ARGO GROUP ANNUAL REPORT 2008

NasdaqGS: AGII

ARGO GROUP
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Corporate profile

Argo Group International Holdings, Ltd. (NasdaqGS: AGII) is an international underwriter of specialty insurance and reinsurance products in niche areas of the property and casualty market. Through its operating subsidiaries, Argo Group offers a comprehensive line of high-quality products and services designed to meet the unique coverage and claims-handling needs of its clients in four business segments. **Excess and Surplus Lines** serves clients who cannot be insured in the standard market because of the nature of their businesses, their particular risk exposures or their loss histories. **Commercial Specialty** provides standard-market property and casualty insurance to highly specialized commercial and public entities. **Reinsurance** writes insurance and reinsurance business worldwide through the broker market, with offerings including specialty property catastrophe reinsurance along with excess casualty and professional insurance. **International Specialty** operates through Lloyd's of London syndicates offering property and liability coverage. Argo Group International Holdings, Ltd. is headquartered in Bermuda.

Financial highlights

(in millions, except per share amounts)

	For the Years Ended December 31,		
	2008	2007	2006
Gross written premiums	**$ 1,601.5**	$ 1,180.9	$ 1,155.6
Net written premiums	**1,151.0**	854.2	847.0
Earned premiums	**1,127.1**	859.8	813.0
Investment income and realized gains	**115.1**	140.2	125.7
Total revenue	**1,255.8**	1,000.0	938.7
Net income	**$ 62.9**	$ 143.8	$ 106.0
Net income per common share:			
Basic	**$ 2.05**	$ 5.66	$ 5.12
Diluted	**$ 2.05**	$ 5.58	$ 4.82
Combined ratio	**100.5%**	99.4%	93.9%
Total assets	**$ 6,381.5**	$ 5,123.5	$ 3,721.5
Shareholders' equity	**$ 1,352.9**	$ 1,384.5	$ 847.7
Weighted average number of shares outstanding:			
Basic	**30.6**	25.4	20.5
Diluted	**30.8**	25.8	22.0

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 or changes in financial position or cash flows of Argo Group as would be provided by the complete financial statements of Argo Group. A registered shareholder of Argo Group receiving these summarized financial statements may notify Argo Group in writing that they elect to receive the complete financial statements for the period for which the summarized financial statements are prepared, or for subsequent periods, or both.

Letter to shareholders

I am pleased to report that in a year marked by turbulent financial markets and heavy storm losses, Argo Group again proved its resilience. While these difficult times tested our ability to generate acceptable returns for shareholders, we did not allow wind events or the economic crisis to define us in 2008. Instead, we pushed forward and succeeded in achieving significant progress towards our long-term objectives.

Our strategic vision for Argo Group remains focused on building platforms and adding talent that will allow us to deliver value to shareholders, clients and employees—regardless of market conditions. To this end, in 2008 we finished successfully executing a five-year business plan that has resulted in tremendous growth and change for our company. We have increased both the depth and breadth of the expertise we are able to bring to bear on key lines of business through strategic acquisitions, consolidation of operating units and streamlining of our processes. The result of these efforts can be seen in the robust and well-diversified International Specialty platform that we bring with us into 2009.

As we embark on a new five-year plan designed to take full advantage of all we have built and accomplished, we believe Argo Group is well-positioned to outperform the competition in our target markets. And as improving market conditions continue to take hold, we believe this competitive advantage will only become more pronounced, allowing us to produce better returns for investors.

But growth and new frontiers can only be pursued from a secure and stable base, which is why during my tenure as President and CEO, Argo Group has consistently adhered to a conservative investment philosophy designed to support, not supplant, our core business operations and profitability. Though this approach hasn't produced the sort of unsustainable gains recorded by some of our competitors in years past, it has protected us from much of the market tumult in 2008, just as it did in 2007. In fact, Argo Group fared better financially last year than the industry average, which puts us in a comparatively strong position moving forward and one upon which we can leverage.

One of our greatest challenges in 2008 was maintaining our market presence in the face of softening rates and conditions while still holding the line on underwriting standards. Throughout the year, a regimen of extensive and recurring risk/reward analyses were applied on a line by line basis in response to changing conditions.

This vigilance, which has served us well during periods of growth and when entering new lines and markets, was applied to our established products with good effect in a down market. While at times we had to sacrifice growth in a particularly difficult line or region, we did so secure in the knowledge that the risks we did assume would remain profitable. As we expand our operations internationally and new complex classes of business, we will continue to use this methodology and proceed at a prudent pace.

"Entering 2009, our International Specialty platform is effectively built and the table is set for us to begin executing on a business plan designed to leverage that infrastructure fully."

Mark E. Watson III
President and Chief Executive Officer

Financial results

NasdaqGS: AGII

Significant storm activity. Global property losses. Continuing turmoil in the capital markets. Such were the headline events for the insurance industry in 2008. Despite this challenging environment, however, Argo Group ended the year reporting a book value per share of $44.18, down just 2 percent from 2007—a particularly impressive result when compared to the estimated industry average loss of 4 percent. In addition, we reported net income of $62.9 million, or $2.05 per fully diluted share, which includes seven months of activity from Heritage Managing Agency Ltd., acquired in May 2008.

Our gross written premiums and earned premiums increased in 2008 as compared to the previous two years. This increase was attributable primarily to the addition of the Argo Re and Heritage operations, coupled with an increase from public entity products written in the Commercial Specialty segment. We also generated $13.6 million of fee income through the Commercial Specialty segment as a result of business placed with other insurance companies and through the International Specialty segment from managing third-party capital for certain syndicates at Lloyd's.

Consolidated losses and loss adjustment expenses were $724.9 million, compared to $526.9 million for the same period in 2007. Losses included $72.3 million resulting from hurricane activity in the U.S. during the third quarter, $22.5 million in property losses resulting primarily from severe weather during the second quarter and $18.9 million of losses in certain casualty lines of business resulting from higher than expected severity in the fourth quarter. Through 2008, we recognized $61.2 million in prior accident year net favorable loss reserve development—$31.8 million related to property lines of business and $29.4 million across casualty lines. At December 31, 2008, our consolidated loss reserves were $2,996.6 million.

Despite a conservative investment philosophy, our investment portfolio was not immune from the unprecedented volatility in the equity and fixed income markets during the second half of 2008. Consolidated gross realized gains were $22.1 million in 2008, compared to $12.4 million in 2007, while consolidated gross realized losses were $57.2 million and $6.5 million for the same periods respectively. Write-downs of approximately $51.3 million from the recognition of other-than-temporary impairments on certain investment securities were included in the consolidated gross realized losses for 2008. Generally, consolidated net investment income increased due to higher invested asset balances resulting from positive cash flows from operations as well as from invested assets from acquired businesses. Our total invested assets at December 31, 2008 were $3,779.6 million and the fixed income portfolio duration was approximately three years with an average credit quality of AA+ and the tax-equivalent yield was 4.5 percent for the year.

Our expense ratio improved to 36.2% in 2008, down from 38.1% in 2007, as we continued to build out existing underwriting platforms and add new ones. Consolidated underwriting, acquisition and insurance expenses were $407.1 million for 2008, including $63.0 million from Heritage. Expense reduction remains a priority for Argo Group, as it is a key factor in our ability to advance our returns. We believe room exists for improvement in our infrastructure; we are dedicated to applying innovation and technology to achieve this objective and increase productivity wherever possible.

Our interest expense was $29.9 million for 2008, up from $20.9 million in 2007. This increase can be attributed to the inclusion of a full year of interest on acquired businesses.

Provisions for income taxes, which represent the income tax expense associated with Argo Group's operations based on the tax laws of the jurisdictions in which they operate (U.S. and UK operations), were $23.5 million in 2008. Our tax rate for 2008 was affected by fluctuations in foreign exchange rates within the International Specialty segment.

Argo Group ended the year with $1.8 billion in total capital spread between $1.35 billion of book equity and $429 million of debt. The majority of our non-equity capital is long-term, subordinated and without restrictive covenants. Through our disciplined approach to underwriting and investing, we weathered the major financial and natural storms of 2008 better than most of our peers and managed to preserve our capital base. As a result, we are very-well positioned to capitalize on potential market opportunities in the year ahead.

"Under current management's leadership since 2001, Argo Group has benefited from a clear and consistent strategy – that of becoming a competitive and first rate specialty platform. This consistency of strategy and leadership is rare among competitors. Throughout this period of change, a business with consistent and improving returns has emerged."

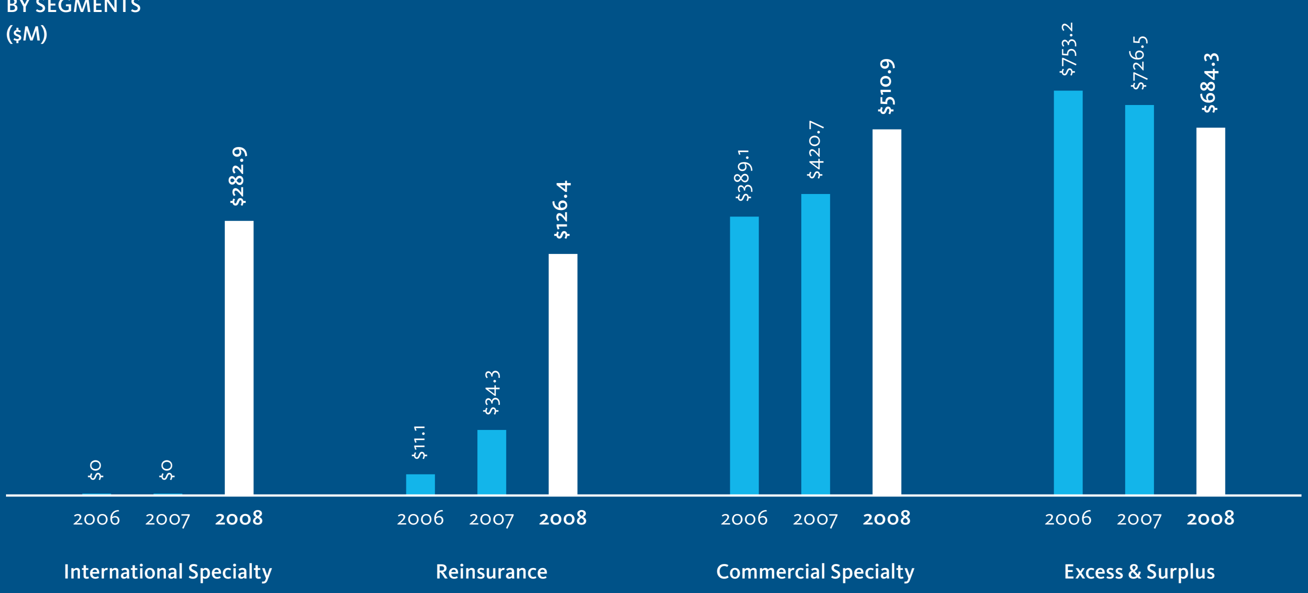
Jay Bullock
Chief Financial Officer

A Formal Commitment to Enterprise Risk Management

Enterprise risk management has always been a priority for Argo Group, and our dedication in this area is one of the reasons we have continued to carry 'A' ratings for our insurance subsidiaries throughout the transformation the company embarked upon in 2001. This period of growth has seen us launch new entrepreneurial units from within, acquire new companies and add new classes of business. As we continue to grow, the need to maintain this level of diligence has never been more important. In response, we completed in 2008 a formal review of our enterprise risk management regimen in order to identify and implement changes to address our expanded operations. A committee of executive team members meets each month to examine and analyze these results so that we can take decisive action when necessary in response to changing conditions.

2008 at a glance

GROSS WRITTEN PREMIUMS
BY SEGMENTS
($M)



SEGMENT (in millions)	For the Years Ended December 31, 2008	2007	2006
Excess and Surplus lines			
Gross written premiums	$ 684.3	$ 726.5	$ 753.2
Earned premiums	531.9	542.6	522.4
Losses and loss adjustment expenses	320.2	311.8	300.5
Underwriting expense	175.8	172.6	164.1
Underwriting income	35.9	58.2	57.8
Net investment income	62.4	54.5	43.6
Income before taxes	$ 98.3	$ 112.7	$ 101.4
Loss ratio	60.2%	57.5%	57.5%
Expense ratio	33.1%	31.8%	31.4%
Combined ratio	93.3%	89.3%	88.9%
Commercial Specialty			
Gross written premiums	$ 510.9	$ 420.7	$ 389.1
Earned premiums	357.6	302.2	270.0
Losses and loss adjustment expenses	243.1	182.2	163.7
Underwriting expense	101.8	85.9	77.7
Underwriting income	12.7	34.1	28.6
Net investment income	29.7	27.2	21.8
Fee income	5.9	—	—
Other expense	5.3	—	—
Income before taxes	$ 43.0	$ 61.3	$ 50.4
Loss ratio	68.0%	60.3%	60.6%
Expense ratio	28.5%	28.4%	28.8%
Combined ratio	96.5%	88.7%	89.4%
Reinsurance			
Gross written premiums	$ 126.4	$ 34.3	$ 11.1
Earned premiums	69.9	18.1	5.2
Losses and loss adjustment expenses	33.0	9.8	3.5
Underwriting expense	21.5	5.8	0.9
Underwriting income	15.4	2.5	0.8
Net investment income	9.3	5.6	—
Income before taxes	$ 24.7	$ 8.1	$ 0.8
Loss ratio	47.1%	54.4%	64.3%
Expense ratio	30.8%	31.7%	17.8%
Combined ratio	77.9%	86.1%	82.1%
International Specialty			
Gross written premiums	$ 282.9	—	—
Earned premiums	183.4	—	—
Losses and loss adjustment expenses	142.8	—	—
Underwriting expense	63.0	—	—
Underwriting loss	(22.4)	—	—
Net investment income	10.6	—	—
Fee income	7.7	—	—
Other expense	1.1	—	—
Loss before taxes	$ (5.2)	—	—
Loss ratio	77.9%	—	—
Expense ratio	34.4%	—	—
Combined ratio	112.3%	—	—

Expanding our international operations

The Heritage Acquisition

Argo Group's acquisition of Heritage Managing Agency Ltd. and its associated Lloyd's syndicates propelled us to the final milestone of our five-year plan to diversify and grow into a leading specialty underwriter—not only within the U.S., but within the global marketplace as well. With the introduction of Argo Financial Products, we further developed our international underwriting platform by adding non-U.S. domiciled directors and officers liability coverage to our product portfolio.

Heritage brings us the access and flexibility we need to operate in the international marketplace. It adds to our capacity to develop new products and enter new markets where the opportunity exists to generate profitable returns. As a syndicate of Lloyd's, Heritage has access to a globally licensed infrastructure that gives us the ability to exploit favorable market conditions that we could not otherwise reach and write business that we would not otherwise see. Over time, the addition of this platform to our specialty underwriting structure will enhance our competitive position and generate significant returns on our investment.

> *"Heritage enables Argo Group to underwrite and spread risk on a worldwide basis, giving the company balance and diversity on an international scale. With the ability to spread its risks across the globe, the peaks and troughs occurring in one territory are easier to manage, and the negative impact of events or conditions in a particular region on the enterprise as a whole is lessened."*
>
> Mark Lawrence
> *Active Underwriter, Heritage Managing Agency*

The Heritage acquisition is the natural progression of our long-term growth strategy. We were able to take advantage of this opportunity in part because of another strategic international transaction we accomplished in 2007, our merger with PXRE.

The Launch of Argo Re

Under the leadership of Andrew Carrier, a highly regarded underwriter from the Lloyd's market, Argo Re was launched in December 2007 and began writing business in earnest in 2008. We will continue to expand Argo Re's underwriting scope at a modest and controlled pace, similar to our approach with other new products and platforms we have successfully launched in the past. As always, our goal will be to build the expertise and trading relationships we need over time to establish a sustainable and profitable niche in our target markets. Argo Re continued to limit its use of reinsurance to support the risks it underwrote in 2008. This decision was made in part because of Argo Re's capital position and in part because of its confidence in the strict standards and risk appetite it has adopted. By retaining sufficient levels of net risk for its own account Argo Re has ensured that its ability to execute on its business plan is not dependent on the availability of other reinsurers to accept a portion of its underwriting risk through reinsurance or other ceding arrangements. By offering its clients a secure and stable source of capacity that is less susceptible to fluctuations in pricing and availability in the broader reinsurance marketplace, Argo Re can position itself to profit from long-term relationships with established clients.

> *"Argo Re provides a source of reinsurance to its selected clientele and prides itself on ease of doing business and superior response time. Our underwriters have the experience, tools and levels of authority necessary for swift decision-making. This superior level of service creates a distinct competitive advantage for Argo Re."*
>
> Andrew Carrier
> *President, Argo Re*

Refining our U.S. operations

While Argo Group's financial results were affected by losses from storms and our investment portfolio, we did not let this deter us from our goal of continuing to grow the financial strength of our Company in 2008 to meet the needs of the future. The Company made several strategic acquisitions in the U.S., consolidated operations where efficiencies could be achieved and deepened our involvement in attractive specialty niche markets. We believe that each of these initiatives will contribute to our ability to sustain the levels of growth our business plan has generated over the last five years.

Yet our primary strength has been and remains our 1,400 employees. By leveraging the talent, expertise, and business acumen that our employees have gained over many years in the insurance industry, we have accomplished much in a short period of time. The following important developments of the past year in our U.S. operations have enabled us to strengthen our infrastructure and broaden our portfolio of services.

"One of our primary objectives in product development is to ensure everything we offer has a mutual benefit for us and our producers. If the products we offer are not helping our distribution partners build their own businesses, they can't help us build ours."

Dale Pilkington
President, Argo Group US

Developing Our Specialties

Since 2001, our public entity business, Trident, has steadily grown into a U.S. market leader. In 2008, Massamont Insurance Agency was acquired and merged into Trident, effectively doubling Trident's underwriting volume. Massamont brings with it a significant book of public entity business in New England, a key market targeted for expansion by Trident. With the combined portfolios of the two companies, Trident has emerged as the second largest underwriter in the U.S. for small to medium-sized public entities and public schools. In addition to increasing the underwriting and claims handling strength of Trident, the larger scale of the combined operation will allow Trident to structure and purchase reinsurance for its public entity lines more efficiently and profitably.

"Handling complex public entity claims requires a deep bench, including knowledgeable claims and loss-control teams. Trident's expertise as a public entity specialist sets it apart from the competition in this market, giving Trident staying power that new entrants into this unique marketplace lack."

Hilbert 'Van' Schenk II
President, Trident

With an estimated 250 years' worth of coal still locked beneath the continental U.S.—and the likelihood that clean coal technology will maintain the demand for this resource for years to come—Rockwood is continuing to leverage its wealth of expertise in the coal mining industry. To keep up with the demands that Rockwood's level of service and ground-up underwriting process requires, Rockwood is recruiting top mining industry personnel to its sales, underwriting and claims teams. Miners understand the challenges of the industry and are ideally suited to respond to the risk management needs of Rockwood's customers. Rockwood is a prime example of how developing specialized expertise in a targeted line of business can allow a well-established company to differentiate itself and maintain market share in a soft market.

"We are the definition of a specialty insurer. Our operating unit has the industry experience and track record to allow us tremendous latitude to underwrite profitable risks that are hard to place in the traditional insurance market. With the combined financial strength of Argo Group behind us and the flexibility to deploy other underwriting platforms within Argo Group to build custom-made insurance programs for our customers, our human capital has become not only a compelling selling point for our products, but a tangible asset that cannot be replicated by our competitors."

John Yediny
President, Rockwood

Expansion into Surety Lines

The launch of Argo Surety in May 2008 represents another example of applying Argo Group's strengths to a new specialty niche when the opportunity for profitable expansion arises. Argo Surety will introduce a wide range of surety products to a new class of customers, producers and agents. This moves us forward on the path to becoming a leading specialty underwriter with a broad range of products.

Argo Surety's launch comes at a unique time. With the credit crisis upon us, many of our competitors in the surety industry have found themselves constrained by books of business that are no longer supported by the same underlying credit that was in place at the time the business was written. Argo Surety has the competitive advantage of being fully aware of the credit risks that are now part of the underwriting environment. As Argo Surety expands into markets across the United States, Argo Group's underwriting expertise is expected to be a strong selling point given the reluctance being displayed by some of its competitors.

"Argo Surety launched at a most opportune time. Despite the current economic conditions, if we exercise discipline we are ideally positioned for growth when the market recovers."

Robert Thomas
President, Argo Surety

Broadening our Presence in Professional and Financial Lines

In 2008, Argo Group consolidated its professional liability insurance and underwriting operating units to create Argo Pro, a stand-alone, professional-lines business. Argo Pro will continue to enhance our reputation for providing a full range of insurance products in the specialty field. Branded as an expert professional liability unit, Argo Pro now gives these lines a broader platform that we expect to contribute to both our top and bottom lines in 2009. Argo Pro will also benefit from the acquisition of Insight Insurance, which is expected to bring $40 million in additional gross written premiums as well as three new product lines to serve architects and engineers, accountants and insurance professionals.

"Our acquisition of Insight Insurance brings to us a long-standing, well-recognized and respected brand in the professional liability sector, along with additional depth and reach in lines that are key to our plans for growth."

John Keane
President, Argo Pro

Consolidating Operations

Argo Group's brand continued to evolve in 2008 as we sought to maximize market recognition by merging Great Central and Grocer's Insurance under the banner of Argo Select. With this consolidation also came important changes to harness the combined potential of these two business units going forward. To achieve a unified approach to underwriting and distribution for Argo Select, underwriting activities and other key operations throughout Argo Select have now been brought together under one management team. The transition in the marketplace has gone well and we expect to begin seeing tangible financial benefits associated with these changes in 2009.

"My customers are the operating presidents. My job is to provide these leaders with a platform that allows them to achieve their goals efficiently and have the support services they need to be competitive."

Mike Arledge
President, Commercial Specialty

As part of its marketing strategy in 2008, Argo Select targeted industries that have the ability to remain financially stable throughout an economic cycle. Grocery stores, family restaurants faith-based institutions and dry cleaners—industries in which Argo Select has decades of experience—typify this niche.

"Everybody wants to write pristine exposures, or fairly benign risks, which is why some of our lines attract competition during certain parts of the cycle and prices soften. Because we are specialists, Argo Select has the ability to sustain its market share in such times by targeting segments that carry more risk and do so profitably utilizing our unique products and services."

Bill Meisen
President, Argo Select

Building a Robust Platform

We used 2008 to make further improvements to our financial and operating infrastructure and internal systems so that our business units continue to have a solid, reliable platform across the country to support their growth. This strong base of support was particularly important last year for Colony which is responsible for up to 70 percent of our U.S. sales and roughly one third of our worldwide premium volume. While Colony had already established itself as one of the leading underwriters in the E&S market, Argo Group's well-capitalized platform gave the company a critical advantage as competitors experienced lean times. Colony not only was able to continue to execute on its business plan without capital constraints, but also had the resources to move forward on capital improvement projects designed to accommodate future growth, such as an upgraded system to integrate and automate the process of rating, quoting, and binding new submissions.

Few E&S companies in the U.S. can offer the breadth of products available at Colony, including property, casualty, transportation, garage and professional liability lines. By continually adding to its lines of business, Colony equips its agents with an expansive portfolio of services and products that is difficult to find elsewhere.

"The ability to access such a wide variety of services through one trading partner makes Colony an effective choice in the marketplace. Using this advantage, our producers were able to increase their distribution influence in 2008, making both their businesses and ours attractive."

Mike Warfield
President, Colony

Targeting larger Excess & Surplus Clients

We established Argonaut Specialty in 2005 as a long-term strategic build in the Excess & Surplus lines market. Targeting larger insureds than Colony, Argonaut Specialty allows Argo Group to leverage its E&S expertise by concentrating a select group of products and services on markets that have unique distribution channels. Organic growth within our niche markets is an important element of Argo Group's business plan and one that requires a commitment to invest over the long term in developing profitable business within these specialized markets. The team of professionals we attracted to form Argonaut Specialty are well-suited to this entrepreneurial task.

"Argo Group knows how to assemble a team and give them the support and infrastructure they need to immediately become competitive in a hard to reach specialty niche, and their ability to make a long-term commitment to the markets they enter gives us the staying power we need to succeed."

Sam Anderson
President, Argonaut Specialty

An encouraging outlook

Argo Group sustained its share of exposure to the tumultuous financial markets in 2008, even as our insurance operations were subjected to a series of major storms and two hurricanes in the Gulf Coast region. In the face of these challenges, and notwithstanding a net realized investment loss and other than temporary impairment charge of $35.1 million, we increased investment income during the year and reported net income of $62.9 million. I'm pleased to say these results outperformed many of our peers and demonstrated the integrity of Argo Group's business strategy.

Argo Group's acquisitions of Heritage, Massamont and Insight, our strategy to grow international operations through Argo Re, and our consolidation of operations throughout the Company have all had a common purpose. Our goal has been and remains to build a platform that gives us advantages over the competition, performs well across the market cycles, and allows us to take advantage of opportunities presented when conditions change.

We also added to our wealth of human capital during 2008, attracting another group of experienced industry leaders to our management team. Argo Group's Chief Financial Officer Jay Bullock joined us from Bear, Stearns & Co. where he served as Senior Managing Director and head of Bear Stearns' Insurance Investment Banking Group. Also joining us was David Spiller, who assumed the position of Chairman of Heritage Managing Agency Ltd. David has served as President and CEO of Guy Carpenter and has been a member of the organization's Executive Committee and Management Board since January 2006. The Presidents of Argo Group's operating units also continued to build and improve the level of talent we have available, even as they kept an eye forward to assess emerging market opportunities and develop new products and relationships for the future.

Setting our sights to the future

We deliver this report with great optimism in Argo Group's future. Never before has our company been better positioned to lead, grow and prosper. Entering 2009, our International Specialty platform is effectively built and the table is set for us to begin executing on a business plan designed to leverage that infrastructure fully. Although our bottom-line results for 2008 missed last year's high watermark, we were still able to grow premium volume, total revenue and investment income when many of our competitors did not.

Looking ahead, we believe our business plan provides the elements necessary to generate positive financial results and improve value for our shareholders. In the early stages of 2009 we are beginning to see improvements in certain markets. We believe the stabilization may be attributable to one or more of the following factors:

- A recognition in the industry that pricing realistically cannot drop any further for most products;
- The fact that a measurable amount of underwriting capacity has been taken out of the marketplace as a result of the financial and natural disasters of 2008; and
- The dramatic decline of capital available in the global equity markets and the corresponding lack of resources available as capital for the insurance industry.

I would like to leave you with this thought: confidence is in somewhat limited supply these days. However, it is a characteristic that we have no shortage of in Argo Group. Despite a very tumultuous economic year for the entire world, we are seizing what we believe are the right opportunities while others withdraw and seek shelter. Admittedly, 2009 will not be without its challenges, but we are prepared to face them head-on with unabashed optimism and clear vision.

I wish to thank you for your ongoing confidence in Argo Group.

Mark E. Watson III
President & Chief Executive Officer

The operating units

Argo Group clients deliberately compete in specialized markets that require planning, preparation and precision to secure. Backed by Argo Group companies, those clients can grow their own businesses, relying on the experience and ingenuity of a seasoned and growing specialty insurer.

EXCESS AND SURPLUS LINES

Argo Group's excess and surplus lines serves clients who cannot be insured in the standard market because of factors such as the nature of their businesses, their particular risk exposures or their loss histories.

Colony

As one of the top fifteen excess and surplus lines insurers in the United States, Colony focuses on difficult risks that the standard market is unwilling or unable to underwrite. Specializing in small to medium-sized premium accounts, the Company provides commercial liability, commercial property and product liability coverage to enterprises such as restaurants, artisan contractors, daycare centers and manufacturers.

Argo Pro

A leading specialist in professional and environmental liability lines, Argo Pro writes a broad spectrum of specialty professional liability and environmental risks on a non-admitted and an admitted basis. The company provides allied medical, errors and omissions, environmental liability and employment practices liability insurance. Argo Pro provides its products through an efficient network of appointed specialty agents and brokers.

Argonaut Specialty

Argonaut Specialty targets excess and surplus lines business for larger premium risks than those currently written by Colony. Argonaut Specialty writes primary casualty, excess, and umbrella for hard-to-place or unique and unusual businesses that fall outside the standard insurance market's portfolio.

COMMERCIAL SPECIALTY

Argo Group provides standard market insurance to commercial entities facing a wide variety of property and casualty risks. With deep understanding of the specialized businesses of their clients, Argo Group professionals actively help control loss, reduce claims and lessen the impacts of injury in the workplace.

Argo Select

Founded in 2008 through the consolidation of Grocers Insurance and Great Central Insurance, Argo Select targets a wide range of specialty businesses, including grocery stores, specialty retail, food and hospitality, and religious institutions. The Company's underwriting, claims and safety professionals have an unparalleled knowledge of the diverse and unique exposures in the grocery sector, writing liability, property, umbrella and workers' compensation coverage for accounts through a network of independent agencies that specialize in the industry as well as through direct writers and grocery warehouse-owned agencies. For the specialty retail, food and hospitality, and religious institution markets, Argo Select writes primary lines of coverage including package, workers compensation, auto and umbrella for small to medium-sized businesses.

Rockwood

Rockwood began writing specialty workers' compensation insurance for commercial and coal mining operations in 1957. With a highly experienced staff—many of whom have worked in the mining industry themselves—the Company is dedicated to individual risk underwriting. Today, Rockwood also offers liability, property and bond coverage for mining-related commercial contractors and coverage for small commercial businesses including retail, light manufacturing and restaurants.

Trident

Trident is Argo Group's provider of commercial insurance products for small and intermediate public entities. Beyond general liability, automobile and property coverage, the Company offers specialized products to mitigate risks such as public-officials liability, educators legal liability, law-enforcement liability and identity theft. Trident serves insurance producers as a single solution point for public-sector clients and acts as an aggregator of products and services with other specialty insurers.

Argo Surety

Founded in 2008, Argo Surety provides its producers and customers with a broad selection of bonds that serve a diverse range of businesses and industries. The Company offers dynamic rating plans with a breadth of rates that are not only competitive, but also reflect the individual risk profile of the bonded entity. Formally recognized by U.S. Treasury as an acceptable surety on federal bonds, Argo Surety is now positioned to achieve its objectives of writing business in all 50 states.

REINSURANCE

With offices in Bermuda and Europe, underwriters bring highly specialized expertise and focus to the risk management needs of their clients. In harmony with the overall Argo Group approach, the strategy is to target clients who are well known to company underwriters, often sharing a long trading history. Personal knowledge and understanding of the clients are just as important to success as the quality of the underlying data relating to the portfolio.

Argo Re

Based in Bermuda and with offices in Brussels, Argo Re is the cornerstone of Argo Group's specialty reinsurance platform. With statutory capital and surplus in excess of $1 billion and rated A (excellent) by A.M. Best, Argo Re is rapidly gaining a reputation for superior risk solutions. Led by a respected team with more than 50 years of underwriting experience, Argo Re writes business worldwide through the broker market, offering specialty property catastrophe reinsurance, property per risk reinsurance and some proportional property reinsurance. As an international specialty reinsurer, Argo Re does business only with clients who meet strict criteria, and undertakes quota reinsurance for some risks within Argo Group itself.

INTERNATIONAL SPECIALTY

Based in the United Kingdom, the center piece of the International Specialty platform is Heritage Managing Agency and its Lloyd's syndicate. The international strategy is to focus on worldwide property and non-U.S. liability opportunities. In particular International Specialty focuses on short-tail risks with an emphasis on commercial specialty.

Heritage

Heritage Managing Agency, acquired by Argo Group in 2008, is a Lloyd's insurer specializing in worldwide property and non-U.S. liability business. The Company is a broker-oriented firm with an excellent track record in underwriting worldwide general commercial lines. This includes property, property binding authorities, transportation, fine art, general liability, professional indemnity, financial institutions and personal accident. With dedicated claims experts in each division, Heritage is committed to offering prompt and reliable service when losses occur.

Executive leadership

Dale H. Pilkington
President
ARGO GROUP US

Jay S. Bullock
Executive Vice President,
Chief Financial Officer
ARGO GROUP

Andrew J. Carrier
President
ARGO RE

Mark E. Watson III
President and
Chief Executive Officer
ARGO GROUP

John F. Kearney
Senior Vice President,
Strategic Planning
ARGO GROUP

Nick Denniston
Interim
Chief Executive Officer
HERITAGE

Barbara C. Bufkin
Senior Vice President,
Business Development
ARGO GROUP

BOARD OF DIRECTORS

Gary V. Woods	Chairman of the Board (1) (3) (4) (5)
F. Sedgwick Browne	Director (2)
H. Berry Cash	Director (3) (4)
Bradley Cooper	Director
Hector De Leon	Director (1) (2) (3)
Mural Josephson	Director (2)
Frank Maresh	Director (2)
Philip Mcloughlin	Director (3) (4)
John R. Power, Jr.	Director (2) (3) (5)
Fayez F. Sarofim	Director
Mark E. Watson III	President, Chief Executive Officer (1) (4)

(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 Compensation Committee of the Board of Directors
(4) Member of the Investment Committee of the Board of Directors
(5) Member of the Corporate Governance and Nominating Committee of the Board of Directors

OFFICERS

Argo Group International Holdings, Ltd.

Mark E. Watson III	President and Chief Executive Officer
Jay S. Bullock	Executive Vice President and Chief Financial Officer
Barbara C. Bufkin	Senior Vice President, Business Development
John F. Kearney	Senior Vice President, Strategic Planning

Argo Group US, Inc.

Mark E. Watson III	Chairman
Dale H. Pilkington	President
Jay S. Bullock	Executive Vice President, Finance
John F. Kearney	Senior Vice President, Strategic Planning
Jack F. Reddy	Senior Vice President, Human Resources
Barbara L. Sutherland	Senior Vice President, General Counsel & Chief Claim Officer
Farid Nagji	Senior Vice President and Chief Information Officer
Barbara C. Bufkin	Senior Vice President, Business Development
Mark W. Haushill	Senior Vice President and Chief Financial Officer
Steven E. Math	Senior Vice President and Chief Actuary
Craig S. Comeaux	Vice President, Secretary and Deputy General Counsel
Daniel A. Cotter	Vice President and Deputy General Counsel
Lynn K. Geurin	Vice President and Treasurer
Karen C. Meriwether	Vice President, Internal Audit
Daniel G. Platt	Vice President and Controller

Excess and Surplus Lines

John Keane	Argo Pro – President
Samuel C. Anderson	Argonaut Specialty – President
Michael Warfield	Colony – President

Commercial Specialty

Michael E. Arledge	President
Robert Thomas	Argo Surety – President
William T. Meisen	Argo Select – President
John P. Yediny	Rockwood – President
Hilbert Schenck II	Trident – President

International Specialty

Nick Denniston	Heritage – Interim Chief Executive Officer
Mark Lawrence	Active Underwriter, Syndicate 1200
Neil Chapman	Active Underwriter, Syndicate 1200

Reinsurance

Andrew J. Carrier	Argo Re – President

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

We have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Argo Group International Holdings, Ltd. and subsidiaries (the Company) at December 31, 2008 and 2007 and the related consolidated statements of income, comprehensive income (loss), shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2008 (not presented separately herein) and in our report dated March 2, 2009, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated financial statements (presented on pages 20 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, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organization of the Treadway Commission and our report dated March 2, 2009 (not presented separately herein) expressed an unqualified opinion thereon.

Ernst + Young LLP

San Antonio, Texas
March 2, 2009

Summary of significant accounting policies

Business. Argo Group International Holdings, Ltd. (the Company) and subsidiaries (collectively, Argo Group) is an international underwriter of specialty insurance and reinsurance products in the property and casualty market. Argo Group is the result of the merger of PXRE Group Ltd. ("PXRE") and Argonaut Group, Inc. ("Argonaut Group"), which closed on August 7, 2007. Argo Group has accounted for the Merger as a purchase business combination, using Argonaut Group's historical financial information and accounting policies and applying fair value estimates to the acquired assets, liabilities and commitments of PXRE as of August 7, 2007. As a result, the condensed consolidated financial statements presented herein for periods ended prior to the closing of the Merger (and any other financial information presented herein with respect to such pre-Merger dates, unless otherwise specified) are the condensed consolidated financial statements of Argonaut Group. The condensed consolidated statement of income and condensed consolidated cash flows reflect those of Argonaut Group for the 12 months ended December 31, 2007 and those of PXRE from the point of acquisition, August 7, 2007 to December 31, 2007.

On May 14, 2008, Argo Group, through its wholly-owned subsidiary, Argo Acquisition Ltd., acquired Heritage Underwriting Agency Ltd. ("Heritage"). Heritage, a specialist insurer based in London, is focused on underwriting worldwide property and non-U.S. liability risks. Included in the Company's condensed consolidated statements of income and cash flows for the year ended December 31, 2008, is seven months of activity specifically attributable to Heritage.

Basis of Presentation. The condensed consolidated financial statements of the Company and its subsidiaries 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 23, is derived from the information in the Consolidated Balance Sheets, the Consolidated Statements of Income and the Consolidated Statements of Cash Flow in Argo Group International Holdings, Ltd. 2008 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. 2008 Form 10-K. See also Management's Discussion and Analysis of Financial Condition and Results of Operations and other information in the 2008 Form 10-K.

The condensed consolidated financial statements include the accounts and operations of the Company and its subsidiaries. All material intercompany accounts and transactions have been eliminated. Certain items in prior years' condensed consolidated financial statements have been reclassified to conform to the current presentation.

Investments. Investments in fixed maturities at December 31, 2008 and 2007 include bonds, notes and redeemable preferred stocks. Equity securities include common and nonredeemable preferred stocks. Short-term investments consist of funds in excess of the Company's near-term operating and claims paying needs and funds on deposit with Lloyd's of London as security to support the Corporate member's capital and are invested in certificates of deposit, commercial paper, money market funds, 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 as they relate principally to the Company's investment activities.

Goodwill and Intangible Assets. The Company accounts for goodwill and intangible assets under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets ("SFAS No. 142"). The Company accounts for intangible assets that arose from business combinations in accordance with SFAS No. 141 "Business Combinations" ("SFAS No. 141") and SFAS No. 142. In a business combination, a purchase price paid that is in excess of identified net tangible and intangible assets results in goodwill. 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.

Goodwill and intangible assets arising from the Company's business combinations during 2008 were $45.1 million and $108.4 million, respectively. Amortization expense incurred in 2008 associated with assets having a finite life was $3.7 million. The intangible assets balance at December 31, 2008 also includes $1.5 million of capacity purchased by Heritage for the 2009 year of account which will be amortized over five years beginning January 1, 2009.

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

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

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

(Further information on the Company's accounting policies can be found in Argo Group's 2008 Form 10-K: in the Critical Accounting Policies section of Management's Discussion and Analysis and also in Note 1 to the Financial Statements).

Condensed Consolidated Balance Sheets

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

	December 31, 2008	2007
Assets		
Investments:		
Fixed maturities, at fair value:		
Available-for-sale (cost: 2008 – $3,145.4; 2007 – $2,603.1)	$ 3,150.4	$ 2,616.0
Trading (cost: 2008 – $2.1; 2007 – $0)	2.1	—
Equity securities, at fair value (cost: 2008 – $255.9; 2007 – $200.3)	272.3	302.8
Other investments, at fair value (cost: 2008 – $56.8; 2007 – $15.2)	57.0	15.2
Short-term investments, at fair value (cost: 2008 – $542.0; 2007 – $648.8)	513.6	648.8
Total investments	3,995.4	3,582.8
Cash	6.1	15.0
Premiums receivable and reinsurance recoverable	1,539.2	833.8
Goodwill and other intangibles	257.6	106.3
Deferred tax asset, net	50.0	30.3
Ceded unearned premiums	208.8	114.5
Other assets	324.4	184.2
Assets held for sale	—	256.6
Total assets	$ 6,381.5	$ 5,123.5
Liabilities and Shareholders' Equity		
Reserves for losses and loss adjustment expenses	$ 2,996.6	$ 2,425.5
Unearned premiums	807.6	506.8
Ceded reinsurance payable, net	603.4	49.7
Other indebtedness	117.3	58.0
Junior subordinated debentures	311.4	311.4
Current income taxes payable, net	2.1	5.1
Other liabilities	190.2	181.7
Liabilities held for sale	—	200.8
Total liabilities	5,028.6	3,739.0
Shareholders' equity:		
Common shares – $1.00 par, 30,768,878 shares issued and 30,663,037 shares outstanding at December 31, 2008 and 2007, respectively	30.8	30.7
Additional paid-in capital	694.2	685.9
Treasury shares (145,999 and 0 shares repurchased at December 31, 2008 and 2007, respectively)	(5.1)	—
Retained earnings	655.2	592.3
Accumulated other comprehensive income, net of taxes	(22.2)	75.6
Total shareholders' equity	1,352.9	1,384.5
Total liabilities and shareholders' equity	$ 6,381.5	$ 5,123.5

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

Condensed Consolidated Statements of Income

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

	For the Years Ended December 31, 2008	2007	2006
Premiums and other revenue:			
Earned premiums	$ **1,127.1**	$ 859.8	$ 813.0
Net investment income	**150.2**	134.3	104.5
Fee income	**13.6**	—	—
Realized investment and other gains (losses), net	**(35.1)**	5.9	21.2
Total revenue	**1,255.8**	1,000.0	938.7
Expenses:			
Losses and loss adjustment expenses	**724.9**	526.9	477.6
Underwriting, acquisition and insurance expenses	**407.1**	328.1	285.1
Interest expense and other	**37.4**	25.2	13.0
Total expenses	**1,169.4**	880.2	775.7
Income before income taxes and extraordinary item	**86.4**	119.8	163.0
Provision for income taxes	**23.5**	42.3	57.0
Income before extraordinary item	**62.9**	77.5	106.0
Extraordinary item	**—**	66.3	—
Net income	$ **62.9**	$ 143.8	$ 106.0
Net income per common share – basic:			
Income before extraordinary item	$ **2.05**	$ 3.05	$ 5.12
Extraordinary item	**—**	2.61	—
Net income	$ **2.05**	$ 5.66	$ 5.12
Net income per common share – diluted:			
Income before extraordinary item	$ **2.05**	$ 3.01	$ 4.82
Extraordinary item	**—**	2.57	—
Net income	$ **2.05**	$ 5.58	$ 4.82
Weighted average common shares:			
Basic	**30,622,025**	25,367,004	20,516,261
Diluted	**30,765,420**	25,773,631	21,981,065

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

Condensed Consolidated Statements of Cash Flows

(in millions)

	For the Years Ended December 31,		
	2008	2007	2006
Cash flows from operating activities:			
Net income	$ 62.9	$ 143.8	$ 106.0
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization and depreciation	17.0	8.4	10.5
Share-based payments expense	6.9	19.3	8.7
Excess tax expense (benefits) from share-based payments arrangements	0.2	(3.3)	(2.3)
Deferred federal income tax (benefit) provision	(13.1)	3.6	7.5
Realized investment and other gains	38.2	(5.9)	(21.2)
Extraordinary gain due to merger	—	(66.3)	—
Change in:			
Receivables	(139.4)	(62.7)	10.1
Reserves for losses and loss adjustment expenses	124.3	130.3	153.8
Unearned premiums	(49.2)	(10.3)	40.6
Ceded reinsurance payable and funds held	106.2	(12.0)	(8.9)
Other assets and liabilities, net	(36.3)	21.3	(5.8)
Cash provided by operating activities	117.7	166.2	299.0
Cash flows from investing activities:			
Sales, maturities and mandatory calls of investments	833.5	724.5	308.5
Purchases of investments	(1,065.5)	(1,011.1)	(681.1)
Change in short-term investments	364.7	93.3	51.4
Acquisitions, net of cash acquired	(294.2)	10.4	—
Sale of investment in subsidiary – continuing operations	57.7	—	—
Other, net	(11.2)	(7.7)	20.5
Cash used by investing activities	(115.0)	(190.6)	(300.7)
Cash flows from financing activities:			
Borrowing under revolving credit facility, net	(8.0)	58.0	—
Activity under stock incentive plans	1.7	11.4	6.8
Secondary common stock offering, net of offering expenses	—	—	(0.2)
Repurchase of common shares	(5.1)	—	—
Excess tax (expense) benefits from share-based payment arrangements	(0.2)	3.3	2.3
Payment of cash dividend to common shareholders	—	(57.1)	—
Payment of cash dividend to preferred shareholders	—	(0.1)	(1.4)
Cash (used) provided by financing activities	(11.6)	15.5	7.5
Change in cash	(8.9)	(8.9)	5.8
Cash, beginning of period	15.0	23.9	18.1
Cash, end of period	$ 6.1	$ 15.0	$ 23.9

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

Shareholder Information

Stock Listing

Argo Group International Holdings, Ltd.'s common stock trades on the NasdaqGS 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
59 Maiden Lane – Plaza Level
New York NY 10038
www.amstock.com
1.800.937.5449
e-mail address: info@amstock.com

Corporate Office

Argo Group International Holdings, Ltd.
110 Pitts Bay Road
Pembroke HM08
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441.296.5858

Internet

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Shareholder Services / Investor Relations

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Forward-Looking Statements Disclosure

This report contains "forward-looking statements" which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The forward-looking statements are based on the Company's current expectations and beliefs concerning future developments and their potential effects on the Company. There can be no assurance that actual developments will be those anticipated by the Company. Actual results may differ materially from those projected as a result of significant risks and uncertainties, including non-receipt of the expected payments, changes in interest rates, effect of the performance of financial markets on investment income and fair values of investments, development of claims and the effect on loss reserves, accuracy in projecting loss reserves, the impact of competition and pricing environments, changes in the demand for the Company's products, the effect of general economic conditions, adverse state and federal legislation, regulations and regulatory investigations into industry practices, developments relating to existing agreements, heightened competition, changes in pricing environments, and changes in asset valuations.

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