ARGO GROUP

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ANNUAL REPORT 2011

Corporate Profile

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

Argo Group International Holdings, Ltd. (NasdaqGS: AGII) is an international underwriter of specialty insurance and reinsurance products in areas of the property and casualty market. Through our operating subsidiaries, Argo Group offers a comprehensive line of products and services designed to meet the unique coverage and claims-handling needs of our clients in four business segments. Excess & Surplus Lines focuses on risks that the standard (admitted) market is unwilling or unable to underwrite because of the nature of their businesses, their particular risk exposures or their loss histories. Commercial Specialty provides standard-market property and casualty insurance and surety coverages to highly specialized commercial and public entities. Our International Specialty segment writes both insurance and reinsurance business worldwide through the broker market, with offerings including specialty property catastrophe reinsurance along with excess casualty and professional insurance. Syndicate 1200 operates through a Lloyd's of London syndicate offering property 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,		
	2011	2010	2009
Gross written premiums	**$ 1,544.8**	$ 1,527.1	$ 1,988.9
Net written premiums	**1,071.8**	1,095.7	1,421.4
Net earned premiums	**1,082.0**	1,211.6	1,414.9
Net investment income and realized gains	**175.0**	170.4	128.8
Total revenue	**1,258.4**	1,384.5	1,544.8
Net (loss) income	**$ (82.4)**	$ 82.6	$ 117.5
Net (loss) income per common share:			
Basic	**$ (3.03)**	$ 2.80	$ 3.82
Diluted	**$ (3.03)**	$ 2.76	$ 3.81
Combined ratio	**119.9%**	103.2%	96.9%
Total assets	**$ 6,401.9**	$ 6,488.5	$ 6,896.8
Shareholders' equity	**$ 1,479.0**	$ 1,626.1	$ 1,614.9
Weighted average number of shares outstanding:			
Basic	**27.2**	29.6	30.7
Diluted	**27.2**	29.9	30.8
Book value per share	**$ 56.21**	$ 58.41	$ 52.36

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 the Shareholders

The past year was indeed a challenging one on many fronts for the insurance industry. Economic instability in Europe and the continued stagnation in the U.S. economy hindered expansion efforts for many client businesses, which constrained premium growth in most commercial lines. On top of that, the catastrophe activity that we saw throughout the year was nothing short of remarkable. The year, which began with massive flooding in Australia, brought inconceivable devastation from the earthquake and tsunami in Japan, tornadoes that leveled communities across a huge section of the U.S., two more New Zealand earthquakes, and more intense flooding everywhere from Denmark to Thailand.

To put it all in perspective, the insurance industry will record over $100 billion in losses from catastrophic events in 2011 from all parts of the world. In light of that, risk on our books led to losses commensurate with our expectations. However, we lost money this year – the first time since 2002 – and that is tremendously frustrating for all of us.

Throughout the year, as one natural disaster followed another, we reviewed our risk portfolio to confirm our confidence in the amount of volatility on our books. In June, we issued our first ever cat bond to provide protection against future cat losses. We ended the year with a strong balance sheet, a repositioned cat portfolio, solid reinsurance protection and an improving business plan thanks to the hard work of Argo Group colleagues throughout the world. If the events of 2011 happen again, we may incur losses, but they will have much less effect on our financial results, assuming the same set of events. Having said that, our book value per share declined less than 4%.

Despite the adverse conditions we faced, we achieved quite a bit in 2011, most notably the significant expansion of our insurance platforms in new geographies and markets. Through our new office in Paris, we are underwriting global aerospace and aviation programs as well as financial lines through local brokers. We opened an office in the Dubai International Financial Centre to serve brokers throughout the Middle East and North Africa region. In both cases, we attracted underwriting talent that is well regarded in those markets, and they are quickly establishing a strong reputation for Argo Group.

During the fourth quarter, we established ArgoGlobal SE to underwrite professional lines directly in Continental Europe. ArgoGlobal SE will serve as a platform from which we'll open branches in key European markets, enabling us to complement our Lloyd's Syndicate in London and serve local brokers who prefer to write business in their local markets.

Throughout the year, we worked to establish a new insurance company in Brazil, and we were pleased to close out the year by receiving our official license from the local regulator, SUSEP. We are now one of very few international insurance groups with a local company licensed to underwrite insurance in Brazil. With our presence in London, Europe, Brazil, Bermuda and the Middle East, our international business is well positioned to take advantage of developing market opportunities throughout the world. In addition to these new business ventures, We ended the year with a strong balance sheet, a repositioned cat portfolio, solid reinsurance protection and an improving business plan thanks to the hard work of Argo Group colleagues throughout the world.

we made noteworthy progress in a number of areas in our existing businesses. With respect to our Syndicate business in London, we saw significant positive momentum building throughout the year, not withstanding all of the cat activity. We've attracted better underwriting and management talent, added new lines of business, improved processes and addressed some key expense issues. And last but not least, a tremendous effort was put forth to achieve the necessary milestones for the Solvency II regime being adopted by Lloyd's.

In the U.S., rates overall remained soft, competition remained strong and economic growth for small businesses was weak throughout the year. As a result, our gross written premiums were below the previous year's level as we chose to maintain underwriting discipline and pass on business that could not generate a profit. However, we continued to invest in new business ventures, and we attracted a number of talented individuals to the organization. We also continued our focus of strengthening relationships with our customers, and that customer-centric focus will pay off as the market gets stronger – we certainly saw this in the fourth quarter as written premium grew year over year. We also made significant progress during the year with regards to our initiatives to streamline our operations. We implemented shared services platforms in both our London and U.S. operations and outsourced many of our support functions to a dedicated team at a third-party firm specializing in business process optimization. In addition, we moved forward on transforming systems and processes with eBaoTech®, our technology partner. With the goal of transitioning to an end-to-end product delivery platform for underwriting, policy issuance and billing across all our business lines, we successfully completed two pilot projects in the U.S. These key initiatives will make us more nimble and efficient and better able to react to changes in the market while, at the same time, reducing operating expenses.

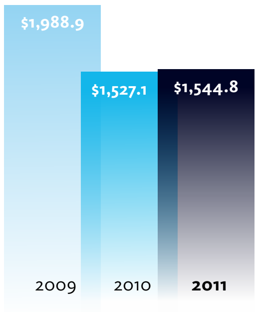
Also noteworthy in 2011 was the marking of our 25th year as a NASDAQ-listed company. With roots going back over 60 years, we've come a long way to get to where we are today. Only ten years ago we were a U.S. regional company struggling to survive; today we are a strong, growing international specialty company with offices in nine countries and risk in 68 countries. Although we did not achieve the year-end financial results that we had planned, we should acknowledge the many accomplishments we did make during the year. And as a company and as individuals, we've done much this year to give back to the communities in which we live and work.

I'm proud to be part of this organization and I'm optimistic about what we can achieve in the coming year. On behalf of the Board of Directors and all of our colleagues, thank you, our shareholders, for your ongoing confidence in Argo Group.

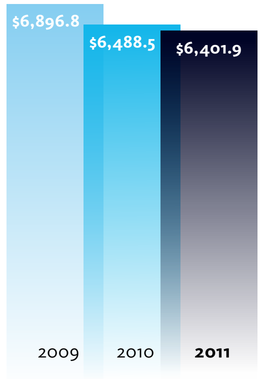
Mark E. Watson III

Mark E. Watson III
President and Chief Executive Officer

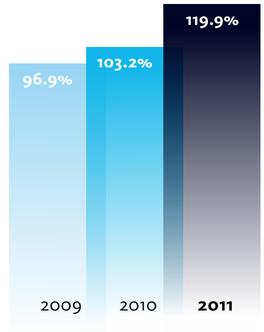
ARGO GROUP (CONSOLIDATED)



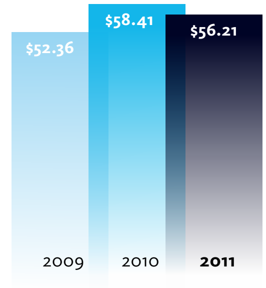
Gross Written Premiums
(dollar amounts in millions)



Total Assets
(dollar amounts in millions)



Combined Ratio



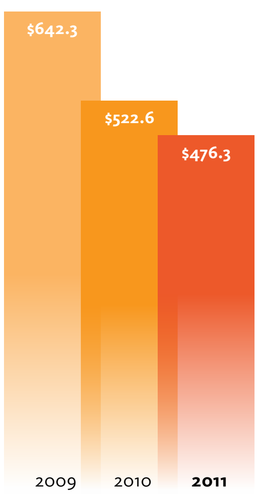
Book Value per Share

Financial Results

2011 at a glance

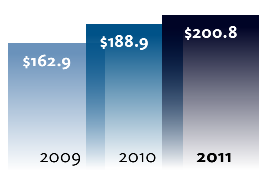
GROSS WRITTEN PREMIUMS BY SEGMENT

(dollar amounts in millions)

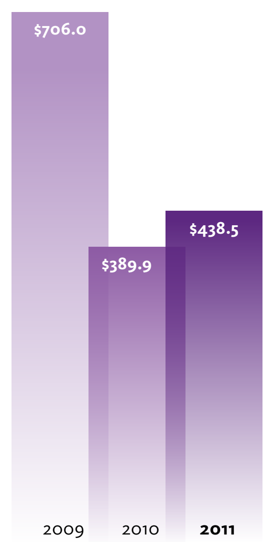


Excess & Surplus Lines

Commercial Specialty



International Specialty



Syndicate 1200

SEGMENT

For the Years Ended December 31,

(dollar amounts in millions)	2011	2010	2009
EXCESS & SURPLUS LINES			
Gross written premiums	$ 476.3	$ 522.6	$ 642.3
Earned premiums	404.9	489.7	537.0
Losses and loss adjustment expenses	246.9	311.1	355.0
Underwriting, acquisition and insurance expenses	140.6	168.1	180.1
Underwriting income	17.4	10.5	1.9
Net investment income	55.5	58.6	62.8
Interest expense	(8.3)	(6.4)	—
Income before taxes	$ 64.6	$ 62.7	$ 64.7
Loss ratio	61.0%	63.5%	66.1%
Expense ratio	34.7%	34.3%	33.5%
Combined ratio	95.7%	97.8%	99.6%
Loss reserves at December 31	$ 1,271.2	$ 1,338.0	$ 1,359.6
COMMERCIAL SPECIALTY			
Gross written premiums	$ 428.8	$ 428.1	$ 475.7
Earned premiums	316.7	332.8	364.0
Losses and loss adjustment expenses	236.4	221.8	239.9
Underwriting, acquisition and insurance expenses	106.3	107.9	108.0
Underwriting (loss) income	(26.0)	3.1	16.1
Net investment income	27.7	29.8	29.3
Interest expense	(5.0)	(4.1)	—
Fee income, net	0.1	0.2	0.4
(Loss) income before taxes	$ (3.2)	$ 29.0	$ 45.8
Loss ratio	74.6%	66.6%	65.9%
Expense ratio	33.6%	32.4%	29.7%
Combined ratio	108.2%	99.0%	95.6%
Loss reserves at December 31	$ 622.8	$ 610.5	$ 605.4
INTERNATIONAL SPECIALTY			
Gross written premiums	$ 200.8	$ 188.9	$ 162.9
Earned premiums	101.7	100.3	87.7
Losses and loss adjustment expenses	149.3	43.3	15.4
Underwriting, acquisition and insurance expenses	32.2	29.8	30.5
Underwriting (loss) income	(79.8)	27.2	41.8
Net investment income	11.4	8.4	8.5
Interest expense	(3.4)	(3.6)	—
(Loss) income before taxes	$ (71.8)	$ 32.0	$ 50.3
Loss ratio	146.8%	43.1%	17.5%
Expense ratio	31.7%	29.7%	34.8%
Combined ratio	178.5%	72.8%	52.3%
Loss reserves at December 31	$ 238.5	$ 123.0	$ 76.0
SYNDICATE 1200			
Gross written premiums	$ 438.5	$ 389.9	$ 706.0
Earned premiums	259.3	290.1	424.1
Losses and loss adjustment expenses	222.6	203.2	244.4
Underwriting, acquisition and insurance expenses	118.2	131.5	161.9
Underwriting (loss) income	(81.5)	(44.6)	17.8
Net investment income	17.2	14.2	11.5
Interest expense	(3.2)	(3.1)	—
Fee income, net	1.3	2.3	0.7
Impairment of intangible asset	—	—	(5.9)
(Loss) Income before taxes	$ (66.2)	$ (31.2)	$ 24.1
Loss ratio	85.8%	70.0%	57.6%
Expense ratio	45.6%	45.3%	38.2%
Combined ratio	131.4%	115.3%	95.8%
Loss reserves at December 31	$ 755.3	$ 623.7	$ 609.6

Excess & Surplus Lines

Argo Group's Excess & Surplus Lines (E&S) segment is focused on providing superior underwriting solutions for risks typically not underwritten by the standard market in the U.S. The segment consists of two underwriting platforms – Colony Specialty and Argo Pro.

Colony Specialty underwrites small, medium and large property and casualty risks on both an admitted and non-admitted basis through five divisions: Casualty, Contract, Environmental, Property and Transportation. We provide coverage to a broad group of commercial enterprises including automobile dealers, contractors, distributors, environmental consultants and contractors, real estate owners and developers, tow truck operators and social service providers.

Argo Pro underwrites small- to medium-sized professional liability risks on both an admitted and non-admitted basis through three divisions: Allied Medical, Errors & Omissions, and Insight Insurance Services. We provide coverage to a specialized group of commercial enterprises including accountants, architects, engineers, insurance agents, lawyers, medical facilities, long-term care facilities and real estate-related accounts.

Building upon work begun in 2010, our E&S segment focused much of its efforts in 2011 on making sure our structure, people, products, processes and distribution were right. We successfully transitioned our organization and built a platform that better meets the needs of our customers while carefully managing expenses. Today, the segment is well positioned to take advantage of an improving market; we are truly one company, with two respected brands that share a common underwriting culture.

Providing exceptional customer service is one of our core values and, in 2011 we implemented a number of changes aimed at enhancing the service we provide. We restructured our business in order to make it easier for our customers to access more of our products and services. We diversified our underwriting talent geographically so that we have more employees in close proximity to our brokers. We increased our visibility five fold,

***NEW YORK –** Today, our Excess & Surplus Lines segment has the talent and the programs in place to take advantage of an improving market.*

Building upon work begun in 2010, our E&S segment focused on making sure our structure, people, products, processes and distribution were right. We successfully transitioned our organization and built a platform that better meets the needs of our customers while carefully managing expenses.

conducting over 1,800 broker visits and found more ways to say “yes” on the right deals. We began to re-engineer our claims operations and introduced new processes and procedures that have reduced claims costs while improving our profitability.

Our goal is to improve our franchise value and exclusivity by having stronger, more meaningful relationships with fewer brokers. Having long-term and mutually beneficial partnerships with our customers requires time and commitment to understand their needs and provide the underwriting solutions best suited to those needs. To that end, we reduced our distribution force by 25% and concluded relationships with over 100 brokers in order to dedicate resources to the relationships that matter most.

The core of the E&S segment is our people and throughout the year we strengthened our teams across all functional areas.

We created a culture of opportunity by promoting over 60 of our people to new or expanded roles. When we were unable to fill jobs from within the segment, we went outside to recruit and, when recruiting, we attracted the best in the business to join our team.

We deliberately maintained underwriting discipline and focused on bringing or retaining only profitable business on our books. This coupled with the competitive environment, too much capacity in the market and inadequate rates drove our gross written premiums down to $476.3 million while underwriting profit improved by almost $7 million to $17.4 million for the year. We gained momentum throughout the year; we have the right people, products, processes and distribution to win – we are encouraged by the improving market and are energized for the future.

Our E&S segment is focused on providing superior underwriting solutions for risks typically not underwritten by the standard market such as commercial enterprises in the transportation, industrial and construction lines of business.

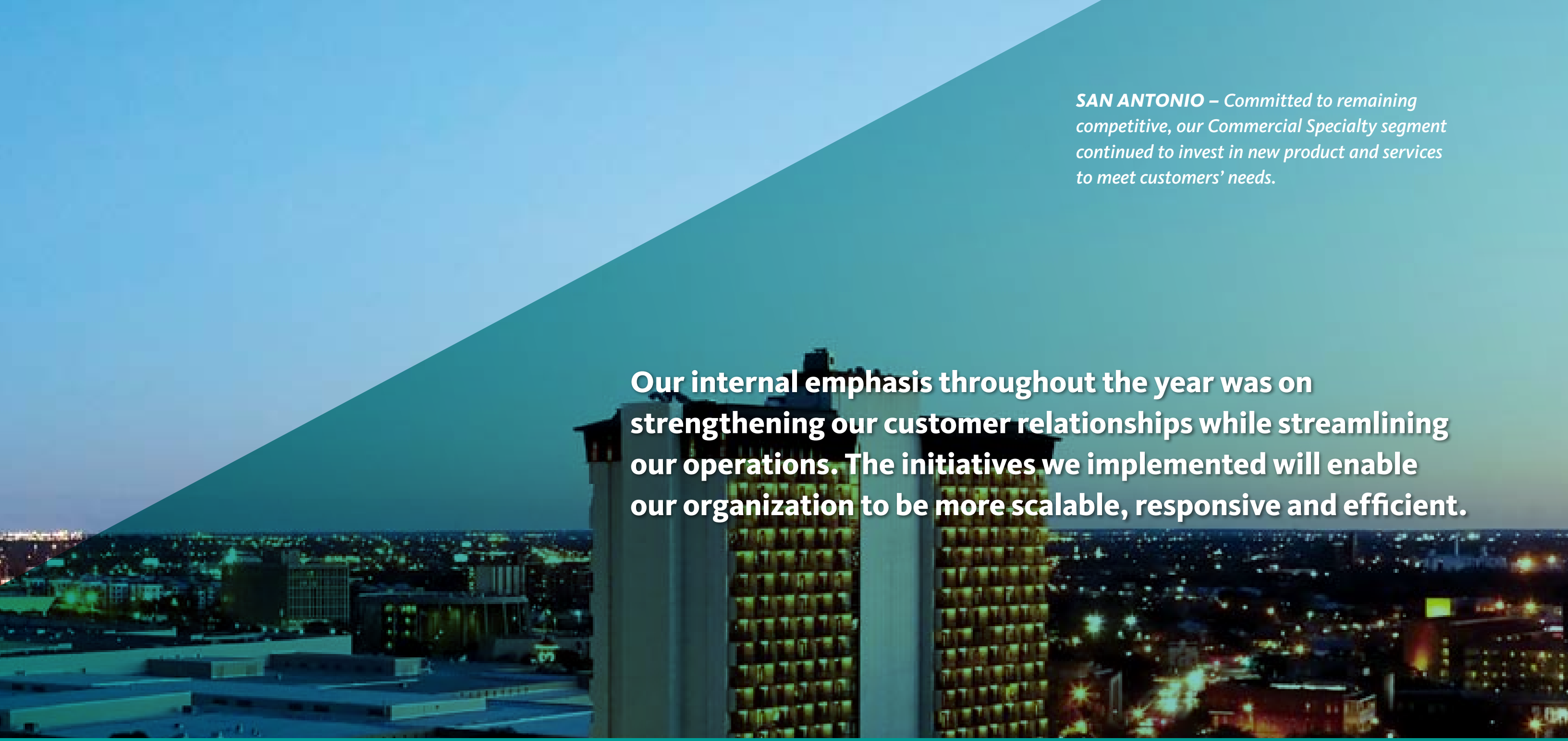
Commercial Specialty

Employing specialty underwriting expertise, our Commercial Specialty segment delivers custom insurance products and services through a broad distribution platform. We target business classes and industries with distinct risk profiles that can benefit from specially designed insurance programs, tailored loss control and expert claims handling. The segment is comprised of five operating divisions: Argo Insurance – U.S. Retail, Argo Surety, Commercial Programs, Rockwood and Alteris, which is itself comprised of five discreet business units.

Most of our commercial specialty business is written through independent agents and, to a lesser extent, regional brokers and direct writers. We work to develop strong marketing relationships with our distribution partners and offer a broad array of products with defined underwriting policies and competitive prices. Our target industry sectors include: grocery stores, mining, specialty retail, furniture stores, restaurants, non-commerical surety products, municipal and county government entities.

Extensive tornado activity in the U.S., the impact of Hurricane Irene, strong competition and stagnation of economic growth were factors that characterized the year. We experienced some positive movement in rates in certain areas but overall the market remained soft. Our internal emphasis throughout the year was on strengthening our customer relationships while streamlining our operations. Together with our Excess & Surplus Lines segment, we transitioned certain support functions to a shared services environment. In addition, we completed a successful pilot program for our Alteris Winery Program to implement a new business delivery platform that better leverages today's technology utilizing a single system for underwriting, policy issuance and billing. This new platform will be rolled out throughout our U.S. business lines over the next two years. Both of these initiatives will enable our organization to be more scalable, responsive and efficient.

During the year, our Argo Insurance – U.S. Retail unit launched a new general liability risk management program targeted to grocery stores and supermarkets, a key segment for that business unit. Following a change in leadership, our Argo Surety unit expanded its capacity and established an office presence in Chicago to better serve one of our larger markets. In addition, we made a strategic investment in SureTec Financial Corporation, a leading provider of contract and commercial surety bonds.



__SAN ANTONIO –__ Committed to remaining competitive, our Commercial Specialty segment continued to invest in new product and services to meet customers' needs.

Our internal emphasis throughout the year was on strengthening our customer relationships while streamlining our operations. The initiatives we implemented will enable our organization to be more scalable, responsive and efficient.

Our Commercial Programs division added to its program offerings with a landscape and arborist program in partnership with First Capital – Arrowhead Wholesale Insurance Services. Our Rockwood division, a leading specialty underwriter of workers compensation for the mining industry, delivered another solid year with increased written premiums resulting from payroll gains in their target industry driven by increased demand for coal and natural gas.

Our Alteris division is a services-oriented, complete solutions provider focused on specialty programs and alternative risk solutions for selected niche markets. Alteris is comprised of five divisions: Trident, Alteris Public Risk Solutions, Alteris Alternative Risk Solutions, Alteris Strategic Markets, and ARIS. In September, we completed an acquisition of S.N. Potter Insurance Agency, a boutique insurance program manager known for its industry-leading expertise in winery programs. This acquisition marked the first addition of a managing general agent operation to Alteris' portfolio. ARIS, which was acquired by Argo Group late last year, is the world's first underwriter of title insurance for fine art and other precious collectibles. In September, global art fund manager, Artemundi Management Limited adopted ARIS title insurance as part of its standard risk management protocol for its Artemundi Global Fund. In addition, ARIS launched partnerships with several of the world's top insurers serving the fine art industry. We were pleased to see a growing acknowledgement of the need for this product.

For the year, Commercial Specialty's gross written premiums were flat compared to 2010 but storm and catastrophe losses contributed to a pre-tax operating loss of $3.2 million and a combined ratio of 108.2%.

The Commercial Specialty segment develops strong relationships with our distribution partners to deliver a broad array of products to the targeted business classes and industries that can benefit from specially designed insurance programs, tailored loss control and expert claims handling.

International Specialty

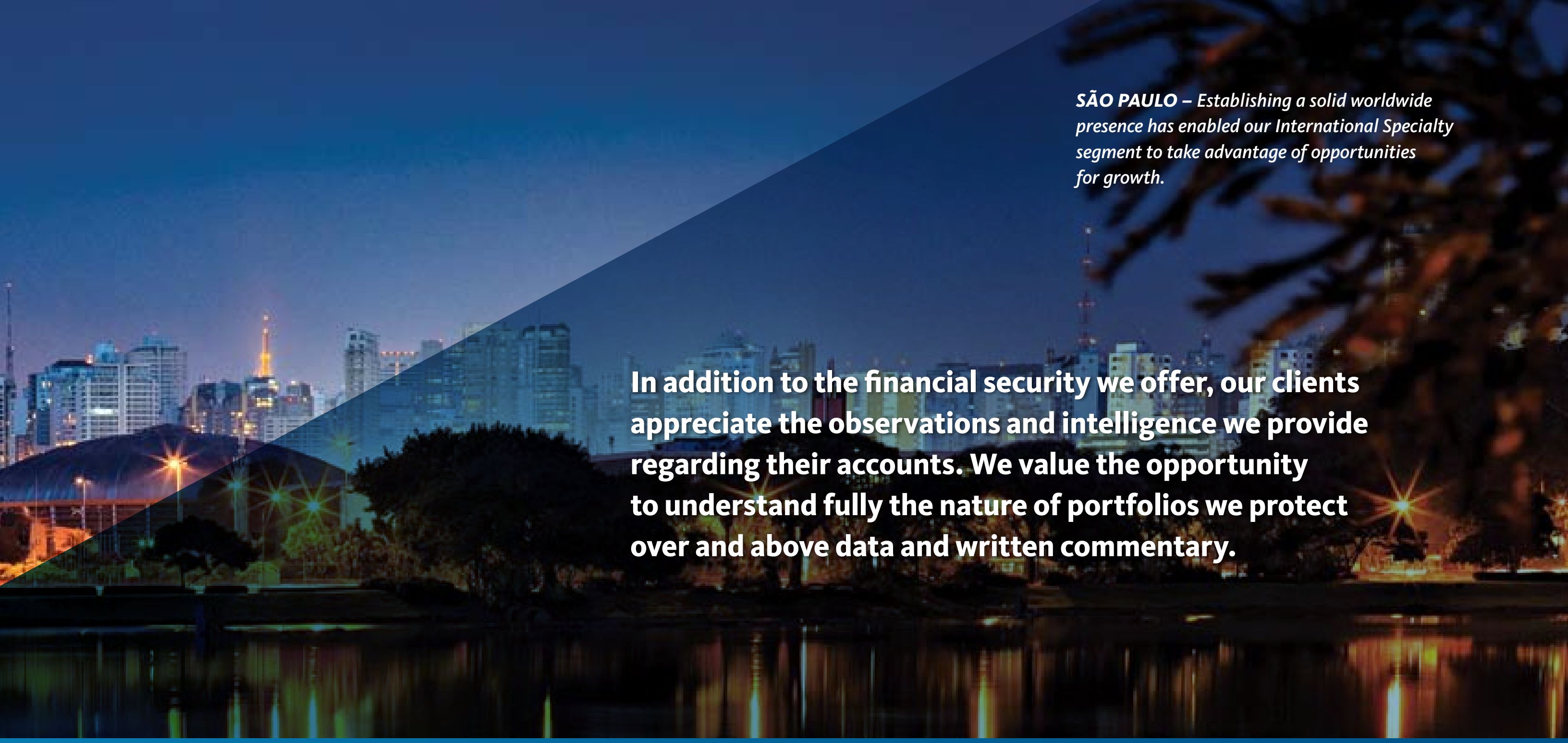
Our International Specialty segment consists of our reinsurance business and our international non-Lloyd's syndicate insurance lines outside the U.S. Operating out of Bermuda are Argo Re and Argo Insurance – Worldwide Casualty and Professional Lines. During 2011, we added new operations in four locations: Argo Seguros in Brazil, Argo Assurances in Paris, Argo Re (DIFC) in Dubai, and ArgoGlobal SE in Malta.

Argo Re has established itself as a recognized provider of reinsurance products following its establishment for the 2008 underwriting year. We target a relatively small number of clients that have a history of trading with our team. In addition to the financial security we offer, our clients value the observations and intelligence we provide regarding their accounts. We attach great importance to meeting face to face with clients as it provides us with our best opportunity to understand fully the nature of portfolios we protect over and above data and written commentary. The number of individual programs presented to the team has consistently grown each year, and in 2011, we assessed approximately 600 programs.

Argo Insurance's Excess Casualty and Professional Liability lines, which were established in 2009 and operate through our Bermuda platform, continued to increase market presence. Market conditions varied during the year for each product line, holding rates steady across many lines while large energy and loss affected accounts experienced positive pricing trends. Overall, our excess casualty and professional liability lines continued to grow successfully and exceeded our targeted growth levels for the year.

Geographic expansion was a key achievement in 2011 as our analysis and planning over the past two years for entering new markets came to fruition. In February, we opened an office in Paris to better serve that local market. Argo Assurances, which underwrites business locally as well as through our Lloyd's Syndicate in London, launched with a focus on aerospace and aviation business. Led by Bruno Ritchie, who joined our team early in the year, we began expanding into financial and casualty lines by year-end.

In July, we received our license for our new operation to serve markets in the Middle East and North Africa region (MENA). Argo Re (DIFC) opened in the Dubai International Financial Centre with new underwriting talent that is well known and well regarded within the MENA markets. Focused on casualty and professional lines, we saw a strong influx of submissions and policies written to close out the year.



***SÃO PAULO** – Establishing a solid worldwide presence has enabled our International Specialty segment to take advantage of opportunities for growth.*

In addition to the financial security we offer, our clients appreciate the observations and intelligence we provide regarding their accounts. We value the opportunity to understand fully the nature of portfolios we protect over and above data and written commentary.

Throughout the year we continued the work begun in 2010 to establish a new local insurance company, Argo Seguros, in Brazil. Pedro Purm joined the team as chief executive officer in May and brought on board key underwriting talent with extensive experience in Brazil. As the licensing process proceeded, the team worked diligently to set up the facilities, systems and processes needed to launch the business. Working closely with our technology vendor, eBaoTech®, we put in place a business delivery platform for underwriting, policy issuance and billing. The same platform is being used to transition all of our U.S. operations onto one common system. We were excited to receive our license from the local regulatory authority, SUSEP, at the end of December, enabling us to begin to write business in 2012.

Lastly, we launched a new entity to serve markets in Continental Europe. We selected Malta as the base given its strong financial regulatory environment and easy access to European markets. ArgoGlobal SE was granted its license at the end of December and will serve brokers in key markets who prefer to place business locally rather than through the London markets. Our initial focus will be on professional lines, such as Directors and Officers coverage, where we've built substantial expertise out of our Bermuda platform. We see a growing opportunity for this line of coverage throughout the European Union.

The catastrophe losses in 2011, following closely on the heels of significant losses in 2010, were widely felt throughout the marketplace. Global economic losses from natural catastrophes in 2011 are estimated to be $380 billion – the highest ever recorded. These catastrophes were reflected in our financial results as our International Specialty segment closed the year with a pre-tax operating loss of $71.8 million and a combined ratio of 178.5%. Gross written premiums for the segment totaled $200.8 million, an increase of $11.9 million over the prior year.

Geographic expansion was a key achievement for our International Specialty segment in 2011. Our analysis and planning over the past two years for entering new markets came to fruition with the addition of operations in Paris, Brazil, Dubai and Malta, which complement our existing Bermuda operation.

Syndicate 1200

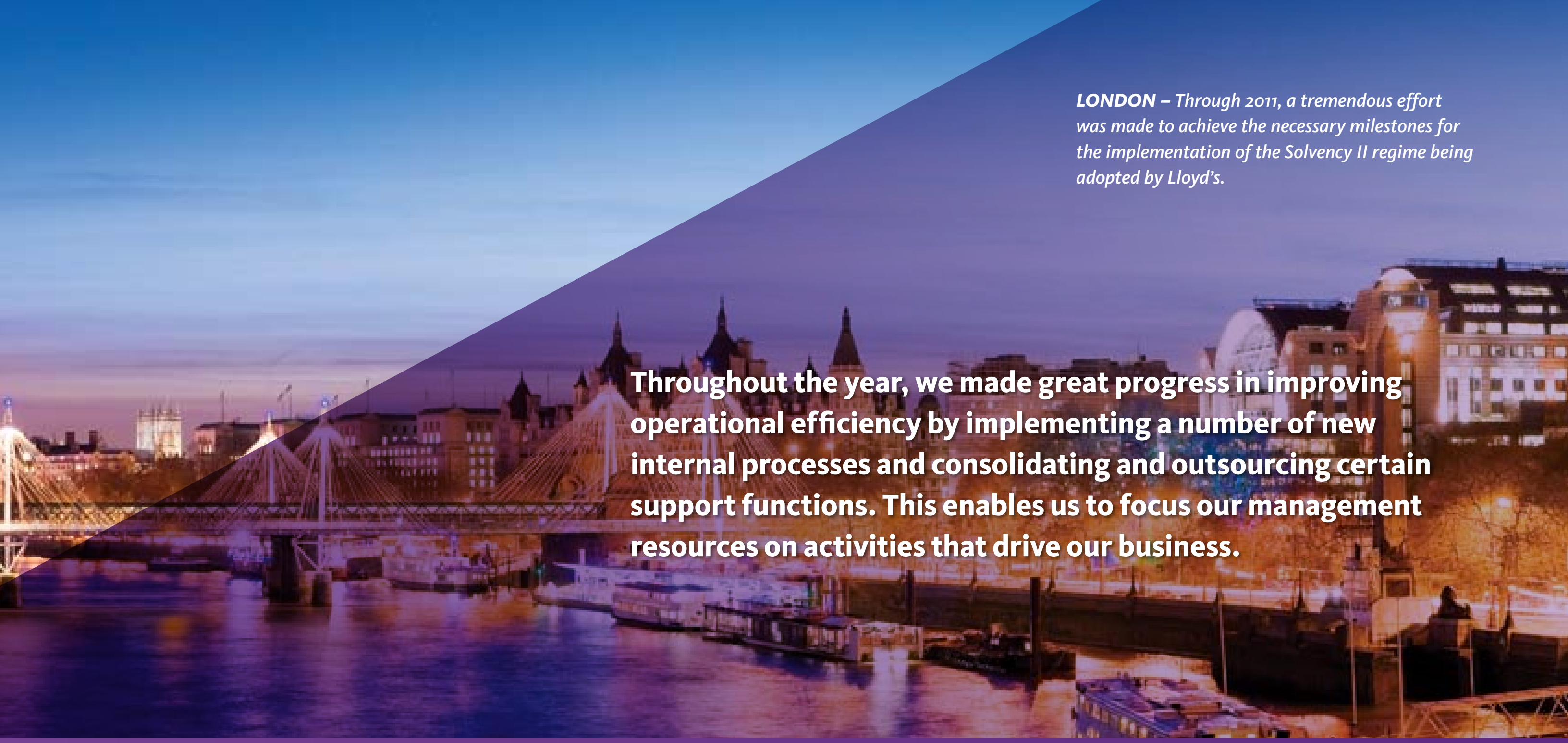
Trading under the brand, Argo International, our Syndicate 1200 segment specializes in underwriting worldwide property, specialty and non-U.S. liability insurance under the Lloyd's of London global franchise. We pride ourselves on developing deep, specialized knowledge of our business areas in order to provide excellent underwriting solutions to our clients.

Our property division focuses mainly on underwriting short-tail risks with an emphasis on commercial properties that are exposed to catastrophes and other man-made or natural disasters. Our liability division underwrites professional indemnity, general liability and Directors and Officers insurance. Our specialty division underwrites cargo, energy, and yachts and hull insurance while our aerospace division underwrites space and aviation risks.

Strengthening and expanding our talent base was a key accomplishment for 2011. With a transition of leadership early in the year, Jeff Radke was named Managing Director to oversee the operation of the Syndicate. While responsible for the Syndicate's underwriting strategy, Andrew Carrier took on an expanded role as Group Chief Underwriting Officer for all of Argo Group. He was joined later in the year by industry veteran, Peter Matson, who took the reins as Underwriting Director for the Syndicate.

Throughout the year, we hired additional outstanding underwriting talent as we added both marine specialty and aerospace divisions to the group to diversify our offerings. We also launched a new recruiting initiative aimed at recent college graduates. Our new graduate training program drew 395 applicants and we hired three promising young people who are now learning the business. This successful pilot program will be repeated next year in our London office and we'll look to introduce a similar program in other locations within Argo Group.

In achieving greater diversification of our portfolio, we have become a much more capital efficient business – one of our key goals for the year. In addition to bringing



LONDON *– Through 2011, a tremendous effort was made to achieve the necessary milestones for the implementation of the Solvency II regime being adopted by Lloyd's.*

Throughout the year, we made great progress in improving operational efficiency by implementing a number of new internal processes and consolidating and outsourcing certain support functions. This enables us to focus our management resources on activities that drive our business.

on underwriters with expertise in new lines of business, the opening of Argo Group's office in Paris brought us new opportunities to be closer to some of our customers in Continental Europe. Those customers can choose to place business directly in Paris or to have easier access to the Lloyd's market through our Syndicate. We also established a business presence at the Lloyd's operation in Brazil in conjunction with the launch of Argo Seguros.

Another key goal has been improving operational efficiency and we made great progress throughout the year in that regard. We implemented a number of new internal processes and consolidated and outsourced certain support functions in order to improve our efficiency. This enables us to focus our management resources on functions that drive our business. Lastly, we are very proud of the tremendous efforts put forth by our staff to achieve the necessary milestones in preparation for the implementation of Solvency II.

Our financial results for 2011 were greatly impacted by the catastrophe activity during the year; however, the work that we've been accomplishing over the past eighteen months to improve the business on our books has helped to mitigate the extent of the losses we realized. While we closed the year with a pre-tax operating loss of $66.2 million, gross written premiums increased from $389.9 million in 2010 to $438.5 million for 2011.

By developing deep, specialized knowledge of our business areas, our Syndicate 1200 segment provides excellent underwriting solutions to our clients, including those in niche industries such as cargo, energy, yachts, space and aviation.

Executive Leadership

BOARD OF DIRECTORS

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

SENIOR MANAGEMENT

Argo Group International Holdings, Ltd.

Mark E. Watson III	President and Chief Executive Officer
Jay S. Bullock	Executive Vice President and Chief Financial Officer
Barbara C. Bufkin	Executive Vice President, Business Development
Andrew Carrier	Group Chief Underwriting Officer
Michael Fusco	Senior Vice President and Chief Actuary
Karen C. Meriwether	Senior Vice President, Enterprise Risk Management
Farid Nagji	Senior Vice President and Chief Information Officer

Excess & Surplus Lines

Louis Levinson	President
Michael Fleischer	Chief Underwriting Officer

Commercial Specialty

Michael E. Arledge	President
William T. Meisen	President, Argo Insurance – U.S. Retail
John P. Yediny	President, Rockwood
Hilbert Schenck II	President, Alteris

International Specialty

Andrew Carrier	President, Argo Re
Nigel Mortimer	Managing Director, Emerging Markets
Pedro Purm Jr	Chief Executive Officer, Argo Seguros

Syndicate 1200

Jeff Radke	Managing Director
Peter Matson	Underwriting Director

Report of Independent Registered Public Accounting Firm
On Condensed Consolidated Financial Statements

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

We have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Argo Group International Holdings, Ltd. (the Company) at December 31, 2011 and 2010 and the related consolidated statements of (loss) income, comprehensive (loss) income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2011 (not presented separately herein) and in our report dated February 29, 2012, 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 16 through 19) is fairly stated in all material respects in relation to the consolidated financial statements from which it has been derived.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organization of the Treadway Commission and our report dated February 29, 2012 (not presented separately herein) expressed an unqualified opinion thereon.

Ernst + Young LLP

San Antonio, Texas
February 29, 2012

Condensed Summary of Significant Accounting Policies

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

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

The information in the Condensed Consolidated Balance Sheets, the Condensed Consolidated Statements of (Loss) Income and the Condensed Consolidated Statements of Cash Flows, shown on pages 17 through 19, is derived from the information in the Consolidated Balance Sheets, the Consolidated Statements of (Loss) Income and the Consolidated Statements of Cash Flow in Argo Group International Holdings, Ltd. 2011 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. 2011 Form 10-K. See also Management's Discussion and Analysis of Financial Condition and Results of Operations and other information in the 2011 Form 10-K.

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

Investments. Investments in fixed maturities at December 31, 2011 and 2010 include bonds and structured securities. Equity securities include common stocks. Other investments consist of private equity funds and limited partnerships. Short-term investments consist of money market funds, funds on deposit with Lloyd's as security to support the corporate member's capital, United Kingdom short-term government gilts, U.S. Treasury bills, sovereign debt and interest-bearing cash accounts. Short-term investments, maturing in less than one year, are classified as investments in the consolidated financial statements.

Goodwill and Intangible Assets. Goodwill is the result of the purchase prices of our business combinations being in excess of the identified net tangible and intangible assets. Goodwill is recorded as an asset and is not amortized. Intangible assets with a finite life are amortized over the estimated useful life of the asset. Intangible assets with an indefinite useful life are not amortized. Goodwill and intangible assets are tested for impairment on an annual basis or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. If the goodwill or intangible asset is impaired, it is written down to its fair value with a corresponding expense reflected in the Consolidated Statements of (Loss) 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 2011 and 2010 associated with assets having a finite life were \$4.6 million and \$4.4 million, respectively.

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

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

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

(Further information on our accounting policies can be found in Argo Group's 2011 Form 10-K: in the Critical Accounting Policies section of Management's Discussion and Analysis and also in Note 1 to the Financial Statements).

Condensed Consolidated Balance Sheets

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

	As of December 31, 2011	2010
Assets		
Investments:		
Fixed maturities, at fair value:		
Available-for-sale (cost: 2011 – $3,095.4; 2010 – $3,250.4)	**$ 3,215.5**	$ 3,361.4
Equity securities, at fair value (cost: 2011 – $291.5; 2010 – $208.8)	**403.6**	324.5
Other investments (cost: 2011 – $232.3; 2010 – $153.5)	**232.0**	154.2
Short-term investments, at fair value (cost: 2011 – $296.4; 2010 – $375.2)	**296.4**	375.3
Total investments	**4,147.5**	4,215.4
Cash	**100.9**	83.5
Premiums receivable and reinsurance recoverable	**1,452.5**	1,505.7
Goodwill and other intangibles	**246.8**	249.1
Current income taxes receivable, net	**11.2**	4.5
Ceded unearned premiums	**179.4**	164.0
Other assets	**263.6**	266.3
Total assets	**$ 6,401.9**	$ 6,488.5
Liabilities and Shareholders' Equity		
Reserves for losses and loss adjustment expenses	**$ 3,291.1**	$ 3,152.2
Unearned premiums	**658.2**	654.1
Ceded reinsurance payable, net	**424.5**	524.3
Other indebtedness	**65.5**	65.0
Junior subordinated debentures	**311.5**	311.5
Deferred tax liability, net	**26.1**	10.5
Other liabilities	**146.0**	144.8
Total liabilities	**4,922.9**	4,862.4
Shareholders' equity:		
Common shares – $1.00 par, 31,285,469 and 31,206,796 shares issued and outstanding at December 31, 2011 and 2010, respectively	**31.3**	31.2
Additional paid-in capital	**716.8**	711.4
Treasury shares (4,971,305 and 3,363,560 shares at December 31, 2011 and 2010, respectively)	**(160.9)**	(111.6)
Retained earnings	**752.0**	847.5
Accumulated other comprehensive income, net of taxes	**139.8**	147.6
Total shareholders' equity	1,479.0	1,626.1
Total liabilities and shareholders' equity	**$ 6,401.9**	$ 6,488.5

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

ARGO GROUP INTERNATIONAL HOLDINGS, LTD.

Condensed Consolidated Statements of (Loss) Income

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

	For the Years Ended December 31, 2011	2010	2009
Premiums and other revenue:			
Earned premiums	**$ 1,082.0**	$ 1,211.6	$ 1,414.9
Net investment income	**125.8**	133.6	145.5
Fee income, net	**1.4**	2.5	1.1
Net realized investment and other gains (losses)	**49.2**	36.8	(16.7)
Total revenue	**1,258.4**	1,384.5	1,544.8
Expenses:			
Losses and loss adjustment expenses	**863.1**	777.5	853.1
Other reinsurance-related expense	**5.9**	—	—
Underwriting, acquisition and insurance expenses	**426.7**	472.6	517.9
Interest expense and other	**22.1**	22.9	25.7
Foreign currency exchange loss (gain)	**3.5**	(3.8)	(0.2)
Impairment of intangible asset	**—**	—	5.9
Total expenses	**1,321.3**	1269.2	1,402.4
(Loss) income before income taxes	**(62.9)**	115.3	142.4
Provision for income taxes	**19.5**	32.7	24.9
Net (loss) income	**$ (82.4)**	$ 82.6	$ 117.5
Net (loss) income per common share:			
Basic	**$ (3.03)**	$ 2.80	$ 3.82
Diluted	**$ (3.03)**	$ 2.76	$ 3.81
Cash dividend declared per common share:	**$ 0.48**	$ 0.48	$ —
Weighted average common shares:			
Basic	**27,169,132**	29,566,004	30,731,226
Diluted	**27,169,132**	29,935,972	30,842,894

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

Condensed Consolidated Statements of Cash Flows

(in millions)

	For the Years Ended December 31, 2011	2010	2009
Cash flows from operating activities:			
Net (loss) income	$ (82.4)	$ 82.6	$ 117.5
Adjustments to reconcile net (loss) income to net cash (used) provided by operating activities:			
Amortization and depreciation	31.9	32.3	22.4
Share-based payments expense	4.6	10.1	7.9
Excess tax expense from share-based payments arrangements	0.1	0.3	0.3
Deferred federal income tax provision (benefit)	9.7	(6.3)	(1.9)
Realized investment and other gains	(49.2)	(36.4)	16.7
Gain on sale of real estate	—	(0.4)	—
Loss on disposal of fixed assets, net	1.0	0.2	—
Impairment of intangible asset	—	—	5.9
Change in:			
Receivables	52.4	254.4	(226.9)
Reserves for losses and loss adjustment expenses	138.9	(51.1)	206.6
Unearned premiums	4.1	(149.5)	(4.0)
Ceded reinsurance payable and funds held	(97.4)	(180.8)	100.2
Other assets and liabilities, net	(31.4)	41.5	57.1
Cash (used) provided by operating activities	(17.7)	(3.1)	301.8
Cash flows from investing activities:			
Sales, maturities and mandatory calls of investments	1,821.7	2,432.4	1,778.8
Purchases of investments	(1,778.4)	(2,270.8)	(2,057.2)
Change in short-term investments and overseas deposits	68.3	42.1	51.6
Settlements of foreign currency exchange forward contracts	7.7	—	—
Other, net	(19.0)	(19.8)	(14.0)
Cash provided (used) by investing activities	100.3	183.9	(240.8)
Cash flows from financing activities:			
Activity under revolving credit facility, net	—	—	(50.9)
Activity under stock incentive plans	1.1	4.3	3.1
Repurchase of common shares	(49.5)	(105.2)	—
Excess tax (expense) benefits from share-based payment arrangements	(0.1)	(0.3)	(0.3)
Payment of cash dividend to common shareholders	(13.1)	(14.2)	—
Cash used by financing activities	(61.6)	(115.4)	(48.1)
Effect of exchange rate changes on cash	(3.6)	—	—
Change in cash	17.4	65.4	12.9
Cash, beginning of period	83.5	18.1	5.2
Cash, end of period	$ 100.9	$ 83.5	$ 18.1

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

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:

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Forward-Looking Statements Disclosure

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

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