a top employment choice in the Lloyd's market.

We continued the task of optimizing the blend of business written by the Syndicate with a view towards managing volatility and improving capital efficiency, while offering a comprehensive range of coverage to our brokers. During the year, we introduced several new offerings including an environmental impairment liability product, a complimentary legal advice initiative for D&O policyholders and a new marine liability account.

Our investment in the claims function continues to pay dividends as evidenced by our continued ranking in the top 10 best performing Managing Agents in Lloyd's published Claims Metrics. In addition, in the most recent claims survey by Gracechurch Consulting, we were ranked third as the insurer brokers are most likely to recommend to clients.

While 2014 was a benign year in terms of natural catastrophes, the Syndicate's results were impacted by reserve strengthening in our General Liability class and some large loss activity in our Energy and Aerospace divisions. Market conditions imposed downward pressure on pricing in many lines of our businesses. Despite these conditions, we reported an improved combined ratio, reflecting the benefits of portfolio re-balancing and quality improvement initiatives carried out in recent years, as well as our commitment to achieving underwriting excellence and maintaining discipline in difficult market conditions.

Our investment in the claims function continues to pay dividends as evidenced by our continued ranking in the top 10 best performing Managing Agents in Lloyd's published Claims Metrics.

Leveraging expertise to meet untapped needs

A true collaboration between two of Agro Group's businesses and a distribution partner in London identified and addressed an unmet need in the marketplace with the development and launch of Minero, a unique risk management solution for the mining industry. The concept for this new product began to take shape in the aftermath of rescue efforts associated with the 2010 Copiapo mining accident in Chile. The rescue, which cost more than $20 million and was viewed by a global audience of 1 billion, exposed a significant coverage gap in the liability insurance market. Underwriters at Argo Group's Syndicate 1200 and Howden Insurance Brokers in London set out to develop a solution.

Tapping into the wealth of mining industry and underwriting expertise at Argo Group's U.S. subsidiary, Rockwood, the partners developed a product that could mitigate against the cost of rescuing trapped miners and the potential reputational damage a mining company could face during a rescue operation. This effort and the resulting product, Minero, garnered the 2014 Insider Honours Underwriting Initiative of the Year award from the Insurance Insider.

THE SYNDICATE 1200 TEAM
LONDON

(L to R)

Kevin Hutcheon - *Property Claims Manager*

Judith Fumero - *Liability Claims Manager*

Paul Kneafsey - *Head of Liability*

Executive Leadership

BOARD OF DIRECTORS

Gary V. Woods	Chairman of the Board (1) (3) (4) (5) (6)
F. Sedgwick Browne	Director (2) (3) (5) (6)
H. Berry Cash	Director (3) (4) (6)
Hector De Leon	Director (1) (2) (3) (6)
Nabil N. El-Hage	Director (2) (4) (6)
Mural R. Josephson	Director (2) (3) (6)
Kathleen A. Nealon	Director (2) (6)
John R. Power, Jr.	Director (2) (3) (5) (6)
John H. Tonelli	Director (3) (4) (6)
Mark E. Watson III	Director (1) (4) (6)

(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

(6) Member of the Risk Committee

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
Salvatore V. Abano	Senior Vice President and Chief Information 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
Nigel Mortimer	Executive Vice President, Strategy and Business Development
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
Axel Schmidt	Group Chief Underwriting Officer
Susan Spivak Bernstein	Senior Vice President, Investor Relations

Argo Group US

Kevin J. Rehnberg	President

Excess & Surplus Lines

Arthur Davis	President

Commercial Specialty

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

International Specialty

Nigel Mortimer	President, Argo Insurance Bermuda
Pedro Purm, Jr.	President, Argo Seguros
Matthew Wilken	President, Argo Reinsurance Bermuda

Syndicate 1200

David Harris	Managing Director

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, 2014 and 2013 and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2014 (not presented separately herein) and in our report dated February 27, 2015, 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, 2014 and 2013 and for each of the three years in the period ended December 31, 2014 (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, 2014, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 27, 2015 (not presented separately herein) expressed an unqualified opinion thereon.

Ernst & Young LLP

February 27, 2015

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. 2014 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. 2014 Form 10-K. See also Management's Discussion and Analysis of Financial Condition and Results of Operations and other information in the 2014 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. For the years ended December 31, 2013 and 2012, 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, 2014 and 2013 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, U.S. 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 2014, 2013 and 2012 associated with intangible assets having a finite life was $5.6 million, $6.1 million and $5.2 million, respectively.

Earned Premiums. Premium revenue is recognized ratably over the policy period. 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.

Subsequent Event. On February 17, 2015, our Board of Directors declared a 10% stock dividend payable on March 16, 2015, to shareholders of record at the close of business on March 2, 2015. The share numbers and per share amounts in these condensed consolidated financial statements have not been retroactively adjusted to give effect to the stock dividend.

(Further information on our accounting policies can be found in Argo Group's 2014 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	As of December 31, 2014
Assets		
Investments:		
Fixed maturities, at fair value:		
Available-for-sale (cost: 2014 - $2,817.2; 2013 - $2,760.1)	$ 2,814.4	**$ 2,840.7**
Equity securities, at fair value (cost: 2014 - $307.3; 2013 - $346.9)	534.3	**486.3**
Other investments (cost: 2014 - $488.9; 2013 - $377.4)	378.9	**495.1**
Short-term investments, at fair value (cost: 2014 - $275.8; 2013 - $351.6)	351.6	**275.8**
Total investments	4,079.2	**4,097.9**
Cash	157.4	**81.0**
Premiums receivable and reinsurance recoverable	1,611.9	**1,350.8**
Goodwill and other intangibles, net of accumulated amortization	239.8	**230.8**
Current income taxes receivable, net	—	**14.9**
Ceded unearned premiums	196.3	**207.6**
Other assets	306.4	**373.3**
Total assets	$ 6,591.0	**$ 6,356.3**
Liabilities and Shareholders' Equity		
Reserves for losses and loss adjustment expenses	$ 3,230.3	**$ 3,042.4**
Unearned premiums	779.1	**817.2**
Ceded reinsurance payable, net	354.7	**178.8**
Senior unsecured fixed rate notes	143.8	**143.8**
Other indebtedness	66.3	**62.0**
Junior subordinated debentures	193.3	**172.7**
Current income taxes payable, net	5.2	**—**
Deferred tax liabilities, net	28.7	**53.0**
Other liabilities	226.6	**239.7**
Total liabilities	5,028.0	**4,709.6**
Shareholders' equity:		
Common shares - $1.00 par, 34,318,224 and 34,066,889 shares issued and outstanding at December 31, 2014 and 2013, respectively	34.1	**34.3**
Additional paid-in capital	827.3	**836.3**
Treasury shares (8,606,489 and 7,558,345 shares at December 31, 2014 and 2013, respectively)	(250.6)	**(301.4)**
Retained earnings	804.4	**969.4**
Accumulated other comprehensive income, net of taxes	147.8	**108.1**
Total shareholders' equity	1,563.0	**1,646.7**
Total liabilities and shareholders' equity	$ 6,591.0	**$ 6,356.3**

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

Condensed Consolidated Statements of Income and Comprehensive Income

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

	For the Years Ended December 31,		
	2012	2013	**2014**
Premiums and other revenue:			
Earned premiums	$ 1,186.5	$ 1,303.8	**$ 1,338.1**
Net investment income	118.8	100.0	**86.6**
Net realized investment and other gains	25.7	71.3	**94.0**
Total revenue	1,331.0	1,475.1	**1,518.7**
Expenses:			
Losses and loss adjustment expenses	747.6	742.0	**747.4**
Other reinsurance-related expense	27.3	19.2	**—**
Underwriting, acquisition and insurance expenses	464.5	510.8	**539.2**
Interest expense and other	23.7	20.2	**19.9**
Fee expense (income), net	(5.3)	4.9	**0.6**
Debt extinguishment costs	2.2	—	**—**
Foreign currency exchange (gain) loss	4.3	(1.7)	**(7.8)**
Impairment of intangible assets	—	—	**3.4**
Total expenses	1,264.3	1,295.4	**1,302.7**
Income before income taxes	66.7	179.7	**216.0**
Provision for income taxes	14.4	36.5	**32.8**
Net income	$ 52.3	$ 143.2	**$ 183.2**
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	$ (2.3)	$ (2.8)	**$ (4.1)**
Defined benefit pension plans net (loss) gain arising during the period	(0.6)	1.3	**(2.4)**
Unrealized gains on securities:			
(Losses) gains arising during the period	63.0	0.2	**(12.5)**
Reclassification adjustment for gains included in net income	(10.4)	(40.4)	**(20.7)**
Other comprehensive (loss) income, net of tax	49.7	(41.7)	**(39.7)**
Comprehensive income	$ 102.0	$ 101.5	**$ 143.5**
Net income per common share:			
Basic	$ 1.86	$ 5.33	**$ 7.02**
Diluted	$ 1.83	$ 5.14	**$ 6.90**
Cash dividend declared per common share:	$ 0.44	$ 0.59	**$ 0.69**
Weighted average common shares:			
Basic	28,095,210	26,851,341	**26,082,114**
Diluted	28,650,448	27,869,533	**26,557,151**

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, 2012	2013	2014
Cash flows from operating activities:			
Net income	$ 52.3	$ 143.2	$ 183.2
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Amortization and depreciation	36.6	39.6	37.2
Share-based payments expense	10.5	23.3	19.6
Excess tax expense from share-based payments arrangements	—	(0.2)	(0.1)
Deferred federal income tax provision (benefit), net	5.0	3.8	27.6
Net realized investment and other gains	(25.7)	(71.3)	(94.0)
Loss on disposal of fixed assets, net	0.3	0.2	—
Debt extinguishment costs	2.2	—	—
Impairment of intangible assets	—	—	3.4
Change in:			
Receivables	24.9	86.7	256.7
Reserves for losses and loss adjustment expenses	(78.9)	(8.9)	(182.0)
Unearned premiums	72.6	51.4	39.1
Ceded reinsurance payable and funds held	(67.5)	(246.4)	(163.9)
Other assets and liabilities, net	(1.8)	(21.6)	3.7
Cash provided (used) by operating activities	30.5	(0.2)	130.5
Cash flows from investing activities:			
Sales, maturities and mandatory calls of investments	1,613.7	2,248.1	1,585.0
Purchases of investments	(1,621.5)	(1,975.8)	(1,736.8)
Change in short-term investments, foreign regulatory deposits and voluntary pools	37.7	(153.0)	96.5
Settlements of foreign currency exchange forward contracts	0.4	(3.9)	(1.1)
Other, net	(34.0)	5.4	(64.9)
Cash (used) provided by investing activities	(3.7)	120.8	(121.3)
Cash flows from financing activities:			
Proceeds from issuance of senior unsecured fixed rate notes, net	138.7	—	—
Payment on note payable	—	—	(0.1)
Redemption of trust preferred securities, net	(117.2)	—	(18.0)
Activity under stock incentive plans	1.2	2.6	4.6
Repurchase of Company's common shares	(44.2)	(46.5)	(50.8)
Excess tax expense from share-based payment arrangements	—	0.2	0.1
Payment of cash dividend to common shareholders	(12.3)	(15.8)	(18.2)
Cash used by financing activities	(33.8)	(59.5)	(82.4)
Effect of exchange rate changes on cash	0.1	0.5	(3.2)
Change in cash	(6.9)	61.6	(76.4)
Cash, beginning of period	102.7	95.8	157.4
Cash, end of period	$ 95.8	$ 157.4	$ 81.0

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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e-mail address: info@amstock.com

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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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