

# ANNUAL REVIEW --- 2017

## THE FUTURE OF INSURANCE

**New risks. New opportunities.  
Helping businesses stay in business,  
today and tomorrow.**

# ANNUAL REVIEW 2017

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# 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 through U.S. Operations and International Operations. Argo Group is headquartered in Bermuda.

The businesses of Argo Group work as a unified, collaborative team around the world to deliver unsurpassed service and secure the future for our clients, employees, shareholders and communities.



# Honor the promise. Build the business.

**2017 was an important year for Argo. Despite significant, industry-wide catastrophe claims and underwriting challenges in the London market, our balance sheet held up well, and we finished the year in a better competitive position than we started.**

We surpassed our 2017 gross written premium goal – up over 20% to \$2.7 billion from \$2.2 billion in 2016. Our net earned premium at \$1.6 billion was 11.5% higher than the previous year. While our goal is to grow the bottom line first, over time it matters that we grow our business profile as well. 2017 was a good example of that.

## Underwriting

After an extraordinary series of catastrophic events, we served our customers faithfully through expeditious claims handling. The resulting losses affected our bottom line, but they also remind us that we are fulfilling our mission: We're here to help businesses stay in business. Our net exposure relative to our internal models was within reason for all the events we experienced, which equaled 7% of equity and 8% of net earned premium, well within the range of our peers. This equated to approximately \$127 million in claims net for 2017 and a combined ratio of 107.2%, compared to 96.2% in 2016. Reflecting those losses and our experience in the London market, our net income was \$50.3 million, compared to last year's \$146.7 million. It was, however, unfortunate that our acquisition of Ariel Re closed in the first quarter – meaning our net retentions for multiple reinsurance programs resulted in an additional impact on the bottom line. Going forward, we expect our net exposure to similar events to be close to 5 combined ratio points.

## Investments

Our investment portfolio performed well again in 2017. We took deliberate steps to broaden the scope of our investment activity, and I am pleased to report investment income – even in a challenging environment – rose more than 21% to \$140 million, compared to \$115.1 million last year. This was aided by growing income from bonds and stocks, and a higher contribution from alternative investments. We continued building our assets, ending the year with cash and investments totaling almost \$5 billion.



## Capital management

During the year, we increased our dividends to shareholders by more than 25% to \$1.08 per common share from \$0.86 the year before, and we repurchased approximately 750,000 shares for \$45.2 million. We believe the best measure of our long-term performance is based on book value per share. In 2017, our book value per share plus dividends grew by nearly 4%. For the last 15 years, including dividends paid, the compound annual growth in book value per share has averaged 9.4%.

## U.S. tax reform

We are seeing early positive signs in the U.S. economy as a result of the new tax law, and we are optimistic it will create more growth among small to mid-sized businesses in America, which make up the core of the clients we serve. After an initial analysis of the law, we do not, however, expect a significant impact on our tax expense. In any period, the geography in which we earn profits determines our future effective tax rate. While we can't know the outcome until the rules are written, we still anticipate an operating tax rate of approximately 20% or better going forward, keeping in mind it may vary each quarter depending on geography.

## U.S. Operations

This was a good year for our U.S. business. Our excess and surplus casualty lines, surety, specialty programs and professional lines all benefited from targeted, tactical support, including digital systems improvement, team strengthening and marketing programs. All four businesses enjoyed important gains in both top-line and bottom-line growth. Casualty grew 26.8%, surety 27.7%, specialty programs 27.8% and professional lines 25.7% in top-line growth. In addition, our excess and surplus lines operation updated its technology yet again and can now respond to any submission within hours; in many instances, they can now respond within minutes. Rockwood grew 31.5% year over year by expanding its offerings well beyond its core clients' mining-related exposures to include coverage for commercial automobile, pollution liability and surety. It's telling that our increase in U.S. gross written premium was made within an overall market that was relatively static. Congratulations to Kevin Rehnberg and the heads of our individual businesses for their great success.

***“While our goal is to grow the bottom line first, over time it matters that we grow our business profile as well. 2017 was a good example of that.”***

*— Mark E. Watson III,  
Chief Executive Officer*

In 2017, U.S. gross written premiums were \$1.5 billion, up \$232 million or 18% over the same period last year. Underwriting income was \$89.4 million, compared to \$111.5 million in 2016. The combined ratio of 90.5% compares to 86.9% in the previous year. The primary differences were related to catastrophe activity and a number of non-recurring charges.

### International Operations

As we would expect, given the risk portfolio, our International business was more heavily impacted by catastrophes during 2017. Despite these challenges, it remains an important part of our business for the future. In London, we concluded our ability to select risk can only go so far in the Lloyd's subscription market – one of the toughest in the world – where we incurred large and more frequent losses over the year than expected. To reverse the trend, we added new leadership, reorganized our teams, strengthened our underwriting guidelines and raised our prices where needed. Because much of this work began in early 2017, our prospects look brighter for 2018.

In Bermuda, we acquired Ariel Re and integrated that company's Lloyd's syndicate, reinsurance operations and insurance operations into our own. We also welcomed Jorge Luis Cazar as our new head of Latin America and Matt Harris, our new head of Europe, Middle East and Asia, to lead our strategies for growth in those markets.

In 2017, gross written premiums were \$1.2 billion for this segment, up \$300.5 million or 33.9% over the same period last year. In 2017, we had an underwriting loss of \$111.2 million, compared to underwriting income of \$25.8 million in 2016. The combined ratio of 117.5% compares to 95.4% in the previous year.

### The future of insurance

For more than a decade, we have been anticipating the transformation currently underway in our industry, predicting the unavoidable disruption of our value chain, service delivery and capital structure. Today, I want to provide a few thoughts

on how we are thinking about the future. First, the steady stream of capital into insurance has produced overcapacity, which has in turn pushed margins down as investors compete to put their money to work. Second, the entry of all-digital players into the insurance business has posed a serious threat to legacy carriers, which are now struggling to become tech-savvy and customer-focused.

But will all-digital companies backed by fresh investor capital shake up our industry even further? We don't think so. There is

larger forces at play in the world and the risks they pose to our customers and to our own business as underwriters.

Last year, we continued our evolution. Under the guidance of Argo Digital, our talented team from inside and outside the insurance industry, we iteratively developed new software, invested in leading and emerging technologies and partnered with startups to devise technology that can overcome remaining bottlenecks in our business systems. To make underwriting faster, smarter and more accurate, we are

***“Today, we talk about such advances as drones, autonomous vehicles, augmented reality and artificial intelligence. These are not merely categories of risk that require expert underwriting, they are themselves engines of innovation that will create new opportunity for insurers who are able to look ahead and who are willing to keep pace.”***

*— Mark E. Watson III,  
Chief Executive Officer*

an advantage to understanding the rules, owning the data and building on a history of underwriting and risk management expertise. In our opinion, the judicious use of cutting-edge technology combined with insurance expertise represents the clear and, for established insurers, successful path to continued growth. By building digital expertise, often by forging creative partnerships with existing technology players, we can collaborate in ways that bring capital closer to the risk, reduce the complexity of our offerings and provide even greater value to our customers. But responding to shifting economic and consumer demands are not the only reasons to change. We must also recognize and respond to the

now finding ways to leverage artificial intelligence, while processing vast amounts of new data from sources as varied as sensors, drones, government databases and social media.

We evolved our technology in 2017 to more efficiently connect with our distribution partners and their customers. For example, our digital Protector platform now serves 2,400 brokers and more than 50,000 active customers in Brazil. We launched a sensor-based technology that lets operators of restaurants, supermarkets and other retail businesses reduce the frequency and severity of customer and employee accidents. We built and launched

a digital account-management environment where brokers and policyholders can find information they need quickly. We are partnering with a cybersecurity startup to give our customers the tools they need to prepare for and respond to cyberattacks.

Technology advancements in every domain will create new risks for people and businesses, of which cybercrime is a clear example. Cyber risks are unique in that they are both unlimited and perpetual. As an industry, we have little experience assessing the possible impact of new

poles support forecasts of warmer weather and rising sea levels. Given the density of population and volume of business activity in coastal areas, revised assessments of the nature of catastrophic risk at or near sea level is imperative. As claims mount following these catastrophes, either pricing of insurance will have to rise or the scope of coverage contract. And while there is no direct correlation between sea temperature and the frequency of hurricanes, we now have ample evidence showing how much more quickly hurricanes can intensify – look no further than the storms of 2017.

In recognition of our focus on continuous learning, we were pleased to be named to *Training* magazine's 2017 Training Top 125. Also core to Argo's culture is our employees' deep commitment to the communities in which they live and work. In 2017, hundreds of Argo employees were involved in projects around the world. After Hurricane Harvey smashed the Texas coast in late August, thousands of homes and businesses were flooded. Argo employees moved into action. Making numerous trips between our U.S. headquarters in San Antonio and the Houston and Corpus Christi areas, they delivered much-needed supplies. They also spearheaded our corporate support of nonprofit organizations delivering relief, including the American Red Cross, the Insurance Industry Charitable Foundation and several local organizations.

The speed and variety of emerging risks is growing. Yet the factors I've mentioned – capital, climate, new risk and talent – are the home turf of specialty insurance at which Argo excels. Specialty insurance lives at the crossroads of new ideas and new threats. We are confident specialty underwriters will continue growing in importance as a critical support for new enterprises, enabling entrepreneurs to mitigate the considerable risks associated with early adoption of new technologies. Today, we talk about such advances as drones, autonomous vehicles, augmented reality and artificial intelligence. These are not merely categories of risk that require expert underwriting, they are themselves engines of innovation that will create new opportunity for insurers who are able to look ahead and who are willing to keep pace. We will continue to be one of them.



Mark E. Watson III  
Chief Executive Officer



Watson speaking to new employees during an event for the Specialized and Accelerated Insurance Learning (SAIL) program, which builds talent within the company.

hacking technologies against multiple smaller entities. Imagine the losses following concurrent attacks against 1 million small businesses, the shutdown of every self-driving car, or perhaps just the bricking of every digital door lock. The payouts could be massive, and yet today's premiums cannot truly reflect the scope of the risk, because we do not always know what that scope is.

As we look to the future of insurance, the risk posed by natural catastrophes will also evolve. Predictive climatology suggests that hurricanes, droughts, fires and floods will increase in magnitude. Melting ice fields at the North and South

### Of teams and commitment

With some 400,000 industry professionals set to retire within the next five years, attracting talent is looming as a major issue for our industry. No amount of automation will overcome the need for talented and inventive professionals willing to take up insurance careers. Competition for their loyalty is strong. To attract them, we must prove that our industry is as dynamic and rewarding as we know it can be.

At Argo, we hold commitment to our employees and to each another as a central value, and one way we proved it again in 2017 was through the launch of Argo Academy, an online learning environment.

# A Year of Investment and Commitment

In 2017, we expanded our presence, prioritized employee learning and career development, won awards, and earned recognition – and new business – as thought leaders in the industry.

For the second year in a row, *Forbes* magazine named Argo Group to its list of America's 50 Most Trustworthy Financial Companies.

In January, we launched Argo Risk Tech, a state-of-the-art web-based inspection platform that helps minimize workplace risk.

Our acquisition of Ariel Re earned *Insurance Insider* Honours for M&A Transaction of the Year.

Argo Seguros was named Brazil Insurer of the Year in the annual *Reactions* magazine Latin American Awards.

Bryan Mortimer, an Argo Surety mining engineer, was granted a U.S. patent for co-inventing a ventilation system to repurpose methane exhaust in mines as an energy source for surface refineries.

Reigning World Touring Car champion José María "Pechito" López joined Argo-sponsored Formula E team Dragon Racing as a driver in the 2017-2018 season.

Argo Group was honored with the CIR Risk Management Operational Risk Initiative of the Year award for the risk assessment we conducted during our deal to acquire Ariel Re.



**31,000**

Square feet gained in Argo's new LEED-certified office in New York City's Meatpacking District

**30%**

Average percentage of employees who refer others to work at Argo every year

**7**

Number of employees recognized for outstanding achievements by insurance industry publications

**"A"**

(Excellent)  
A.M. Best rating for 13 years in a row

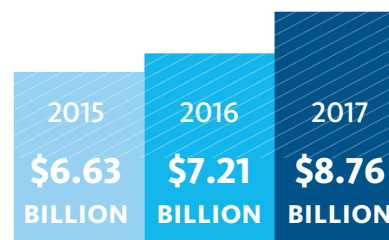
**45,000**

Nautical miles the Argo-sponsored team Vestas 11th Hour Racing will sail across four oceans during the 2017-2018 Volvo Ocean Race

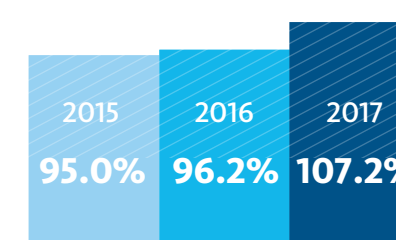
## GROSS WRITTEN PREMIUMS



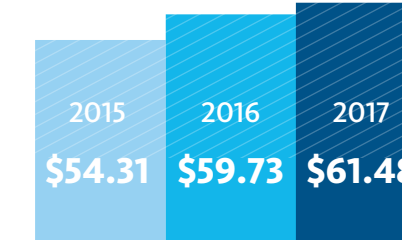
## TOTAL ASSETS



## COMBINED RATIO



## BOOK VALUE PER SHARE



## FINANCIAL PERFORMANCE

For the Years Ended December 31  
(in millions, except per share amounts)

	2015	2016	2017
Gross written premiums	\$ 2,012.1	\$ 2,164.8	\$ 2,697.2
Net written premiums	1,402.1	1,440.2	1,653.5
Net earned premiums	1,371.9	1,410.8	1,572.3
Net investment income and realized gains	112.7	141.2	179.3
Total revenue	1,506.8	1,576.5	1,774.1
Net income	\$ 163.2	\$ 146.7	\$ 50.3
Net income per share			
Basic	\$ 5.31	\$ 4.86	\$ 1.68
Diluted	\$ 5.20	\$ 4.75	\$ 1.64
Combined ratio	95.0%	96.2%	107.2%
Total assets	\$ 6,625.6	\$ 7,205.0	\$ 8,764.0
Shareholders' equity	\$ 1,668.1	\$ 1,792.7	\$ 1,819.7
Weighted average number of shares outstanding			
Basic	30.8	30.2	30.0
Diluted	31.4	30.8	30.8
Book value per share	\$ 54.31	\$ 59.73	\$ 61.48

### 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.

# The Benefit of Focus

Argo's U.S. operations continue to prove the wisdom of targeted support.

**Despite the challenges posed by intense weather events, Argo's U.S. operations achieved a fifth consecutive year of profitability in 2017. Our claims teams worked around the clock, responding quickly and fairly to claims arising from extensive damage caused by natural disasters. While hurricane, fire and flood activity dampened our reported bottom-line results, our businesses stayed focused and performed exceptionally.**

## Targeted investment in four high-potential areas

Last year, we identified four business lines with high growth potential and gave them additional resources to accelerate their growth. We made sure they had the right people in the right roles making wise decisions. We teamed business leaders with process-optimization experts and digital-systems developers to re-engineer the way they do their work. And we harnessed the strength of the Argo brand, demonstrating to customers how Argo's specialty underwriting expertise and financial stability can help them grow their own businesses.

## Excess & Surplus

Within our excess and surplus (E&S) lines, we underwrite primary and excess casualty, property, and professional liability coverage for hard-to-place risks. To propel our casualty business last year, we placed top talent in key positions, overhauled most of our internal processes and made it easy for our producers to work with us. Notably, we found ways to further accelerate our submissions process. Able to respond to any submission in fewer than five hours, Argo now stands in a class of its own.

## Argo Surety

Surety is a complicated and competitive business, but we have a keenly competitive appetite and a broad portfolio of offerings. In 2017, we strengthened our surety contract team with a number of seasoned industry professionals eager to join our growing enterprise. That larger team is now using its deep underwriting expertise to build solid, enduring and profitable relationships within an expanding base of clients.

## Argo Pro

Argo Pro is our mid-market professional lines platform. In a year of strong performance, we made improvements across a broad spectrum of activity. We rebuilt all our forms and contracts from scratch, making it easier for our producers and their customers to work with us. At the end of the year, we helped launch Coalition, a unique combination of digital tools and insurance coverage designed to help organizations address the threat of cyberattack.

## U.S. Specialty Programs

A year of strong growth in this business came from both simplification and expansion. To simplify, we sold renewal rights to a number of our agency programs, choosing to concentrate wholly on our services as a risk-bearing carrier. To expand, we worked with our partners and producers to pursue opportunities in new areas. We successfully implemented three mature, profitable books of business that substantially increased our revenue, providing scale for steady, sustainable future growth.

## TARGETED SUPPORT LEADS TO U.S. GROWTH

In 2017, these four business units were growth priority areas. The year-over-year results are notable.

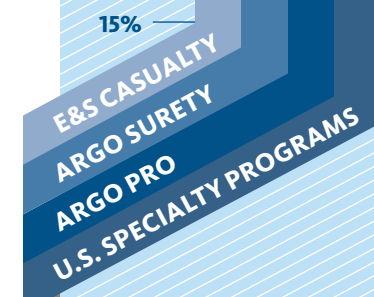
## 2017 YEAR-OVER-YEAR GROWTH IN GROSS WRITTEN PREMIUM

30%

25%

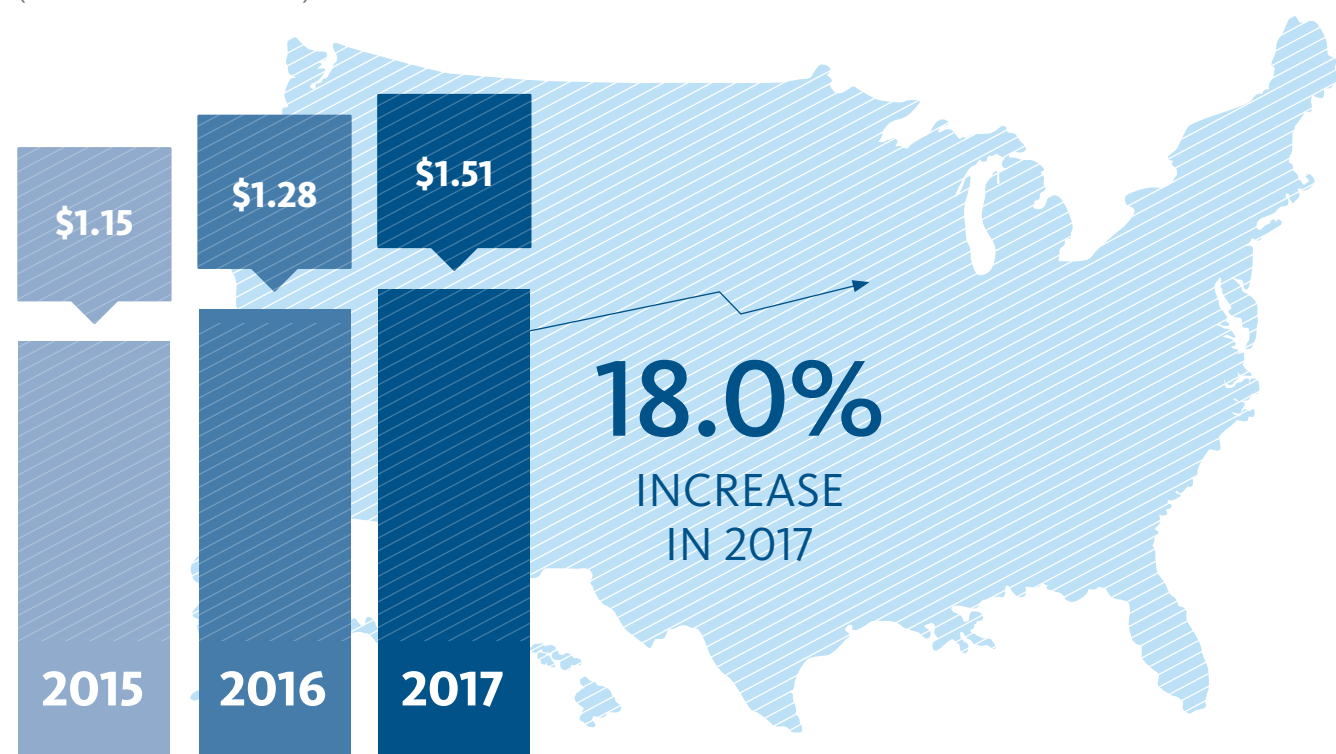
20%

15%



## GROSS WRITTEN PREMIUMS

(dollar amounts in billions)



For the Years Ended December 31  
(dollar amounts in millions)

	2015	2016	2017
<b>U.S. OPERATIONS</b>			
Gross written premiums	\$ 1,145.2	\$ 1,277.7	\$ 1,509.8
Earned premiums	\$ 815.4	\$ 849.5	\$ 936.6
Losses and loss adjustment expenses	471.1	467.5	528.1
Underwriting, acquisition and insurance expenses	259.4	270.5	319.1
Underwriting income	84.9	111.5	89.4
Net investment income	52.2	71.9	87.2
Interest expense	(9.2)	(9.2)	(14.1)
Fee and other income	18.2	19.1	16.2
Fee and other expense	(21.7)	(18.9)	(9.3)
Income before income taxes	\$ 124.4	\$ 174.4	\$ 169.4
Loss ratio	57.8%	55.0%	56.4%
Expense ratio	31.8%	31.9%	34.1%
Combined ratio	89.6%	86.9%	90.5%
Loss reserves at December 31	\$ 1,888.6	\$ 2,028.4	\$ 2,196.1

# The Wider View

Argo's international operations launched a smart and ambitious global strategy.

**2017 was a pivotal year for Argo's international operations. Building on our solid foundations in Bermuda and London, we took decisive action to expand our global footprint. First, we put top-performing industry professionals in critical leadership roles. Next, we made acquisitions that brought us new teams, platforms and customers around the world. Finally, we took deliberate steps to deepen our presence in Europe, Latin America and Asia.**

## Bermuda

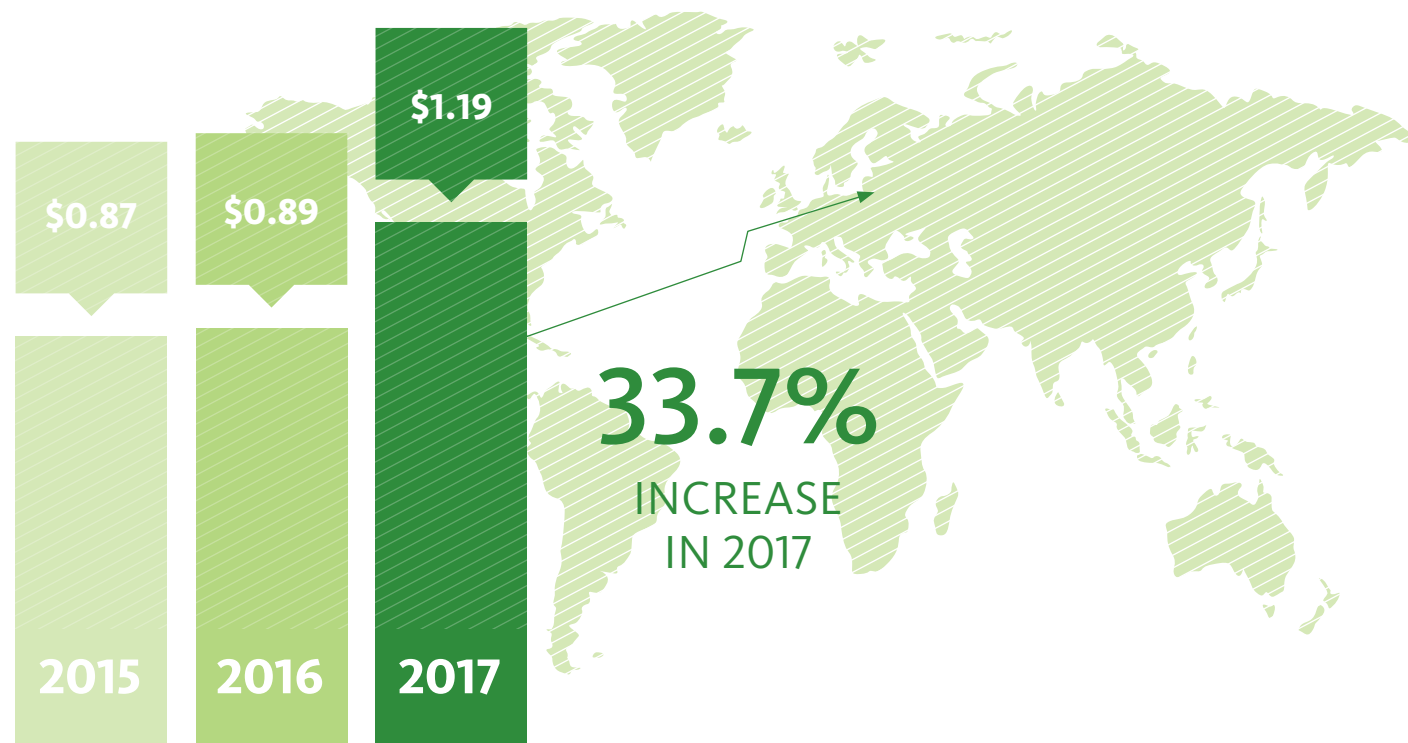
Our acquisition of Ariel Re in February brought us new tools and talent, and gave us the scale we sought in both our reinsurance business and our London operations. With Argo Re and Ariel Re operating under a single banner, we now offer our reinsurance customers alternative risk-transfer solutions, leveraging our insights supported by data analytics and modeling capabilities. We restructured our insurance operations in Bermuda to better serve the evolving needs of our clients. We also strengthened our property business by adding the team of property underwriters that came from the Ariel Re acquisition to our existing team of Argo property experts. Late in the year, we unified our international open-market property businesses to allow our London, Bermuda and U.S. teams to participate on joint accounts and better deploy our growing capacity.

## United Kingdom and Europe

In London, we organized our Lloyd's syndicates 1200 and 1910 efficiently under a single Argo Managing Agency. Under the watchful eye of a newly appointed international chief underwriting officer, we worked to exercise more rigorous underwriting

## GROSS WRITTEN PREMIUMS

(dollar amounts in billions)



discipline, refusing to chase top-line growth in one of the industry's most challenging markets. We appointed a new head of Europe, who now leads our effort to find the right geographical mix as we grow across the continent. We added a team of underwriters to capitalize on new opportunities in Germany, Austria and Switzerland, and we successfully introduced our specialty product capabilities into southern Europe.

## Latin America

With a new head of Latin America onboard, we opened an office in Miami to allow us to explore opportunities in the fast-growing facultative market and to serve as a launching pad to explore profitable growth opportunities, including a variety of new markets in both Central and South America. Our operation in Brazil once again produced good results. Despite the barrage of economic and political challenges that perplex that country, we grew our core business in Brazil by 21 percent; through our digital Protector platform, we now serve over 50,000 active customers through a network of more than 2,400 producers. Our ability to identify untapped market niches, create new ways of doing business and provide superior coverage earned us a nod from *Reactions* Latin American Awards as Brazil's Insurer of the Year.

## Asia

With offices in Shanghai and Singapore, we were able to drive business successfully in two highly complex markets. Our focus in Asia, as always, is to find unique opportunities where our long experience as specialty underwriters allows us to compete, even against much larger carriers. Last year, we continued that approach by opening a center in Hong Kong, where our expertise in sustainable energy has attracted the interest of businesses ready to launch infrastructure projects related to clean, renewable power.

## AN EXPANDING GLOBAL PRESENCE


As a leading global specialty underwriter, we do business around the world and continue to set up new operations.



Barcelona  
London  
Brussels  
Paris  
Zurich  
Milan  
Malta  
United States  
Rio de Janeiro  
São Paulo  
Bermuda  
Dubai  
Singapore  
Rome

For the Years Ended December 31  
(dollar amounts in millions)

	2015	2016	2017
<b>INTERNATIONAL OPERATIONS</b>			
Gross written premiums	\$ 866.4	\$ 886.8	\$ 1,187.3
Earned premiums	\$ 556.1	\$ 560.9	\$ 635.8
Losses and loss adjustment expenses	286.4	324.0	504.8
Underwriting, acquisition and insurance expenses	220.4	211.1	242.2
Underwriting (loss) income	49.3	25.8	(111.2)
Net investment income	20.3	28.7	32.7
Interest expense	(5.6)	(5.3)	(9.7)
Fee and other income	3.2	3.1	3.7
Fee and other expense	(2.8)	(0.7)	(2.2)
(Loss) income before income taxes	\$ 64.4	\$ 51.6	\$ (86.7)
Loss ratio	51.5%	57.8%	79.4%
Expense ratio	39.6%	37.6%	38.1%
Combined ratio	91.1%	95.4%	117.5%
Loss reserves at December 31	\$ 928.7	\$ 1,031.5	\$ 1,723.0



# THE FUTURE OF INSURANCE

New risks and new opportunities:  
These are the forces that will shape  
the insurance industry in the coming  
decade and beyond.



## THE FUTURE OF INSURANCE BY THE NUMBERS

From climate change to autonomous vehicles to artificial intelligence — the insurance industry is being transformed. These data points give you a glimpse into the social, economic and technological forces reshaping the industry.

**0.13° F**  
**SEA SURFACE TEMPERATURE INCREASE PER DECADE**

As temperatures rise, so will sea levels, storm intensity and coastal exposures.

**90%**  
**REDUCTION IN TRAFFIC FATALITIES BY 2050**

Researchers estimate that driverless vehicles will dramatically reduce traffic accidents and fatalities.

**200 BILLION**  
**NUMBER OF CONNECTED DEVICES BY 2020**

The internet of things will generate massive amounts of data — and create new exposures.

**7 MILLION**  
**ANNUAL U.S. DRONE SALES BY 2020**

Of these drones, 15% will be used by the insurance industry, helping it save up to \$6.8 billion per year.

**\$2 TRILLION**  
**GLOBAL COST OF CYBERCRIME BY 2019**

With billions of connected devices each serving as an access point, cybercrime will rapidly increase.

**In the last week of August 2017, a catastrophic, record-setting 60 inches of rain deluged Houston as Hurricane Harvey stalled over East Texas. Nearly 100 people died, and more than 200,000 homes and businesses were damaged or destroyed as a result of the storm. The total economic cost has been estimated at \$125 billion.**

That wasn't all. During the same week, the Bit Paymer ransomware program infected Scottish hospital computers, encrypting files and demanding a bitcoin payment in exchange for their release. The State of California reported two accidents involving driverless vehicles. And a group of technology leaders warned against the weaponization of artificial intelligence. It was a glimpse into the future.

"We have financial changes, technological changes, social changes and environmental changes happening at one time," says Argo Group CEO Mark E. Watson III. "It's extraordinary."

And as always, insurers such as Argo Group will adapt to — and in many cases benefit from — this seismic shift in technology and global trends.

"Think about the earliest days of Lloyd's," says Robert Hartwig, a professor of risk management, insurance and finance at the University of South Carolina's Darla Moore School of Business. "Ships sailed into the great unknown, not knowing what the weather or the seas would be like. Yet the industry managed to adapt." One of the most talked-about global transformations facing the industry is climate change.



*"Insurance companies have to become technology companies. This will happen, just as traditional retailers, manufacturers, car companies and others are becoming technology companies."*

—Max Chee, Head of Aquiline Technology Growth

## Strong Winds

In terms of hurricanes, "2017 was an incredibly devastating year," says Phil Klotzbach, a research scientist in the department of atmospheric science at Colorado State University. "September alone was the most active calendar month the Atlantic has ever seen, [going] back to the mid-1800s."

The effects of climate change will worsen, he says: "We know storms in the future are going to be more damaging. Storms are going to get slightly stronger, sea levels are rising, and people are living in areas that are flood-prone."

Changing weather patterns may also have helped spark historic firestorms across the western United States in late 2017, resulting in the damage or destruction of more than 15,000 structures and 54 deaths.

"We'll see more and more of these events," says Watson, who emphasizes the need for the insurance industry to respond to climate change. "We're trying to figure out how to factor them into not only our pricing algorithms, but also into how we select risk."



*"In five to ten years we'll be able to exchange information with our distribution partners, and perhaps customers, with fewer questions of trust."*

—Andy Breen, Senior Vice President of Digital, Argo Group

Almost as powerful as these storms is the explosion in data generation.

By 2020, some 200 billion devices, from watches to industrial robots to

autonomous vehicles, will be connected to the internet. These devices, collectively known as the internet of things, will produce a massive 44 trillion gigabytes of data in a single year.

This presents a huge opportunity for what Andy Breen, senior vice president of digital at Argo, calls "the original data business." Underwriters will increasingly use artificial intelligence to seek patterns and glean knowledge from data to better understand risks, price them more accurately and also move into new areas of risk.

Sharing a burgeoning amount of data requires trust. Blockchain technology, which can allow data to be tracked and traded digitally, securely and transparently without a central administrator, may lead to a far more efficient distribution chain.

"In five to ten years we'll be able to exchange information with our distribution partners, and perhaps customers, with fewer questions of trust," says Breen.



## A Shift in Transportation

Today, 94 percent of automotive accidents are attributable to human error. Autonomous vehicles, which may make up 50 percent of vehicles on the road by the middle of the 21st century, could reduce accidents and fatalities by up to 90 percent. But when accidents do happen, issues of liability will become more complex. Questions will arise over fault: Was it the driver, or the manufacturer whose computer code has a flaw – or was the system hacked?

Drones will proliferate on a faster timeline than autonomous vehicles. In the U.S., the number of drones sold annually will rise to 7 million in 2020. While much emphasis has been placed on the risks introduced by drones, they will also prove an invaluable tool. By 2036, 15 percent of drones will be used by the insurance industry to monitor risk, assess risk and expedite claims. An underwriter might use data captured by a drone to evaluate a worksite and its risk before issuing a policy. And after a catastrophic event, drones could be used to more quickly and efficiently estimate

*“Augmented reality is a technology that works seamlessly with the way workers are already doing their jobs.”*

— Dana Morgan, Director of Program Management at augmented reality company DAQRI



damage – and to help insurers more accurately forecast claims.

A report by top accounting firm PwC values the global market for drone-powered solutions in the insurance industry at \$6.8 billion.

Yet there is a darker side to technological evolution. From drones to hydroelectric dams, every device that is a part of the internet of things is also a potential target for cyberattacks.

Small and medium businesses will be increasingly at risk. According to the 2017 Argo Group Cyber Insurance Survey, nearly two-thirds of small businesses in the U.S. and the U.K. had been subject to cyberattacks in the preceding 12 months, and threats will continue to escalate. By 2019, cybercrime will cost the global economy \$2 trillion. Yet 60 percent of small and medium businesses have no cyber insurance – despite an increase in attacks.

And there will be no immediate reprieve from ransomware attacks like the May 2017 WannaCry attack that affected 300,000 machines in 150 countries and, says Simon White, Senior Vice President and Group Head of Cyber at Argo, “caused chaos on a global basis.” Attacks by nation-state actors will increase too, he says. “Targeted cyberattacks can be hugely impactful and can potentially cause significant damage to communication networks, financial platforms and critical infrastructure. It’s an attack method that is also considerably less expensive than traditional military operations.”

It’s no surprise that U.S. cyber insurance sales are expected to at least double during the next several years.

### Brave New Worlds

As augmented reality becomes more pervasive, insurers will likely offer their customers products that can reduce risk and increase efficiency in the workplace.



*“Ships sailed into the great unknown, not knowing what the weather or the seas would be like. Yet the industry managed to adapt.”*

— Robert Hartwig, Professor of Risk Management, Insurance and Finance, University of South Carolina

The technology overlays digital information onto a physical environment, so a worker can see, for example, not only a machine that needs to be serviced, but contextual information about each step. “It’s a technology that works seamlessly with the way workers are already doing their jobs,” says Dana Morgan, director of program management for augmented reality company DAQRI. And in one use-case study, augmented reality improved a worker’s performance by 34 percent the first time it was used.

Change is omnipresent. Insurers are expanding digital distribution to simplify customer experiences. They are developing products that will use new technologies and address new forms of risk. Broadly speaking, “insurance companies have to become technology companies,” explains Max Chee, who heads Aquiline Technology Growth and focuses on insurance technology investments. “This will happen, just as food companies are becoming

technology companies and car companies are becoming technology companies.”

Watson agrees. Like Chee, he sees the embrace of technology as an enabling rather than a disruptive force. “We’re using technology to help build a better user experience with our customers,” he says. “We’re using technology to better select risk. Technology is touching every part of our industry, and it’s only going to accelerate.”

“Argo’s mission is pretty simple. It’s to help businesses stay in business. In a world where things are changing rapidly, that matters a lot.” ■

**Watch the video** about The Future of Insurance at [argolimited.com/reports/2017-annual-report/](http://argolimited.com/reports/2017-annual-report/)

## Connected Devices Are Changing How Insurance Works

With 8.4 billion devices now connected, IoT gives insurers access to data that can help them adjust pricing, products and services.



### Businesses

Sensors can detect toxic releases, temperature changes and other risky conditions.

**\$3.7B** In factories alone, IoT’s potential economic impact could reach \$3.7 billion by 2025.



### Automobiles

Insurers can track patterns in speed, braking and turning for usage-based insurance that rewards safe drivers.

**35%** By 2021, 35% of U.S. motorists will have tried some kind of usage-based insurance, or UBI.



### Biometrics

By using wearables to track diet and exercise, insurance providers can reward customers for healthy choices.

**\$1.3B** The number of connected fitness monitors could reach 1.3 billion in 2025.

# Working at Argo

## Attracting a New Generation of Talent

As we grow, we're committed to securing the future for our employees, just as we are for our clients, shareholders and communities.



*"Argo's constant evolution and efforts to be better than yesterday open doors for me and let me contribute to its success."*

—Alanna Camarillo, HR Operations Specialist



*"Our successful past says a lot about what our future can be. We're building the future at Argo."*

—Jorge Luis Cazar, Head of Latin America for Argo Group's international business



*"Not only has my career grown, but I have grown as a person. I work with a great team, I have great managers, and I'm excited about my future here."*

—Whitney Carpenter, Underwriter, Trident Public Risk Solutions

We start by hiring the best people. "We're pushing boundaries to attract the best and brightest," says David Harris, head of group performance. "This is something the insurance industry hasn't always done."

One reason insurance is attracting a new generation of digital talent? "This is one of the original data businesses," says Andy Breen, senior vice president of digital. "People see that they have the opportunity to actually evolve the business from the inside by applying artificial intelligence and machine learning."

Success depends on keeping our employees engaged and

challenged, and providing on opportunities for growth.

We have an entire team dedicated to training and development. And we give employees opportunities that range from an annual leadership conference at Harvard Business School to Argo Academy, a companywide platform for continuing education that offers 250,000 tailored courses. We also have partnerships with organizations such as Bell Leadership programs and Stanford University.

"When we invest in our employees," says Harris, "they feel a pride in and ownership of the organization."

# Giving Back

## We're Committed to Our Communities

Argo employees work hard to improve the lives of those around them. Here are some highlights of our philanthropic efforts in 2017.



**1** We made a \$10,000 matching sponsorship to Power Grants to support two high school robotics teams in Brooklyn, New York, providing financial support and encouraging the teams' communities to invest in STEM education programs.



**2** In São Paulo, we sponsored Bikxi, a sustainable and innovative shared transportation service based on two-seat electric bikes, and we participated in a food drive to help feed hundreds of homeless neighbors.



**3** In London, we made a yearlong commitment to The Sick Children's Trust. From participating in Tough Mudder events to competing in cricket tournaments, employees raised money to help support the families of seriously ill children being treated in hospitals.



**4** After Hurricane Harvey devastated Texas, we volunteered at shelters, delivered supplies and helped clear out damaged homes. In San Antonio, we provided additional assistance through United Way contributions.

*"Being present, involved and connected is the secret ingredient to corporate giving."*  
— Mark E. Watson III, CEO

In Singapore, we volunteered with a local organization to provide safe residential care to girls from unstable families.

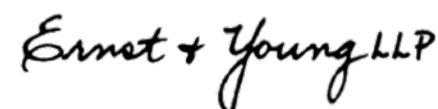
And in these and other communities around the world, we supported numerous other important causes and organizations to help secure their futures.

# Report of Independent Registered Public Accounting Firm on Condensed Consolidated Financial Statements

## To the Shareholders and the Board of Directors 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, 2017 and 2016, 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, 2017 and the related notes (collectively referred to as the "consolidated financial statements") (not presented separately herein) and in our report dated February 27, 2018, 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, 2017 and 2016 and for each of the three years in the period ended December 31, 2017 (presented on pages 21 through 23) 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, 2017, 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, 2018 (not presented separately herein) expressed an unqualified opinion thereon.



San Antonio, TX  
February 27, 2018

ARGO GROUP International Holdings, Ltd.

## Condensed Consolidated Balance Sheets

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

	As of December 31	
	2017	2016
<b>ASSETS</b>		
<b>Investments</b>		
Fixed maturities available-for-sale, at fair value (cost: 2017 - \$3,320.6; 2016 - \$2,938.8)	3,343.4	\$2,932.4
Equity securities available-for-sale, at fair value (cost: 2017 - \$338.2; 2016 - \$335.2)	487.4	\$447.4
Other investments (cost: 2017 - \$534.1; 2016 - \$527.6)	543.6	\$535.0
Short-term investments, at fair value (cost: 2017 - \$368.5; 2016 - \$405.5)	368.5	\$405.5
<b>Total investments</b>	<b>4,742.9</b>	<b>4,320.3</b>
Cash	176.6	86.0
Premiums receivable and reinsurance recoverable	2,691.9	1,849.4
Goodwill and other intangibles, net of accumulated amortization	258.2	219.9
Current income taxes receivable, net	1.4	—
Ceded unearned premiums	399.5	302.8
Other assets	493.5	426.6
<b>Total assets</b>	<b>\$ 8,764.0</b>	<b>\$ 7,205.0</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Reserves for losses and loss adjustment expenses	4,201.0	\$ 3,350.8
Unearned premiums	1,207.7	970.0
Ceded reinsurance payable, net	734.0	466.6
Senior unsecured fixed rate notes	139.6	139.5
Other indebtedness	184.5	55.4
Junior subordinated debentures	256.6	172.7
Current income taxes payable, net	-	8.1
Deferred tax liabilities, net	31.3	24.1
Accrued underwriting expenses and other liabilities	189.6	225.1
<b>Total liabilities</b>	<b>\$ 6,944.3</b>	<b>\$ 5,412.3</b>
<b>Shareholders' equity</b>		
Common shares - \$1.00 par, 40,385,309 and 40,042,330 shares issued at December 31, 2017 and 2016, respectively	40.4	40.0
Additional paid-in capital	1,129.1	1,123.3
Treasury shares (10,785,007 and 10,028,755 shares at December 31, 2017 and 2016, respectively)	(423.4)	(378.2)
Retained earnings	977.0	959.9
Accumulated other comprehensive income, net of taxes	96.6	47.7
<b>Total shareholders' equity</b>	<b>1,819.7</b>	<b>1,792.7</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 8,764.0</b>	<b>\$ 7,205.0</b>

Please see accompanying "Summary of Significant Accounting Policies" on page 24.

# Condensed Consolidated Statements of Income and Comprehensive Income

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

	As of December 31		
	2017	2016	2015
Premiums and other revenue:			
Earned premiums	\$ 1,572.3	\$ 1,410.8	\$ 1,371.9
Net investment income	140.0	115.1	88.6
Net realized investment and other gains	39.3	26.1	24.1
Fee and other income	22.5	24.5	22.2
<b>Total revenue</b>	<b>1,774.1</b>	<b>1,576.5</b>	<b>1,506.8</b>
Expenses:			
Losses and loss adjustment expenses	1,050.2	810.1	766.1
Underwriting, acquisition and insurance expenses	635.4	547.0	536.7
Interest expense and other	27.7	19.6	19.0
Fee and other expense	14.6	22.4	25.8
Foreign currency exchange losses (gains)	6.3	(4.5)	(18.3)
<b>Total expenses</b>	<b>1,734.2</b>	<b>1,394.6</b>	<b>1,329.3</b>
Income before income taxes	39.9	181.9	177.5
Income tax (benefit) provision	(10.4)	35.2	14.3
<b>Net income</b>	<b>\$ 50.3</b>	<b>\$ 146.7</b>	<b>\$ 163.2</b>
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	\$ (1.4)	\$ 4.0	\$ (6.0)
Defined benefit pension plans net gain (loss) arising during the period	0.8	(0.2)	0.1
Unrealized gains on securities:			
Gains (losses) arising during the period	77.7	42.4	(89.8)
Reclassification adjustment for gains included in net income	(28.2)	(10.0)	(0.9)
Other comprehensive income (loss), net of tax	48.9	36.2	(96.6)
<b>Comprehensive income</b>	<b>\$ 99.2</b>	<b>\$ 182.9</b>	<b>\$ 66.6</b>
Net income per common share:			
Basic	\$ 1.68	\$ 4.86	\$ 5.31
Diluted	\$ 1.64	\$ 4.75	\$ 5.20
Cash dividend declared per common share:	\$ 1.08	\$ 0.86	\$ 0.73
Weighted average common shares:			
Basic	29,962,524	30,166,440	30,769,089
Diluted	30,757,234	30,845,710	31,385,460

Please see accompanying "Summary of Significant Accounting Policies" on page 24.

# Condensed Consolidated Statements of Cash Flows

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

	As of December 31		
	2017	2016	2015
<b>Cash flows from operating activities:</b>			
Net income	\$ 50.3	\$ 146.7	\$ 163.2
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Amortization and depreciation	33.8	35.4	38.7
Share-based payments expense	12.3	19.8	29.1
Deferred federal income tax (benefit) provision, net	(17.9)	(1.1)	8.3
Net realized investment and other gains	(39.3)	(26.1)	(24.1)
Undistributed earnings from alternative investment portfolio	(49.5)	(23.9)	(3.0)
(Gain) Loss on disposal of fixed assets, net	2.1	(0.1)	0.2
Change in:			
Receivables	(602.7)	(318.0)	(182.6)
Reserves for losses and loss adjustment expenses	653.9	220.2	94.3
Unearned premiums	85.5	80.1	76.5
Ceded reinsurance payable and funds held	88.8	153.6	157.2
Other assets and liabilities, net	(52.3)	(104.6)	(74.6)
<b>Cash provided by operating activities</b>	<b>165.0</b>	<b>182.0</b>	<b>283.2</b>
<b>Cash flows from investing activities:</b>			
Sales, maturities and mandatory calls of investments	2,408.2	2,446.2	1,811.8
Purchases of investments	(2,660.8)	(2,380.5)	(2,034.1)
Change in short-term investments, foreign regulatory deposits and voluntary pools	299.5	(195.2)	49.6
Settlements of foreign currency exchange forward contracts	(2.9)	(5.4)	(10.1)
Acquisition of subsidiaries, net of cash acquired	(105.2)	-	-
Other, net	(60.1)	(10.2)	(10.8)
<b>Cash used by investing activities</b>	<b>(121.3)</b>	<b>(145.1)</b>	<b>(193.6)</b>
<b>Cash flows from financing activities:</b>			
Additional long-term borrowings	125.0	-	-
Activity under stock incentive plans	1.4	1.0	1.8
Repurchase of company's common shares	(45.2)	(47.1)	(29.7)
Payment of cash dividend to common shareholders	(33.2)	(26.6)	(22.7)
<b>Cash used by financing activities</b>	<b>48.0</b>	<b>(72.7)</b>	<b>(50.6)</b>
Effect of exchange rate changes on cash	(1.1)	0.1	1.7
Change in cash	90.6	(35.7)	40.7
Cash, beginning of period	86.0	121.7	81.0
<b>Cash, end of period</b>	<b>\$ 176.6</b>	<b>\$ 86.0</b>	<b>\$ 121.7</b>

Please see accompanying "Summary of Significant Accounting Policies" on page 24.

## 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 21 through 24, is derived from the information in the in the Consolidated Balance Sheets, the Consolidated Statements of Income and the Consolidated Statements of Cash Flow in Argo Group International Holdings, Ltd. 2017 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. 2017 Form 10-K. See also Management’s Discussion and Analysis of Financial Condition and Results of Operations and other information in the 2017 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 3, 2016, our Board of Directors declared a 10% stock dividend, payable on June 15, 2016, to shareholders of record at the close of business on June 1, 2016. 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. For the years ended December 31, 2016 and 2015, all references to share and per share amounts in these condensed consolidated financial statements have been adjusted to reflect the stock dividends for all periods presented.

**Investments.** Investments in fixed maturities at December 31, 2017 and 2016 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 2017, 2016 and 2015 associated with assets having a finite life was \$5.9 million, \$5.5 million and \$7.5 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.** On December 22, 2017, the Tax Cuts and Jobs Act (TCJA) was enacted. Among many changes resulting from TCJA, the new law (i) reduces the corporate tax rate to 21% effective January 1, 2018, (ii) eliminates the corporate alternative minimum tax for tax years beginning after December 31, 2017, (iii) allows businesses to immediately expense, for tax purposes, the cost of new investments in certain qualified depreciable assets, (iv) modifies the computation of loss reserve discounting for tax purposes, (v) modifies the recognition of income rules by requiring the recognition of income for certain items no later than the tax year in which an item is taken into account as income on an applicable financial statement and (vi) significantly modifies the United States international tax system.

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.

**Maybrooke Acquisition.** Effective February 6, 2017, we acquired all of the issued and outstanding capital stock of Maybrooke, a holding company, and its subsidiaries, which operates under the name “Ariel Re.” The purchase price of \$235.3 million was paid in cash from funds on hand and available under our credit facility. Ariel Re is a global underwriter of specialty insurance and reinsurance business written primarily through its Lloyd’s Syndicate 1910. Ariel Re provides Argo Group with a number of strategic advantages, including enhanced scale in its London- and Bermuda-based platforms.

**Subsequent Event.** On February 20, 2018, our Board of Directors declared a 15% stock dividend payable on March 21, 2018, to shareholders of record at the close of business on March 7, 2018. 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 2017 Form 10-K: in the Critical Accounting Policies section of Management’s Discussion and Analysis and also in Note 1 to the Financial Statements).

## Reconciliations of Non-GAAP Financial Measures

“Adjusted operating income” is an internal performance measure used in the management of the Company’s operations and represents after-tax (at an assumed effective tax rate of 20%) operational results excluding, as applicable, net realized investment gains or losses, net foreign exchange gain or loss, and other non-recurring items.

### Reconciliation of Adjusted Operating Income to Net Income

(in millions, except per share amounts)  
(unaudited)

	Years Ended December 31	
	2017	2016
Net income, as reported	\$ 50.3	\$ 146.7
Provision for income taxes	(10.4)	35.2
Net income, before taxes	39.9	181.9
Deduct:		
Net realized investment and other gains	(39.3)	(26.1)
Foreign currency exchange gains	6.3	(4.5)
Adjusted operating income before taxes	6.9	151.3
Provision for income taxes, at assumed rate (a)	1.4	30.3
Adjusted operating income	\$ 5.5	\$ 121.0
Adjusted operating income per common share (diluted)	\$ 0.18	\$ 3.92
Weighted average common shares, diluted	30.8	30.8

(a) At assumed tax rate of 20%.

We manage our business by operating segments. The reconciliation of segment income to net income is as follows:

### Reconciliation of Segment Income to Net Income

(in millions)  
(unaudited)

	Years Ended December 31		
	2017	2016	2015
Segment income (loss) before income taxes			
U.S. Operations	\$ 169.4	\$ 174.4	\$ 124.4
International Operations	(86.7)	51.6	64.4
Run-off Lines	(17.9)	(15.2)	(7.4)
Corporate and Other	(57.9)	(59.5)	(46.3)
Realized investment and other gains	39.3	26.1	24.1
Foreign currency exchange gains	(6.3)	4.5	18.3
Net income before income taxes	39.9	181.9	177.5
Provision for taxes	(10.4)	35.2	14.3
Net income	\$ 50.3	\$ 146.7	\$ 163.2

“Underwriting income” is an internal performance measure used in the management of the Company’s operations and represents net amount earned from underwriting activities (net premiums earned less underwriting expenses and claims incurred).

### Reconciliation of Underwriting Income to Net Income

(in millions)  
(unaudited)

	Years Ended December 31	
	2017	2016
Net income, as reported	\$ 50.3	\$ 146.7
Add (deduct):		
Income tax provision	(10.4)	35.2
Net investment income	(140.0)	(115.1)
Net realized investment and other gains	(39.3)	(26.1)
Fee and other income	(22.5)	(24.5)
Interest expense	27.7	19.6
Fee and other expense	14.6	22.4
Foreign currency exchange gains	6.3	(4.5)
Underwriting income	\$ (113.3)	\$ 53.7
Components of underwriting income		
United States	\$ 89.4	\$ 111.5
International	(111.2)	25.8
Run-off Lines	(25.7)	(25.1)
Corporate and Other	(65.8)	(58.5)
Underwriting income	\$ (113.3)	\$ 53.7

# Executive Leadership

## Board of Directors

Gary V. Woods   President, McCombs Enterprises	Chairman of the Board <sup>(1) (3) (4) (5)</sup>
F. Sedgwick Browne   Retired Counsel, Sidley Austin LLP	Director <sup>(2) (5) (6)</sup>
H. Berry Cash   Retired General Partner, InterWest Partners	Director <sup>(3) (4)</sup>
Hector De Leon   Chairman, De Leon Washburn & Ward PC	Director <sup>(1) (2) (3)</sup>
Mural R. Josephson   Retired Chief Financial Officer, Kemper Insurance Companies	Director <sup>(2)</sup>
Dee Lehane   Retired Managing Partner Global Insurance Industry, Accenture	Director <sup>(6)</sup>
Kathleen A. Nealon   Retired Group Head of Legal and Compliance, Standard Chartered PLC	Director <sup>(6)</sup>
John R. Power Jr.   President, The Patrician Group	Director <sup>(2) (3) (5)</sup>
Al-Noor Ramji   Group Chief Digital Officer, Prudential PLC	Director <sup>(4)</sup>
John H. Tonelli   Managing Director and Head of Debt Capital Markets & Syndication, Oppenheimer & Co. Inc.	Director <sup>(4) (5) (6)</sup>
Mark E. Watson III   Chief Executive Officer, Argo Group International Holdings Ltd.	Director <sup>(1) (4) (6)</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

(6) Member of the Risk & Capital Committee

## Senior Management | Argo Group International Holdings Ltd.

Mark E. Watson III	Chief Executive Officer <sup>(7)</sup>
Jay S. Bullock	Executive Vice President and Chief Financial Officer <sup>(7)</sup>
David Harris	Head of Group Performance
Alex Hindson	Chief Risk Officer
Robert Katzman	Senior Vice President and Chief Actuary
Mark H. Rose	Senior Vice President and Chief Investment Officer
Axel Schmidt	Group Chief Underwriting Officer <sup>(7)</sup>
Susan Spivak Bernstein	Senior Vice President, Investor Relations

## U.S. Operations

Kevin J. Rehnberg	President, U.S. Operations <sup>(7)</sup>
Joshua C. Betz	President, Argo Surety
Andrew Borst	President, U.S. Specialty Programs
Chris Claiborne	Chief Operating Officer
Sue Coates	Senior Vice President, Trident Public Risk Solutions
Rooney Gleason	President, U.S. Grocery & Retail
Craig Landi	President, Argo Pro
Frank Mike-Mayer	Chief Underwriting Officer
Kurt Tipton	President, Rockwood
Ronald Vindivich	President, Excess & Surplus Lines
Mark Wade	Chief Claims Officer

## International Operations

Jose A. Hernandez	Head of International Business <sup>(7)</sup>
Jorge Luis Cazar	Head of Latin America
Steve Eccles	Chief Underwriting Officer
Matt Harris	Head of Europe, Middle East and Asia
Dominic Kirby	Managing Director, ArgoGlobal
David Lang	Chief Operating Officer, ArgoGlobal
Ryan Mather	Group Head of Reinsurance
Nigel Mortimer	President, Argo Insurance Bermuda
Pedro Purm Jr.	President, Argo Seguros

(7) Executive Officer

# 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:

American Stock Transfer

& Trust Company LLC

6201 15th Ave.

Brooklyn, NY 11219

amstock.com

T. 800-937-5449

info@amstock.com

## Corporate Office

Argo Group International Holdings Ltd.

110 Pitts Bay Road

Pembroke HM 08

Bermuda

T. 441-296-5858

## Internet

argolimited.com

## Shareholder Services/ Investor Relations

Mailing address:

Argo Group International

Holdings Ltd.

Shareholder Services/Investor

Relations

P.O. Box HM 1282

Hamilton HM FX

Bermuda

T. 441-296-5858

## Investor Relations Contact

Susan Spivak Bernstein

Senior Vice President, Investor Relations

T. 212-607-8835

IR@argolimited.com

## 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.

A copy of the Company’s annual report filed with the Securities and Exchange Commission (Form 10-K) will be furnished without charge to any shareholder upon written request directed to our Senior Vice President, Investor Relations at the Shareholder Services/Investor Relations address shown above.

# Racing to the Future

Argo Group is proud to sponsor Formula E championship team Dragon Racing and Volvo Ocean Race contenders Vestas 11th Hour Racing. These teams share our commitment of courage, sustainability and team-driven innovation.