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, Commercial Specialty, International Specialty and Syndicate 1200. Argo Group is headquartered in Bermuda.

The businesses of Argo Group work as a unified, collaborative team around the world to deliver unsurpassed service to our clients. We do this by being smart, fast, eager and bold.
Argo is on course. It’s great to acknowledge that the continuous improvements we are making to become a high-performing company are paying off.

As always, the proof is in the details. Gross written premiums were up 7.6% to $1.16 billion from $1.08 billion in 2015. Our after-tax adjusted operating income rose from $108 million last year to $121 million in 2016. Our net income was almost $147 million, compared to last year’s $126 million. Our combined ratio was 96.3%, compared to 95.0% in 2015, with major catastrophe losses near the end of the year causing much of that variance. In fact, while our overall loss ratio moved from 55.8% to 57.4%, we exclude catastrophe losses and positive prior-year loss development, the loss ratio for 2016 improved a full percentage point to 55.4%.

The continuing focus in our Excess & Surplus Lines (E&S) business this year was execution. Our success in earning $49 million of underwriting income was due in part to new technologies that help us better analyze and select risk, allowing us to increase the value of the business we process. Thanks to close collaboration between our technology and engineering teams, we were able to introduce a number of improvements to our underwriting. We reduced cycle times substantially through automation, exponentially increasing the number of submissions we receive, while freeing up our underwriters to reach out to new clients. This led to what otherwise would have been a decline in premiums, given prevailing market conditions. Our core casualty business grew over 10%, which contributed to our overall E&S growth of 4.1%. Needless to say, we’re a fair amount of underwriting business go...

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We're happy to note that investment income — even in a challenging environment — was $515.1 million, compared to $551 million last year, an increase of almost 10%, with alternative investment portfolio contributing solidly to that result. We ended the year with cash and investments totaling $4.4 billion.

I begin with our results in the United States. As you may know, we have spent considerable time and resources building and rebuilding various parts of our U.S. portfolio. A remarkable turnaround in our Commercial Specialty segment was one of the year’s highlights. Led by Kevin J. Rehnberg, our U.S. operations posted a record underwriting income of just under $121 million in 2016, more than at any other time since I invested in the company. My thanks go to everyone in the United States for doing a fantastic job.

EXCESS & SURPLUS LINES
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Our late-year acquisition of Ariel Re gives us a second Lloyd’s syndicate while positioning Argo as a market leader with immediate opportunities to expand into new geographies.

“...a second Lloyd’s syndicate while positioning Argo as a market leader with immediate opportunities to expand into new geographies.”

— Mark E. Watson III,
Chief Executive Officer
conflicting but they are not irreconcilable. Where prosperity is concerned, access to capital and sharing of risk are of intrinsic value to the national good. Most nations do not on their own have enough capital to drive and protect all the growth required or possible. That’s why insurance was invented. That’s why Lloyd’s was founded. That’s why Bermuda became a center of reinsurance. If tariffs, taxes and selective prohibitions become the tools of national interest they once were, access to insurance could be unduly limited as it once was. Without insurance, communities, businesses and projects will grind to a halt. Even if promised infrastructure improvements are backed by public funding, their engagements will carry risks that will have to be hedged with adequate insurance. However, the debate on governance style is resolved, our industry must be allowed to carry on its role as a prudent risk-taker that allows the wheels of commerce to turn smoothly. We are the grease that makes that happen. The platforms we’ve built for Argo in the United States, Bermuda, London, Europe, Asia and Latin America allow us to take advantage of opportunities as they arise. But insurance has rightly become a global community of underwriters who share risk and protect those who need it. We must be allowed to continue.

A related issue is capital. The low-rate investment climate continues to perplex. Investors are scratching their heads, uncertain of where they should put their money to work. Having watched the U.S. 10-year bond annual yield slip steadily from over 15% in 1998 to below 2% in 2016, and now sensing a fully subscribed equity market, many corporations are placing capital in areas of business in which they expect to thrive and now sensing a fully subscribed equity market, many corporations are placing capital in areas of business in which they expect to thrive.

GETTING THERE TOGETHER

At Argo, our companywide focus this year was on learning how to engage the full talents and creativity of our team, and we were not disappointed. Together, we found ways to collaborate and produce impressive results. The most visible evidence of our strategy was our late-year acquisition announcement of Ariel Re, which gives us a second Lloyd’s syndicate to position Argo as a market leader with immediate opportunities to expand into new geographies. We have worked hard to become data-driven. Ariel Re has inspired us to be even more so. As one entity, we will be able to exploit our combined ability to take on innovative risks, find new modes of insurance and reinsur- ance, and compete well in an increasingly competitive market.

Our team continued to improve through an expanding program of training and professional development. Talented people continued to join us from other high-performing companies – notably, experts such as our head of international

Jose A. Hernandez, our chief financial officer for the U.S. Oscar Guerrero, and our chief actuary Robert Katzman from AIG, and our head of digital Andy Breen from American Express. Together, our team found new ways to execute nimblly while innovating in every corner of the company. Encouraged by our program to seek out brilliant new ideas, Argo staff helped us change the way we communicate with clients, design and launch new apps, build risk analysis tools, launch ingenious quote-and-bind solutions, accelerate claims resolution, and even reach whole new markets through complementary sponsorship programs. Through collaboration, innovation is changing us from within.

Finally, commitment to the communities in which we live and work has always been a priority at Argo. In 2016, we proved that commitment in important, practical ways. In London, we raised funds for a local hospital. In São Paulo, we donated food to the homeless and helped cancer patients. In cities across the United States, we supplied underprivileged kids with necessities, helped women build skills of self-promotion and sent school supplies to foster kids: we helped raise funds to support those with Down syndrome, and ran a United Way campaign in San Antonio sending funds to local frontline charities. In Bermuda, we reached an impressive milestone as Argo’s overall charitable giving topped $1.5 million.

To sum up, our company continues to improve and grow, with overall underwriting revenues ahead of plan and a strong Argo brand built through the discipline, generosity and innovative spirit of our exceptional team. We have become efficient, creative and resourceful, and we are achieving the success we planned for five years ago. Our vision to be a leading specialty underwriter is clearer now than ever before.

See Mark’s recap of the year at argolimited.com/message-2016

Watson addressing Argo senior leadership at the Strategic Planning Meeting in Vancouver.

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BUSINESS SEGMENTS

EXCESS & SURPLUS LINES

Our Excess & Surplus Lines segment insures risks typically not underwritten by the standard market. Colony Specialty underwrites property and casualty risks.

Our commitment to technology has paid off. We make decisions faster now.

We knew going into 2016 that it was time to prove our commitment to technology. Focusing first on casualty and contract binding, our Excess & Surplus Lines teams took great effort to make our submissions process smarter, faster and easier for producers to use. Then we went further.

Our underwriting, engineering and data-science teams found ways to accelerate many repetitive functions while giving underwriters the time and the real-world data they need to accurately assess the complex risks that make specialty insurance unique.

We reduced cycle times substantially through automation, exponentially increasing the number of submissions we can respond to and freeing us to give key clients our full attention. The response was immediate. As we tightened our processes, our rate of securing business rose, as did the volume of new submissions we received from our producers. Our deepened actuarial, operational and underwriting expertise is an enduring competitive advantage in a time when even standard market carriers are eyeing the specialty market with some envy.

As always, collaboration has been key. Teams across the United States and around the world now interact every day. New tools for sharing best practices and innovations among units and segments have changed the way we do business, and the way we think about it.

We made it easier for retail agents to do business with Argo. They liked it.

Last year we retooled our Commercial Specialty segment to drive collaboration between a variety of businesses with different markets and diverse products, yet all with similar distribution models and growth potential. We improved our processes. We brought more great people onto our teams. We exited lines that were distracting us, and aggressively sought new markets.

All units in this segment have direct relationships with retail agents. Their common goal last year was to make it easier for those agents to work with Argo. They succeeded. In 2016, we saw gains across the segment.

Our public-entity business, Trident Public Risk Solutions, logged great success this year, growing gross written premium and earning its highest operating income in 10 years. Our Surety operation continued to bolster its mining and engineering teams, differentiating Argo from the competition and attracting new business because of it. Our Argo Pro professional lines grew well, bolstering its mining and engineering teams, differentiating Argo from the competition and attracting new business because of it.

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COMMERCIAL SPECIALTY

Commercial Specialty serves niche industries and businesses through seven risk-bearing divisions: Argo Insurance, Argo Surety, Argo Pro, ARIS, Commercial Programs, Rockwood and Trident Public Risk Solutions. In addition, our Alteris division operates non-risk-bearing agency and brokerage businesses.

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As always, collaboration has been key. Teams across the United States and around the world now interact every day. New tools for sharing best practices and innovations among units and segments have changed the way we do business, and the way we think about it.
With our solid reputation and strong brand, we can drive business around the world.

To be relevant globally, we must be relevant locally wherever we do business. Our thrust within our international segment is to enter new markets with strong cultural knowledge and close relationships.

Last year, our international platforms covered risks situated in a diverse array of environments, from mega-cities to rural villages, from miles below sea level to miles above it. Our underwriters in Argol Global turned to our Lloyd’s syndicate to cover some of the world’s most complex risks against nature’s perils, while our operations in Malta, Dubai, Singapore and Brazil offered specialized cover to their regional exposures.

In Bermuda, we proved that despite the degree of competition in both the insurance and reinsurance markets, international customers still value financial stability and depth of relationship. We worked hard to maintain both. Our combination of innovation and experience has been rewarded, with customers responding well to the bespoke products we created for them through such incubators as our structured risk department.

Notably, our investment in innovation in Brazil began to realize its potential this year. Many of our forward-looking brokers are now building their businesses quickly and efficiently through our online Protector platform, enabling them to grow.

### INTERNATIONAL SPECIALTY

International Specialty underwrites property catastrophe reinsurance and other risks worldwide from offices in Bermuda, Dubai and Malta. Argo Seguros underwrites cargo and marine, property and engineering, and financial lines in Brazil and other Latin American markets.

### SYNDICATE 1200

Syndicate 1200 underwrites worldwide property, specialty and non-U.S. liability insurance within the Lloyd's of London global franchise. It operates through four divisions: property, liability, marine and energy, and specialty.

### SYNDICATE 1200

#### For the Years Ended December 31

<table>
<thead>
<tr>
<th>(dollar amounts in millions)</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross written premiums</strong></td>
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<td><strong>Loss reserves at December 31</strong></td>
<td>$299.2</td>
<td>$311.3</td>
<td>$317.0</td>
</tr>
<tr>
<td><strong>Net investment income</strong></td>
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<tr>
<td><strong>Expense ratio</strong></td>
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<td>30.4%</td>
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In just its eighth year as a member of Argo Group, Syndicate 1200 last year solidified its position as a core contributor to Argo results. Operating in one of the insurance industry’s most competitive markets, Syndicate 1200’s divisions wrote more premium in 2016 than they had before. The growth of the business has been driven by the new classes and geographies in which the Syndicate has invested. Coupled with the development of leadership skills in wordings and claims, this added breadth makes a real difference to our supporting brokers and clients.

In line with Argo’s overall commitment to continuous improvement, Syndicate 1200 sought to strengthen and broaden its already strong relationships with London brokers and to support the Lloyd’s platform in London and around the world. We exited the aerospace business due to the ongoing competitive environment, and we worked to expand profitable lines of business while establishing new products in areas where we believe the group’s strengths will serve us well.

The Syndicate continued to develop long-term relationships with Trade Capital Partners as part of the strategy of working collaboratively with overseas partners to generate new opportunities in other geographies. Syndicate 1200 teams partnered with colleagues in other Argo business segments to meet customer needs and partner to generate new products, leveraging the benefits of operating within a multi-platform group. They also continued development of a data warehouse that will allow us to meet the reporting requirements of the European Union’s Solvency II Directive.

### BUSINESS SEGMENTS

#### INTERNATIONAL SPECIALTY

For the Years Ended December 31

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**INTERNATIONAL SPECIALTY**

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**1.9% DECREASE FROM 2015**

#### SYNDICATE 1200

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<td>$625.5</td>
</tr>
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<td>$603.1</td>
<td>$616.6</td>
<td>$632.5</td>
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**SYNDICATE 1200**

**GROSS WRITTEN PREMIUMS**

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ANNUAL REVIEW 2016

Rebuilding on a Foundation of Shared Expertise

When Hurricane Sandy slammed into New York City in 2012, it left behind $32 billion in destruction, including major flooding and extensive damage to a 1,400-unit housing complex on the Rockaway Peninsula in Queens.

In 2016 a nearly $200 million renovation project was approved for this waterfront complex. And soon afterward, Cynthia O’Brien, Wholesale Division president at New York’s Program Brokerage Corp., got the call from a retail broker requesting quotes for a policy to cover the renovation.

“We were under a time crunch to deliver the quote. Most insurance companies ran away. But the culture at Argo is one of service and responsiveness. Our relationship goes beyond business. We know our underwriters on a personal level. We trust them. And working with them, we were able to turn around a quote within days.”

“We know our Argo underwriters on a personal level. We trust them.”

— Cynthia O’Brien

Why were many carriers hesitant to quote the project? Its sheer scale, as well as the complexities of New York labor law.

“There’s one word for it,” says Jordan S. Marks, the Argo underwriter who worked with O’Brien. “Massive. Any construction site in New York presents a large amount of risk, in part because of the state’s unique labor laws. But our specialized unit recognizes and underwrites the complexities of New York construction. Everyone on my team is extremely passionate about it. We understand it.”

“There is a true partnership between us and Argo,” says O’Brien. “We understand each other’s needs. We work toward the same goals.”

Watch the video at argolimited.com/nyc-2016

Keeping a Business in Business to Feed the World

Winter blizzards sweep across miles of flat agricultural land. Tornadoes roar through in spring. Hail and lightning strike without warning.

Weather dominates southwest Kansas, where Cattle Empire raises nearly 250,000 beef cattle in one of the largest cattle feeding operations in the United States. Argo, in partnership with brokerage Cline Wood, a Marsh & McLennan Agency LLC company, manages an insurance program for Cattle Empire that covers its property and cattle.

“Cattle Empire is an extraordinary operation,” says Bart Schaffer, senior vice president for commercial programs. “It has a large amount of insured values, a wide expanse of operations and unique coverage needs. You’d be shocked to hear how much a commercial scale costs if you need to replace it!”

“Our livelihoods depend on the health and wellbeing of these animals. It’s in our best interest to minimize risk.”

— Lucas Christensen

Cline Wood producer Matt Koster works closely with Schaffer and understands the risks equally well. “Last week it was 60 degrees and sunny in Satanta, Kansas,” says Koster, “and 24 hours later there’s five inches of snow and ice on the ground.”

And Lucas Christensen, Cattle Empire’s chief financial officer, appreciates working with people who share a passion for and understanding of his business and its environment. “I grew up in Montana,” he says, “and I’ve lived on a cattle ranch my entire life.” He’s equally appreciative of the insurance that lets his business transfer risk and operate without interruption.

After all, he says, “what we’re doing is feeding the world.”

Watch the video at argolimited.com/cattle-2016

A Constructive Relationship


Heartland Values

Top, Cattle Empire specializes in beef cattle. Below, Bart Schaffer, Lucas Christensen and Matt Koster.
At Lloyd’s, Business is Up Close and Personal

Founded in 1688, Lloyd’s of London is the world’s foremost insurance marketplace. And at Lloyd’s, business is done in person. Each of the nearly 100 syndicates that underwrite risk has one or more boxes in the bustling Underwriting Room in which underwriters and brokers meet to transact business.

"The face-to-face approach at Lloyd’s is critical," says James McPartland, a professional indemnity underwriter at Argo Global, which operates as Syndicate 1200. "It provides the opportunity for both sides of the party to discuss risks and common objectives. Emails are great for sending mass amounts of information, but you can’t beat the split-second decision-making that happens in the box. It’s an old way of doing business, but it works, and that’s the reason it still exists."

“It’s an old way of doing business, but it works, and that’s the reason it still exists.” — James McPartland

Among the brokers McPartland discusses business with every day is Anthony Green, director at B&W Brokers.

"Lloyd’s is formed on a bedrock of relationships," says Green. "Brokers interact daily with underwriters. We get answers directly from decision-makers, and that’s the key."

As McPartland says, “we think of insurance as a collaboration between our syndicate, the broker and the insured.” This belief in collaboration, combined with deep experience and industry knowledge, has underpinned Lloyd’s for centuries.

And, not surprisingly, these are some of the core values that have long grounded Argo itself.

Watch the video at argolimited.com/lloyds-2016

INSIDE ARGO

A Year of Innovation and Achievement

In 2016 we won awards, launched exciting new products, announced a new racing sponsorship and grew our team around the world.

- Innovators
  - We made Advisen’s list of top 10 companies for product innovation.

- Trustworthy
  - Forth in August named us one of America’s 50 most trustworthy financial companies.

- Insurance for drones
  - We launched Insure4Drones in March, an online portal to buy drone insurance in the United Kingdom.

- Cyber smart
  - We started a cyber division in September led by cyber expert Russell Heaton as underwriter.

- Most transformational CEO
  - Mark E. Watson III won the E&Y Entrepreneur of the Year Award for Central Texas, Transformational CEO category.

- Racing toward the future
  - We’re sponsoring team Faraday Future Dragon Racing in the Formula E racing circuit for electric cars.

Innovators
Trustworthy
Insurance for drones
Cyber smart
Most transformational CEO
Racing toward the future

A Year of Innovation
and Achievement

11
Countries in which our employees work (Belgium, Bermuda, Brazil, France, Italy, Malta, Singapore, Switzerland, United Arab Emirates, United Kingdom and the United States)

19
Languages spoken by our employees (English, Spanish, Dutch, French, German, Portuguese, Maltese, Tamil, Malay, Standard Mandarin, Romansh, Arabic, Persian, Hindi, Urdu, Bengali, Tagalog, Chinese and Malayalam)

3.0
Seconds from 0 to 60 mph for the Faraday Future Dragon Racing Formula E car we’re sponsoring in 2017

277
People hired in 2016— including 109 employees in underwriting and 43 in claims

A
(Excellent)
Our A.M. Best rating.
We Give Back to the Places in Which We Live and Work

Commitment to the communities in which we live and work has always been a priority at Argo. In 2016, we proved this commitment in notable ways.

In London, the ArgoGlobal Charity Gala Dinner raised £20,000 for the Great Ormond Street Hospital Children’s Charity, which is devoted to treatments and cures for childhood illnesses.

In São Paulo, we donated 600 pounds of food to the homeless, supported a local hospital and backed an organization that helps cancer patients.

In San Antonio, we participated in the annual Artpace “Chalk It Up” event to help raise awareness for art education. We distributed food to families in need during the Thanksgiving holiday. And we ran a United Way campaign that provided financial support to local charities.

“We want a chance to have a better life. With our resources and our team, we can help make that happen.”

— Mark E. Watson III

We hosted youth sailors in Toulon, France, inviting them to tour the Artemis Racing AC45F sailboat. Argo sponsors Artemis Racing and supports the Andrew Simpson Sailing Foundation, which engages children around the world through sailing.

Through the Argo Foundation, we reached an impressive milestone in 2016 as the company’s overall charitable giving topped $1.25 million. Established in 2009, the Argo Foundation invests in programs and services that enrich the lives of Bermuda’s youth, preparing them for a productive and rewarding future.

Across the United States, we raised funds for a playhouse, helped supply underprivileged kids with necessities, helped women build skills of self-promotion and provided hundreds of meals through local food drives.

Giving Back
Top, distributing Thanksgiving food to families in need in San Antonio. Center, raising awareness for art education in San Antonio. Bottom, fundraising to help children in poverty on Red Nose Day in Richmond, Virginia.

A Startup Approach Empowers the Argo Digital Team

Around the world, our employees work together and innovate to drive the success of the company. A perfect example of this can be found at Argo Digital, the group that’s using technology to develop new ways of assessing and transferring risk in the 21st century.

Argo Digital works in squads of three to seven employees, each squad moving nimbly from one challenge to the next, testing hypotheses grounded in observations of the real world. “When we studied the companies that innovate at scale, like Facebook, Google and Amazon, we saw the impact of very small teams operating inside them,” explains Andy Breen, Argo senior vice president of digital. “They’re basically a collection of small startups that are allowed a lot of autonomy. As new opportunities arise, adding new squads is a quick and cost-efficient way to try new ways of solving problems.”

“The conventional wisdom is that small and agile beats big and traditional. We think big and agile wins the day.”

— Andy Breen

“We’re product owners, designers, engineers and data scientists,” says Breen. “Some of us are small business owners ourselves. We’re all curious and questioning the conventions of how the insurance industry transacts business. We talk to customers, and we know what problems they have. With big problems come big opportunities. We’re out to solve them with new approaches.”

Empowered by independence and trust, Argo Digital is developing new products and processes and demonstrating how Argo supports the ideas and ambitions of its passionate and driven team members.

Watch the video at argolimited.com/digital-2016

Common Purpose
Passion for excellence is the foundation for building a strong and profitable company. Argo seeks the industry’s best talents.
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, 2016 and 2015, 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, 2016 (not presented separately herein) and in our report dated February 24, 2017, 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, 2016 and 2015 and for each of the three years in the period ended December 31, 2016 (presented on pages 17 through 20) 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, 2016, 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 24, 2017 (not presented separately herein) expressed an unqualified opinion thereon.

San Antonio, TX
February 24, 2017

Report of Independent Registered Public Accounting Firm

Ernst & Young LLP

Condemned Consolidated Balance Sheets

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

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed maturities, at fair value:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Available-for-sale (cost: 2016 - $2,938.8; 2015 - $2,971.0)</td>
<td>$2,932.4</td>
<td>$2,927.3</td>
</tr>
<tr>
<td>Equity securities, at fair value (cost: 2016 - $335.2; 2015 - $349.7)</td>
<td>447.4</td>
<td>465.9</td>
</tr>
<tr>
<td>Other investments (cost: 2016 - $531.6; 2015 - $506.9)</td>
<td>539.0</td>
<td>513.7</td>
</tr>
<tr>
<td>Short-term investments, at fair value (cost: 2016 - $405.5; 2015 - $211.2)</td>
<td>405.5</td>
<td>210.8</td>
</tr>
<tr>
<td><strong>Total investments</strong></td>
<td>4,324.3</td>
<td>4,115.7</td>
</tr>
<tr>
<td>Cash</td>
<td>86.0</td>
<td>121.7</td>
</tr>
<tr>
<td>Premiums receivable and reinsurace recoverable</td>
<td>1,249.4</td>
<td>1,055.6</td>
</tr>
<tr>
<td>Goodwill and other intangibles, net of accumulated amortization</td>
<td>219.9</td>
<td>235.5</td>
</tr>
<tr>
<td>Current income taxes receivable, net</td>
<td>—</td>
<td>11.6</td>
</tr>
<tr>
<td>Ceded unearned premiums</td>
<td>302.8</td>
<td>250.8</td>
</tr>
<tr>
<td>Other assets</td>
<td>422.6</td>
<td>374.7</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$7,205.0</td>
<td>$6,625.6</td>
</tr>
</tbody>
</table>

|                      |              |              |
| **LIABILITIES AND SHAREHOLDERS’ EQUITY** |              |              |
| Reserves for losses and loss adjustment expenses | $3,350.8 | $3,123.6 |
| Unearned premiums | 970.0 | 886.7 |
| Ceded reinsurance payable, net | 466.6 | 312.4 |
| Senior unsecured fixed rate notes | 139.5 | 159.3 |
| Other indebtedness | 55.4 | 55.2 |
| Junior subordinated debentures | 172.7 | 172.7 |
| Current income taxes payable, net | 8.1 | — |
| Deferred tax liabilities, net | 24.1 | 23.6 |
| Accrued underwriting expenses and other liabilities | 225.1 | 244.0 |
| **Total liabilities** | 5,412.3 | 4,977.5 |

| **Shareholder’s equity** |              |              |              |              |              |              |
| Common shares - $1.00 par, 40,042,330 and 37,104,294 shares issued at December 31, 2016 and 2015, respectively | 40.0 | 37.1 |
| Additional paid-in capital | 1,233.3 | 964.9 |
| Treasury shares (9,018,755 and 9,181,644 shares at December 31, 2016 and 2015, respectively) | (378.2) | (331.1) |
| **Retained earnings** | 959.9 | 985.7 |
| **Accumulated other comprehensive income, net of taxes** | 47.7 | 11.5 |
| **Total shareholders’ equity** | 1,792.7 | 1,688.1 |
| **Total liabilities and shareholders’ equity** | $7,205.0 | $6,625.6 |

Please see accompanying "Summary of Significant Accounting Policies" on page 20.
## Condensed Consolidated Statements of Income and Comprehensive Income

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

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Premiums and other revenue:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earned premiums</td>
<td>$1,410.8</td>
<td>$1,371.9</td>
<td>$1,338.1</td>
</tr>
<tr>
<td>Net investment income</td>
<td>115.1</td>
<td>88.6</td>
<td>106.1</td>
</tr>
<tr>
<td>Net realized investment and other gains</td>
<td>26.1</td>
<td>24.1</td>
<td>74.5</td>
</tr>
<tr>
<td><strong>Fee and other income</strong></td>
<td>24.5</td>
<td>22.2</td>
<td>20.7</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>$1,576.5</td>
<td>$1,506.8</td>
<td>$1,539.4</td>
</tr>
</tbody>
</table>

| **Expenses:** |          |          |          |
| Losses and loss adjustment expenses | 810.1 | 766.1 | 747.4 |
| Underwriting, acquisition and insurance expenses | 547.0 | 536.7 | 537.0 |
| Interest expense and other | 19.6 | 19.0 | 19.9 |
| Fee and other expense | 22.4 | 25.8 | 23.5 |
| Foreign currency gain | (4.5) | (18.3) | (2.8) |
| Impairment of intangible assets | — | — | 3.4 |
| **Total Expenses** | $1,394.6 | $1,319.3 | $1,323.4 |

| **Income before income taxes** | 181.9 | 177.5 | 216.0 |
| Provision for income taxes | 35.4 | 14.3 | 32.8 |
| **Net income** | $146.7 | $153.2 | $183.2 |

| **Other comprehensive income (loss), net of tax:** |          |          |          |
| Foreign currency translation adjustments | $4.0 | $(6.0) | $(4.1) |
| Defined benefit pension plans net (loss) gain arising during the period | (0.2) | 0.1 | (2.4) |
| Unrealized gains on securities: |          |          |          |
| Gains (losses) arising during the period | 42.4 | (89.8) | (12.5) |
| Reclassification adjustment for gains included in net income | (0.0) | (0.9) | (20.7) |
| **Other comprehensive income (loss), net of tax** | $46.2 | $(56.6) | $(39.7) |

| **Comprehensive income** | $193.9 | $96.6 | $143.5 |

| **Net income per common share:** |          |          |          |
| Basic | $4.86 | $5.31 | $5.80 |
| Diluted | $4.75 | $5.20 | $5.70 |

| **Cash dividend declared per common share:** | 0.86 | 0.73 | 0.57 |

| **Weighted average common shares:** |          |          |          |
| Basic | 30,166,440 | 30,769,089 | 33,559,422 |
| Diluted | 30,845,710 | 31,385,460 | 32,134,218 |

Please see accompanying "Summary of Significant Accounting Policies" on page 20.

## Condensed Consolidated Statements of Cash Flows

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

<table>
<thead>
<tr>
<th></th>
<th>As of December 31</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operations:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>$146.7</td>
<td>$153.2</td>
<td>$183.2</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash provided by operating activities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amortization and depreciation</td>
<td>35.4</td>
<td>38.7</td>
<td>37.2</td>
</tr>
<tr>
<td>Share-based payments expense</td>
<td>19.8</td>
<td>29.1</td>
<td>19.6</td>
</tr>
<tr>
<td>Excess tax expense from share-based payments arrangements</td>
<td>(24.1)</td>
<td>(0.0)</td>
<td>(0.1)</td>
</tr>
<tr>
<td>Deferred federal income tax (benefit) provision, net</td>
<td>(3.1)</td>
<td>8.3</td>
<td>27.6</td>
</tr>
<tr>
<td>Net realized investment and other gains</td>
<td>(6.1)</td>
<td>(24.1)</td>
<td>(34.5)</td>
</tr>
<tr>
<td>Net investment income</td>
<td>(28.4)</td>
<td>(163.9)</td>
<td>(74.5)</td>
</tr>
<tr>
<td>Undistributed earnings from alternative investment portfolio</td>
<td>(23.9)</td>
<td>(3.0)</td>
<td>(19.5)</td>
</tr>
<tr>
<td>(Gain) loss on disposal of fixed assets, net</td>
<td>(6.1)</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Amortization of debt issuance costs</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Impairment of intangible assets</td>
<td>—</td>
<td>—</td>
<td>3.4</td>
</tr>
<tr>
<td><strong>Change in:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>(318.0)</td>
<td>(182.6)</td>
<td>256.7</td>
</tr>
<tr>
<td>Reserves for losses and loss adjustment expenses</td>
<td>220.2</td>
<td>94.3</td>
<td>(182.0)</td>
</tr>
<tr>
<td>Loss Adjusted Premiums</td>
<td>80.1</td>
<td>76.5</td>
<td>39.1</td>
</tr>
<tr>
<td>Ceded reinsurance payable and funds held</td>
<td>153.6</td>
<td>157.2</td>
<td>(19.0)</td>
</tr>
<tr>
<td>Other assets and liabilities, net</td>
<td>(104.8)</td>
<td>(74.8)</td>
<td>3.5</td>
</tr>
<tr>
<td><strong>Cash provided by operating activities</strong></td>
<td>$181.4</td>
<td>$326.6</td>
<td>$130.5</td>
</tr>
</tbody>
</table>

| **Cash flows from investing activities:** |          |          |          |
| Sales, maturities and mandatory calls of investments | 2,446.2 | 1,811.8 | 1,350.0 |
| Purchases of investments | (2,380.5) | (2,034.1) | (1,716.8) |
| Change in short-term investments, foreign regulatory deposits and voluntary pools | (195.2) | 49.6 | 96.5 |
| Settlements of foreign currency exchange forward contracts | (5.4) | (10.1) | (1.1) |
| Other, net | (10.1) | (10.8) | (54.9) |
| **Cash used provided by investing activities** | (145.1) | (193.6) | (221.3) |

| **Cash flows from financing activities:** |          |          |          |
| Payment on note payable | — | — | (0.0) |
| Redemption of trust preferred securities, net | — | — | (18.0) |
| Activity under stock incentive plans | 1.0 | 1.8 | 4.6 |
| Repurchase of company’s common shares | (42.1) | (29.7) | (50.8) |
| Excess tax expense from share-based payment arrangements | 0.6 | 0.6 | 0.1 |
| **Payment of cash dividend to common shareholders** | (26.6) | (32.7) | (18.2) |
| Cash used by financing activities | (72.1) | (50.2) | (82.4) |
| Effect of exchange rate changes on cash | 0.3 | 1.7 | (3.4) |
| **Change in cash** | $137.7 | 40.7 | (76.4) |
| Cash, beginning of period | 121.7 | 157.4 | 81.0 |
| **Cash, end of period** | $186.0 | $121.7 | $81.0 |

Please see accompanying "Summary of Significant Accounting Policies" on page 20.
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. Recovery reserves 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.

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 2016, 2015, and 2014 associated with assets having a finite life was $5.5 million, $7.5 million and $9.6 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.

ARGO GROUP International Holdings, Ltd.

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 25%) 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

(1) Includes sale of Syndicate 1200, for a pre-tax gain of $177.5 million in the first quarter of 2016.

(2) Includes after-tax realized gains of $115.5 million in 2016 and $14.3 million in 2015.

(3) Includes foreign currency gains of $3.44 million in 2016 and $3.31 million in 2015.

(4) Includes $1.6 million in 2016 and $0.1 million in 2015 related to the sale of Syndicate 1200.

(5) Includes $1.8 million in 2016 and $0.9 million in 2015 related to the sale of Syndicate 1200.

(6) Includes $0.9 million in 2016 and $0.4 million in 2015 related to the sale of Syndicate 1200.

(7) Includes $1.6 million in 2016 and $0.9 million in 2015 related to the sale of Syndicate 1200.

(8) Includes after-tax realized losses of $115.5 million in 2016 and $14.3 million in 2015.

(9) Includes foreign currency losses of $1.6 million in 2016 and $0.9 million in 2015.

(10) Includes after-tax realized losses of $115.5 million in 2016 and $14.3 million in 2015.

(11) Includes foreign currency losses of $1.6 million in 2016 and $0.9 million in 2015.

(12) Includes after-tax realized gains of $115.5 million in 2016 and $14.3 million in 2015.

(13) Includes foreign currency gains of $3.44 million in 2016 and $3.31 million in 2015.

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

(1) Includes after-tax realized gains of $115.5 million in 2016 and $14.3 million in 2015.

(2) Includes foreign currency gains of $3.44 million in 2016 and $3.31 million in 2015.

(3) Includes $1.6 million in 2016 and $0.9 million in 2015 related to the sale of Syndicate 1200.

(4) Includes $1.8 million in 2016 and $0.9 million in 2015 related to the sale of Syndicate 1200.

(5) Includes $0.9 million in 2016 and $0.4 million in 2015 related to the sale of Syndicate 1200.

(6) Includes $1.6 million in 2016 and $0.9 million in 2015 related to the sale of Syndicate 1200.

(7) Includes after-tax realized losses of $115.5 million in 2016 and $14.3 million in 2015.

(8) Includes foreign currency losses of $1.6 million in 2016 and $0.9 million in 2015.

(9) Includes after-tax realized losses of $115.5 million in 2016 and $14.3 million in 2015.

(10) Includes foreign currency losses of $1.6 million in 2016 and $0.9 million in 2015.

(11) Includes after-tax realized gains of $115.5 million in 2016 and $14.3 million in 2015.

(12) Includes foreign currency gains of $3.44 million in 2016 and $3.31 million in 2015.

(13) Includes $1.6 million in 2016 and $0.9 million in 2015 related to the sale of Syndicate 1200.
Executive Leadership

Board of Directors

Gary V. Woods
President, McCormick Enterprises
Chairman of the Board

F. Sadeghi-Browne
Retired Counsel, Sibcy Austin LLP
Director

H. Berry Cash
Retired General Partner, InterWest Partners
Director

Hector De Leon
Chairman, De Leon & Washburn, P.C.
Director

Mural R. Josephson
Retired General Partner, InterWest Partners
Director

Doe Sehore
Retired Managing Partner
Global Insurance Industry, Accenture
Director

Kathleen A. Nealon
Retired Group Head of Legal and Compliance, Standard Chartered Plc
Director

Dee Lehane
Global Insurance Industry, Accenture
Director

Hector De Leon
Chairman, De Leon & Washburn, P.C.
Director

H. Berry Cash
Retired General Partner, InterWest Partners
Director

Mural R. Josephson
Retired General Partner, InterWest Partners
Director

Doe Sehore
Retired Managing Partner
Global Insurance Industry, Accenture
Director

Kathleen A. Nealon
Retired Group Head of Legal and Compliance, Standard Chartered Plc
Director

Senior Management

Argo Group International Holdings, Ltd.

Mark E. Watson III
Chief Executive Officer, Argo Group International Holdings, Ltd.

Susan Spivak Bernstein
Senior Vice President, Investor Relations

Al-Noor Ramji
Group Chief Digital Officer, Prudential plc

John H. Towle
Managing Director and Head of Data Capital Markets & Syndication, Oppenheimer & Co., Inc.

Mark E. Watson III
Chief Executive Officer, Argo Group International Holdings, Ltd.

Mark H. Rose
Senior Vice President and Chief Financial Officer (7)

Stuart Boyne
Senior Vice President and Chief Strategy Officer

Jose A. Hernandez
Head of International Business (7)

Axel Schmidt
Group Chief Underwriting Officer (7)

David Harris
Managing Director
Syndicate 1200

John R. Power Jr.
President, the Patriot Group

Al-Noor Ramji
Group Chief Digital Officer, Prudential plc

Mark E. Watson III
Chief Executive Officer, Argo Group International Holdings, Ltd.

John H. Towle
Managing Director and Head of Data Capital Markets & Syndication, Oppenheimer & Co., Inc.

Mark E. Watson III
Chief Executive Officer, Argo Group International Holdings, Ltd.

(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

Argo Group US

Susan Spivak Bernstein
Senior Vice President, Investor Relations

John J. Refinetti
President, U.S. Operations (7)

Joshua C. Betz
President, Argo Specialty

Andrew Bori
President, U.S. Specialty Programs

Arthur Davis
President, Excess and Surplus Lines

Ronnei Gleason
President, Argo Insurance – U.S. Retail

Frank Mike-Mayer
Chief Underwriting Officer

Kurt Tipton
President, Rockwood

Philip Vedell
Head of Global Operations

Ronald Vindivich
President, Trident Public Risk Solutions

Mark Wade
Chief Claims Officer

International Specialty

Nigel Mortimer
President, Argo Insurance Bermuda

Mark E. Watson III
Chief Executive Officer, Argo Group International Holdings, Ltd.

(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

Syndicate 1200

David Harris
Managing Director

David Lang
Chief Operating Officer

Bryan Ritchie
Underwriting Director

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

www.amstock.com

T. 800-937-5449

info@amstock.com

Investor Relations Contact

Susan Spivak Bernstein
Senior Vice President, Investor Relations

T. 212-607-8835

IR@argolimited.com

Corporate Office

Argo Group International Holdings, Ltd.

110 Pitts Bay Road

Pembroke HM 08

Bermuda

T. 441-296-5858

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.

Forward-Looking Statements

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.