



ON COURSE



# 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 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 & 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 Reinsurance 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. International Specialty 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,		
	2010	2009	2008
Gross written premiums	\$ 1,527.1	\$ 1,988.9	\$ 1,601.5
Net written premiums	1,095.7	1,421.4	1,151.0
Net earned premiums	1,211.6	1,414.9	1,127.1
Net investment income and realized gains	170.4	128.8	115.1
Total revenue	1,384.5	1,544.8	1,249.4
Net income	\$ 82.6	\$ 117.5	\$ 62.9
Net income per common share:			
Basic	\$ 2.80	\$ 3.82	\$ 2.05
Diluted	\$ 2.76	\$ 3.81	\$ 2.05
Combined ratio	103.2%	96.9%	100.5%
Total assets	\$ 6,481.9	\$ 6,896.8	\$ 6,381.5
Shareholders' equity	\$ 1,626.1	\$ 1,614.9	\$ 1,352.9
Weighted average number of shares outstanding:			
Basic	29.6	30.7	30.6
Diluted	29.9	30.8	30.8
Book value per share	\$ 58.41	\$ 52.36	\$ 44.18

### 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 ended with Argo Group on course towards achieving our strategic goal of becoming a leading international specialty underwriter. While our financial results for 2010 were unremarkable, particularly in comparison to those of the previous year, we continued to generate profitable results and increase shareholder value. Again we grew our book value per share, which increased by 12.5% from the end of 2009 – continuing an eight-year trend of compounded annual growth above 12%.**

The year was not without its disappointments. Our premium income declined across all our business segments from the previous year. Part of the decline, however, was deliberate as we purposely exited business that no longer matched our strategic appetite. That said, the pace of bringing new, profitable business onto our books was disappointing, particularly in our international specialty segment. Soft market pricing further suppressed our premium income while competition in each of our business segments remained strong. And the sluggish economic recovery continued to stall growth for the small businesses that make up a majority of our U.S. insureds.

Our industry saw an unusually high number of catastrophic events around the globe. These included the Deepwater Horizon oil spill in the Gulf of Mexico, major earthquakes in Haiti, Chile and New Zealand, and significant flooding and a typhoon in Australia to end the year and begin the new one. We reported cat losses of nearly \$80 million – four times the level we reported in 2009 – which contributed six percentage points to our combined ratio.

Given the magnitude and combined weight of these external challenges, we are pleased to have delivered another profitable year for our shareholders. And I believe that the accomplishments that we achieved have strengthened our organization and positioned us to capitalize on our leadership goals.

We expanded our business through new and innovative product offerings as well as by entering new geographies. Within the U.S., we launched Alteris, a managing general agency providing access to a broad array of exclusive risk solutions for specialty market niches and alternative risks. We acquired ARIS, the first and only title insurance company for fine art and collectibles, and introduced new specialty programs such as Winery Plus, which offers products exclusive to wineries, vineyards and customer crush facilities.

Our geographic expansion made progress with significant milestones achieved enabling us to begin trading in Brazil, France and the U.A.E. on a more direct basis.

We made a number of changes to strengthen our operations within several of our companies. These improvements have streamlined operations and made it easier for our customers to do business with us. And we have a team on board with the acumen, ability and drive that will keep us on course to new and sustained success.

It's no secret that one of my passions is sailing – I especially love racing under sail. This summer, Argo Group sponsored the U.S. Merchant Marine Academy and I had the honor of skippering the Academy's historic yacht, Genuine Risk, in the Newport-Bermuda Race with a crew that included



several cadets from the Academy as well as some of our business partners. Working together as a team, which exemplifies the way we approach our business, we were excited to win the race for our class. Many of the photos in this year's annual report were taken during that race.

As I see it, the attributes that lead to success in sail racing are those that are critical to success in our business as well. Specifically:

**Strategy** – having a clear goal, charting a course to get there, accounting for external conditions, using what we have learned from past experiences, knowing our competition, and determining how we will arrive at our goal

**Teamwork** – having the right talent on board – talent whose strengths complement each other and make the team stronger, and the ability and willingness to change roles and positions as conditions demand

**Nimble execution** – being able to react quickly to handle both strategic opportunities as well as adverse conditions

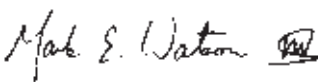
I am confident that Argo Group is on the top of its game regarding the first two attributes. And, while nothing significant happened this year, the evolution of our company over the past several years was primarily a result of our ability to change quickly when strategic opportunity arose. We continue to streamline our operations and expect to see significant results from these efforts in the coming year. We're focused on innovation in all aspects of our business and have defined processes to enable effective implementation of new products and other initiatives in our pipeline.

Our investment results for 2010 were strong, particularly in comparison to our

peer companies, with investment income of \$133.6 million, net realized gains of \$37 million and a 6% total return for the year. Argo Group's investment portfolio remains conservatively positioned, with an overall rating of AA, and 88% of our assets are invested in investment-grade bonds. We believe our investment strategy provides us flexibility to take advantage of investment opportunities as they arise.

From a capital perspective, we repurchased 3.2 million shares of Argo Group common stock during 2010 and issued dividends of \$0.48 per share of common stock over the course of the year. We continue to closely manage capital and closed out 2010 in a strong capital position with a balance sheet that is stronger than it was before.

I thank the nearly 1,300 Argo Group employees throughout the world who work hard to ensure the ongoing strength of our company. As we chart our course for 2011, we are a team focused and determined to reach our goal and to deliver the value you've come to expect from us. And 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**  
President and Chief Executive Officer

**Despite the financial challenges of the past year, Argo Group remains on course towards achieving our strategic goal of becoming a leading international specialty underwriter.**

# Financial Results

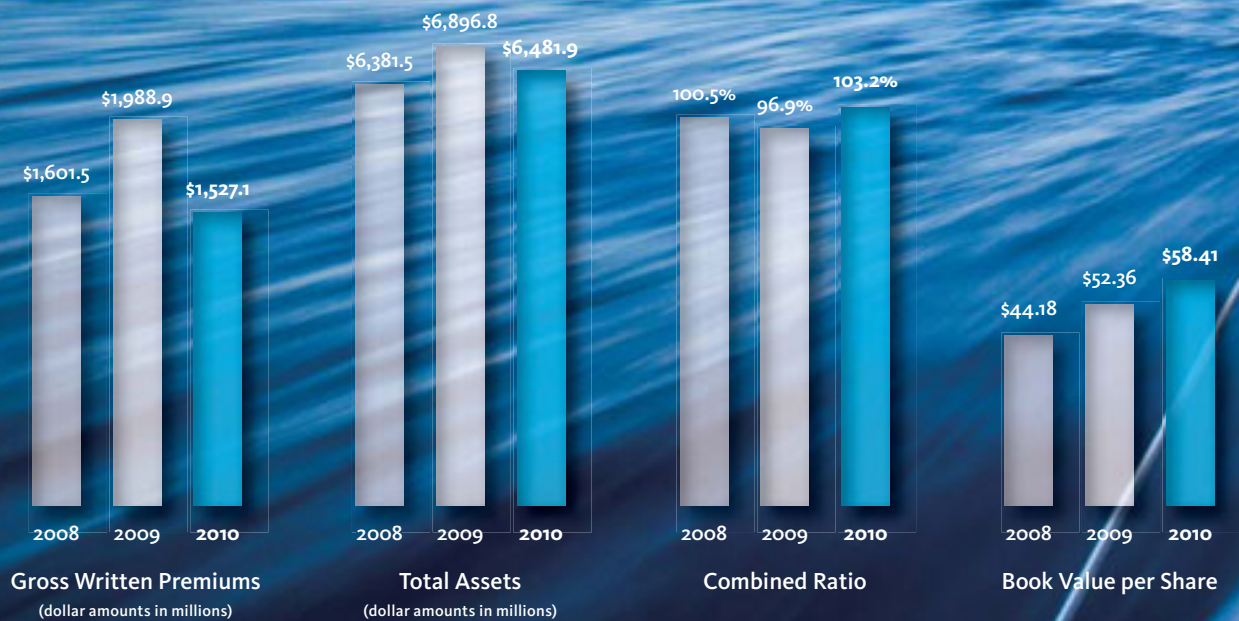
2010 at a glance

## GROSS WRITTEN PREMIUMS BY SEGMENT

(dollar amounts in millions)



## ARGO GROUP (CONSOLIDATED)



## Segment

*(dollar amounts in millions)*

For the Years Ended December 31,

	2010	2009	2008
<b>EXCESS AND SURPLUS LINES</b>			
Gross written premiums	\$ 522.6	\$ 642.3	\$ 684.3
Earned premiums	489.7	537.0	531.9
Losses and loss adjustment expenses	311.1	355.0	320.2
Underwriting, acquisition and insurance expenses	168.1	180.1	175.8
Underwriting income	10.5	1.9	35.9
Net investment income	58.6	62.8	62.4
Interest expense	(6.4)	—	—
Income before taxes	\$ 62.7	\$ 64.7	\$ 98.3
Loss ratio	63.5 %	66.1 %	60.2 %
Expense ratio	34.3 %	33.5 %	33.1 %
Combined ratio	97.8 %	99.6 %	93.3 %
Loss reserves at December 31	\$ 1,338.0	\$ 1,359.6	\$ 1,257.7
<b>COMMERCIAL SPECIALTY</b>			
Gross written premiums	\$ 428.1	\$ 475.7	\$ 510.9
Earned premiums	332.8	364.0	357.6
Losses and loss adjustment expenses	221.8	239.9	243.1
Underwriting, acquisition and insurance expenses	107.9	108.0	101.8
Underwriting income	3.1	16.1	12.7
Net investment income	29.8	29.3	29.7
Interest expense	(4.1)	—	—
Fee income, net	0.2	0.4	0.6
Income before taxes	\$ 29.0	\$ 45.8	\$ 43.0
Loss ratio	66.6 %	65.9 %	68.0 %
Expense ratio	32.4 %	29.7 %	28.5 %
Combined ratio	99.0 %	95.6 %	96.5 %
Loss reserves at December 31	\$ 610.5	\$ 605.4	\$ 574.8
<b>REINSURANCE</b>			
Gross written premiums	\$ 188.9	\$ 162.9	\$ 126.4
Earned premiums	100.3	87.7	69.9
Losses and loss adjustment expenses	43.3	15.4	33.0
Underwriting, acquisition and insurance expenses	29.8	30.5	21.5
Underwriting income	27.2	41.8	15.4
Net investment income	8.4	8.5	8.2
Interest expense	(3.6)	—	—
Income before taxes	\$ 32.0	\$ 50.3	\$ 23.6
Loss ratio	43.1 %	17.5 %	47.1 %
Expense ratio	29.7 %	34.8 %	30.8 %
Combined ratio	72.8 %	52.3 %	77.9 %
Loss reserves at December 31	\$ 123.0	\$ 76.0	\$ 59.8
<b>INTERNATIONAL SPECIALTY</b>			
Gross written premiums	\$ 389.9	\$ 706.0	\$ 282.9*
Earned premiums	290.1	424.1	183.4
Losses and loss adjustment expenses	203.2	244.4	142.8
Underwriting, acquisition and insurance expenses	131.5	161.9	63.0
Underwriting income (loss)	(44.6)	17.8	(22.4)
Net investment income	14.2	11.5	10.6
Interest expense	(3.1)	—	—
Fee income, net	2.3	0.7	6.6
Impairment of intangible asset	—	(5.9)	—
Income (loss) before taxes	\$ (31.2)	\$ 24.1	\$ (5.2)
Loss ratio	70.0 %	57.6 %	77.9 %
Expense ratio	45.3 %	38.2 %	34.4 %
Combined ratio	115.3 %	95.8 %	112.3 %
Loss reserves at December 31	\$ 623.7	\$ 609.6	\$ 449.7

\* The International Specialty segment was formed in May 2008 with the purchase of Heritage Underwriting Agency plc, subsequently renamed Argo International Ltd., which is the primary legal platform housing our International Specialty segment focused on the Lloyd's marketplace. As a result, financial results for 2008 include the last seven months from the acquisition date.

## Excess & Surplus Lines

**Throughout 2010, the Excess & Surplus segment trimmed its sails to weather deteriorating conditions in the non-admitted marketplace, staying on course with our long-term strategy for profitable growth.**

We welcomed new senior leadership to take the helm early in the year and brought on a number of seasoned professionals in key positions throughout our organization. This talent adds to the depth of experience and expertise on what is already a veteran team.

We restructured the segment by combining Colony and Argonaut Specialty into a unified Colony Specialty division. This reorganization has already yielded many benefits:

- brokers** have easier access to our products,
- our employees** have better career paths,
- our operations** are more streamlined, and
- our franchise value** and stakeholder returns are enhanced.

We also consolidated our casualty and transportation operations to provide easier access to a wider distribution for those products and eliminate redundancies. The E&S segment is now comprised of Colony Specialty and Argo Pro.

Our goal in making all these changes is to emerge as a stronger and leaner organization that is better able to respond to our customers' needs in a changing marketplace.

Our Argo Pro division remains comprised of four divisions: Allied Medical, Errors & Omissions, Environmental and Professional Liability through our Insight Insurance division. All Argo Pro divisions focus on small to medium size risks on both an admitted and non-admitted basis.

During 2010, we re-engineered, created or expanded business processes to leverage our existing strengths and deploy them to the best effect. We've made our handling of claims more efficient and consistent, giving us a sustainable competitive advantage in the market. We introduced CSERT – Colony Specialty Expedited Response Team – to quickly react to underwriting opportunities submitted just prior to policy expiration without time for traditional processing. To improve efficiency and quality, we consolidated many of our functions into our Business Support Services team in Richmond and collaborated with the Commercial Specialty segment to develop a more robust U.S. shared services platform.

Building on a successful distribution plan in Argo Group's admitted and non-admitted lines, we increased the distribution of insurance products for other carriers that are non-risk bearing to Colony Specialty, such as insurance offered by carriers who specialize in equipment breakdown and identity theft.

Gross written premiums for the E&S segment totaled \$522.6 million for 2010, resulting in pre-tax operating income of \$62.7 million. This represents a decrease from the 2009 gross written premiums of \$642.3 million and pre-tax operating income of \$64.7 million. The combined ratio for 2010 was 97.8% and the underwriting results include favorable prior year loss development of \$19.0 million. These results for our E&S business reflect the 2010 highly competitive market conditions.



Skipped by strong leadership and supported by an experienced team, our Excess & Surplus segment is well-equipped to weather any storm.



Efficient, streamlined operations are key to the success of our E&S segment and are brought to bear in both our internal processes and our relationships with brokers, including those that service our important construction, transportation and industrial lines of business.

# Commercial Specialty

**Argo Group's Commercial Specialty segment focuses on business classes and industries with distinct risk profiles that can benefit from insurance products and service tailored to their needs. Commercial Specialty weathered an especially competitive market through 2010 characterized by soft pricing and deteriorating underwriting standards industry-wide. As a result, we experienced an overall decrease in gross written premiums as compared to 2009.**

Consistent with our long-term strategy and goals, we elected to forgo volume in markets where profitable underwriting could not be achieved. We did, however, obtain a moderate rate increase on the business that we chose to retain. We are confident that maintaining underwriting discipline through this down cycle of the market is the prudent course to pursue.

One of Commercial Specialty's major assets, particularly in a difficult time for our industry, continues to be the close relationships we've developed with our distribution partners. Our decision to pull back from certain lines of business until sensible pricing and conditions were restored in the marketplace was not made lightly, and we consulted with our business partners at every step. We are gratified that our distribution partners understood the need for these actions and supported them as part of our long-term business plan for mutual growth and profitability.

Our Commercial Specialty segment worked hard during 2010 to identify and create new products to help our distribution partners diversify and grow their own books of business, even in this difficult environment.

Over the past year, we announced the launch of ten new initiatives, including:

- The launch of our Alteris platform, a managing general agency that distributes on behalf of Argo Group carriers as well as other insurance providers. Through Alteris, when our distribution partners present us with opportunities that fall outside of our defined risk appetite, we can help them place that business with another carrier.
- The acquisition of ARIS Title Insurance Corporation, the world's first (and only) underwriter of title insurance for fine art and collectible personal property.
- The launch, in partnership with Insurent Agency Corporation, the only U.S. insurance program focused exclusively on guaranteeing residential leases.
- The introduction of Winery Plus in partnership with a California-based specialty program manager. This new program offers property and casualty insurance products to wineries, vineyard estates and customer crush facilities.
- Argo Select's development of a number of new products specifically designed for the specialty books of our distribution partners.

Though it may be several years before we reap the full benefit of these initiatives, they are already starting to contribute to our results, representing 5% of the segment's gross written premiums in 2010.

Streamlining our operations was a priority over the past year, particularly as decreased volume pressured our expenses. For instance, to improve the transactional efficiency of our small accounts, we developed and launched ENVOY, a proprietary web-based tool. Currently being tested by some of our select business partners, ENVOY incorporates a user-friendly automated input system that allows agents to quickly obtain rates, quotes and binders from our companies.

Initial trials are showing ENVOY can cut the time required to produce quotes by as much as 50%, making it an ideal solution for small, non-appointed agents who want to access our products.

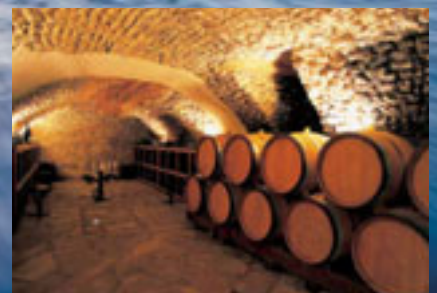
At Argo Select, gross written premiums were down 26% from 2009. This decrease can be attributed to a number of strategic decisions that were made as part of our long-term goal of outperforming the market. We exited under-performing niches where it has become impossible to dominate the market or that are no longer able to generate required profit levels. Examples include religious institutions – a \$12 million book of business – and hotels and motels – a \$13 million book of business.

The remaining divisions of Commercial Specialty continued to operate at high levels during 2010, responding to a challenging market with innovation and persistence. Our Rockwood division made continued progress using their partner model, establishing a relationship with the insurance buyer as well as the producing agent to provide maximum service to both parties. Workers compensation premiums in the mining industry now make up 70% of that business. Argo Surety continues to build momentum and is developing solid relationships – particularly in the commercial marketplace. Our program business operations, recently made part of the Argo Insurance branding platform, achieved their business plans for 2010 as expected.

Overall, during 2010, the gross written premiums for Commercial Specialty were \$428.1 million, generating pre-tax operating income of \$29.0 million, but down from \$475.7 million in 2009. The combined ratio for 2010 was 99.0% and the underwriting results include favorable prior year loss development of \$9.8 million.



With our gaze firmly fixed on the horizon, Commercial Specialty continues to develop products that further our long-term strategy and goals.



Commercial Specialty's accomplishments are due, in large part, to the close relationships we've built with our distribution partners. By offering products that meet their needs – such as our new Winery Plus initiative or our established line of business for independent grocers – we can ensure our strategies dovetail to our mutual benefit.

# Reinsurance

**Our Reinsurance segment operates through Argo Re, a short-tail reinsurance specialist providing property catastrophe reinsurance worldwide, as well as property per risk, proportional property and personal accident reinsurance. We also provide casualty and professional insurance products within our Reinsurance segment through our Bermuda platform. Argo Re is based in Bermuda and is supported by Argo Group affiliates in London (U.K.), New Jersey (U.S.) and Brussels (Belgium).**

Though marked by extraordinary events and somewhat challenging conditions, we continued to develop and grow during 2010, solidifying the position we have built in the reinsurance marketplace since inception in 2007. Our Catastrophe Reinsurance division marked its third year of operations and posted strong results for 2010, and growth in our Excess Casualty and Professional division continued as planned as it entered its second full year of underwriting. Both of these divisions have established their credibility and reputation within our industry and have achieved top tier status among their trading partners worldwide.

We continued to expand and diversify the capabilities and offerings of Argo Re during 2010, consistent with our long-term business plan to build a platform that can deliver sustained long-term growth. In addition to new products developed in response to the needs of our existing trading partners, we identified several new opportunities for specialty pipeline items. We also broadened our distribution channels, securing relationships with new trading partners that were previously beyond our reach during our start up phase.

Our track record, financial strength, and increasing size were key factors in attracting new business during 2010. These elements allowed us to participate at new levels in the marketplace, including expansion of our proportional reinsurance program for short- and long-tail programs. Our success in establishing and maintaining relationships with top tier trading partners is due, in large part, to our candor and underwriting philosophy. Our underwriting is not a mechanical process driven by volume. We prefer to conduct business and evaluate risks on a person-to-person, case-by-case basis. As a result, our trading partners are able to gain insight into our expertise, underwriting appetite and decision-making process. Collaboration, transparency and predictability make it easier to do business with Argo Re and promote the high level of trust required for successful long-term relationships. We are proud of the confidence that our partners have placed in our team, and believe it will be one of our greatest assets going forward.

By comparison to 2009, which saw few significant catastrophic events worldwide, the past year was quite active. Our industry experienced three unprecedented catastrophes – two natural and one man-made. However, the earthquakes in Chile and in New Zealand and the Deepwater Horizon drilling rig explosion are good examples of the kind of high severity, low frequency risks that create the demand for many of the (re)insurance products offered by Argo Re. Throughout the cycle, the risk reward proposition for (re)insuring such events remains favorable for prudent underwriters committed to long-term profitability. Despite the high level of activity in this sector during 2010, we were well positioned to weather these losses and still exceeded our financial plan for the year.

For 2010, Argo Re's gross written premiums were \$188.9 million, generating pre-tax operating income of \$32.0 million and a combined ratio of 72.8%. These results compare to gross written premiums in 2009 of \$162.9 million, which generated pre-tax operating income of \$50.3 million and a combined ratio of 52.3%. The segment's underwriting results for 2010 include favorable prior year loss development of \$16.8 million, up from \$9.1 million in 2009. The loss ratio for Argo Re was negatively affected in 2010 by 30.0 percentage points from \$30.1 million of catastrophe losses, net of reinstatement premiums.



Through 2010, Argo Re continued to hone its expertise in navigating through the perils of the worldwide property catastrophe reinsurance market.



Argo Re has solidified its position in the reinsurance marketplace by staying true to its original charted course. Focusing on business lines that range from aviation to offshore energy to property, Argo Re's ongoing growth is sustained through the development of valuable relationships with trading partners around the globe.

# International Specialty

**Our International Specialty segment consists of Argo International, which underwrites worldwide property and non-U.S. liability insurance through Syndicate 1200 at Lloyd's, as well as product lines for non-U.S. property and liability coverage now branded under Argo Insurance, which are provided through traditional insurance underwriting operations.**

During 2010 we reorganized and strengthened our Lloyd's underwriting team to better service those markets and lines of business identified as key areas for our growth going forward. This included a major restructuring of our liability underwriting division and the addition of many highly-qualified, talented and experienced individuals selected for their deep expertise and proven track records in our target markets. As planned, we also added a marine and energy underwriting team that we believe will be able to take advantage of a hardening market in these specialty markets. In addition, we continued to upgrade the systems and business processes that support our successful property underwriting team, which remains a leader at Lloyd's.

Our casualty and liability division navigated through an extremely difficult market for our industry in 2010 and made significant progress towards its long-term goals for growth and profitability. Although the segment's financial results for 2010 were not as strong as originally expected for the year, our team remained focused on expanding its presence and developing its trading base worldwide in order to support future growth.

We made significant progress to enable the expansion of our International Specialty platform in Continental Europe, including preparations for the launch of our new branch office in Paris in 2011 that will operate as Argo Assurances. This new division will be focused initially on providing specialty insurance solutions for aerospace and aviation clients worldwide.

In 2010, the internal focus of Argo International was concentrated on upgrading and streamlining the systems that support underwriting controls and financial processes. As a result of these initiatives, Argo International is now more fully integrated into Argo Group's global finance and accounting regimen, having transitioned from a traditional stand alone Lloyd's syndicate operation into an operating hub more similar to that of a public group. In doing so, Argo International has significantly improved its ability to support and service future growth of the International Specialty platform outside of the Lloyd's market.

For 2010, gross written premiums for Argo Group's International Specialty segment were \$389.9 million, generating a pre-tax operating loss of \$31.2 million. The decline in gross written premiums – as compared to 2009 – can be attributed to planned reductions in selected classes of business as well as the impact of increased competition in the marketplace. The combined ratio for 2010 was 115.3%, up from 95.8% in 2009. The underwriting results for the year include unfavorable prior year reserve development, net of

premium and loss, of \$12.1 million. Though International Specialty's loss ratio for 2010 was negatively affected by 8.5 percentage points from \$24.8 million of catastrophe losses, our exposure to such losses throughout the year was substantially less than in prior years. Our reduced risk profile for catastrophic losses during 2010 is another indication that our strategies to improve risk selection management in our underwriting portfolio are taking hold, and that the International Specialty segment is well positioned for 2011.

At Argo International, we understand that assembling a skilled crew with a finely-tuned competitive nature is critical to achieving success – both in business and on the water.



Argo International specializes in providing worldwide property and liability coverage. Our highly-qualified and talented underwriting teams are considered leaders at Lloyd's and have the technical expertise to help us grow our business in years to come.



# Executive Leadership

## BOARD OF DIRECTORS

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

## OFFICERS

### Argo Group International Holdings, Ltd.

<b>Mark E. Watson III</b>	President and Chief Executive Officer
<b>Jay S. Bullock</b>	Executive Vice President and Chief Financial Officer
<b>Barbara C. Bufkin</b>	Executive Vice President, Business Development
<b>Andrew Carrier</b>	Chief Underwriting Officer
<b>Michael Fusco</b>	Senior Vice President and Chief Actuary
<b>John F. Kearney</b>	Senior Vice President, Strategic Planning
<b>Farid Nagji</b>	Senior Vice President and Chief Information Officer
<b>Rip Reeves</b>	Senior Vice President and Chief Investment Officer
<b>Kevin D. Silva</b>	Senior Vice President, Human Resources
<b>N. James Tees</b>	Senior Vice President, Chief Accounting Officer and Treasurer

### Excess and Surplus Lines

<b>Louis Levinson</b>	President
<b>Sam Anderson</b>	President, Sales & Business Development
<b>Michael Fleischer</b>	Chief Underwriting Officer

### Commercial Specialty

<b>Michael E. Arledge</b>	President
<b>William T. Meisen</b>	Argo Select – President
<b>John P. Yediny</b>	Rockwood – President
<b>Hilbert Schenck II</b>	Alteris – President

### International Specialty

<b>Jeff Radke</b>	Managing Director
<b>Andrew Carrier</b>	Underwriting Director
<b>Ciaran O'Donnell</b>	Chief Financial Officer
<b>Neil Chapman</b>	Active Underwriter, Property
<b>Paul Kneafsey</b>	Active Underwriter, Liability

### Reinsurance

<b>Andrew Carrier</b>	President
<b>Kevin Copeland</b>	Vice President and Chief Financial Officer
<b>Nigel Mortimer</b>	Chief Underwriting Officer, Excess Casualty
<b>Matthew Wilken</b>	Chief Underwriting Officer, Property Reinsurance

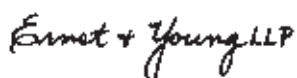


## Report of Independent Registered Public Accounting Firm On Condensed Consolidated Financial Statements

### 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, 2010 and 2009 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, 2010 (not presented separately herein) and in our report dated February 28, 2011, 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, 2010, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2011 (not presented separately herein) expressed an unqualified opinion thereon.

The logo for Ernst & Young LLP, featuring the company name in a stylized, handwritten-style font.

San Antonio, Texas  
February 28, 2011

# 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. On May 14, 2008, Argo Group, through our wholly-owned subsidiary, Argo International Holdings, Ltd., acquired Heritage Underwriting Agency plc (“Heritage”), which was subsequently renamed Argo Underwriting Agency Limited (“Argo International”). Argo International, a specialist insurer based in London, is focused on underwriting worldwide property and non-U.S. liability risks. Included in our condensed consolidated statements of income and cash flows for the year ended December 31, 2008, is seven months of activity specifically attributable to Argo International.

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

The information in the Condensed Consolidated Balance Sheets, the Condensed Consolidated Statements of Income and the Condensed Consolidated Statements of Cash Flows, shown on pages 17 through 19 is derived from the information in the Consolidated Balance Sheets, the Consolidated Statements of Income and the Consolidated Statements of Cash Flow in Argo Group International Holdings, Ltd. 2010 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. 2010 Form 10-K. See also Management’s Discussion and Analysis of Financial Condition and Results of Operations and other information in the 2010 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, 2010 and 2009 include bonds and structured securities. Equity securities include common stocks. Other investments consist of private equity funds and limited partnerships.

Short-term investments consist of money market funds, funds on deposit with Lloyd’s as security to support the corporate member’s capital, United Kingdom short-term government gilts, U.S. Treasury bills, sovereign debt and interest-bearing cash accounts. Short-term investments, maturing in less than one year, are classified as investments in the consolidated financial statements.

**Goodwill and Intangible Assets.** Goodwill is the result of the purchase prices of our business combinations being in excess of the identified net tangible and intangible assets. Goodwill is recorded as an asset and is not amortized. Intangible assets with a finite life are amortized over the estimated useful life of the asset. Intangible assets with an indefinite useful life are not amortized. Goodwill and intangible assets are tested for impairment on an annual basis or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. If the goodwill or intangible asset is impaired, it is written down to its fair value with a corresponding expense reflected in the Consolidated Statements of Income. Goodwill and intangible assets are allocated to the segment in which the results of operations for the acquired company are reported.

Amortization expense incurred in 2010 and 2009 associated with assets having a finite life were \$4.4 million and \$3.8 million, respectively.

In June 2009, we deemed the value assigned to the trade name of Heritage impaired after an evaluation of the value of the name in the Lloyd’s market and the subsequent renaming of Heritage to Argo International. The value of the trade name and accumulated amortization at the time of the impairment was \$6.4 million and \$0.5 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 2010 Form 10-K: in the Critical Accounting Policies section of Management’s Discussion and Analysis and also in Note 1 to the Financial Statements.)*

ARGO GROUP INTERNATIONAL HOLDINGS, LTD.

# Condensed Consolidated Balance Sheets

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

	As of December 31,	
	2010	2009
<b>Assets</b>		
Investments:		
Fixed maturities, at fair value:		
Available-for-sale (cost: 2010 - \$3,250.4; 2009 - \$3,445.8)	\$ 3,361.4	\$ 3,529.9
Trading (cost: 2010 - \$0; 2009 - \$2.2)	—	2.2
Equity securities, at fair value (cost: 2010 - \$208.8; 2009 - \$181.6)	324.5	265.9
Other investments (cost: 2010 - \$153.5; 2009 - \$97.4)	154.2	97.0
Short-term investments, at fair value (cost: 2010 - \$375.2; 2009 - \$439.4)	375.3	439.3
<b>Total investments</b>	<b>4,215.4</b>	<b>4,334.3</b>
Cash	83.5	18.1
Accrued investment income	33.5	30.8
Premiums receivable	301.8	380.7
Reinsurance recoverables	1,203.9	1,379.4
Goodwill	153.8	152.2
Intangible assets, net of accumulated amortization	95.3	96.5
Current income taxes receivable, net	4.5	7.9
Deferred tax asset, net	—	6.6
Deferred acquisition costs, net	139.7	185.7
Ceded unearned premiums	164.0	197.7
Other assets	86.5	106.9
<b>Total assets</b>	<b>\$ 6,481.9</b>	<b>\$ 6,896.8</b>
<b>Liabilities and Shareholders' Equity</b>		
Reserves for losses and loss adjustment expenses	\$ 3,152.2	\$ 3,203.2
Unearned premiums	654.1	803.6
Accrued underwriting expenses	77.7	100.8
Ceded reinsurance payable, net	524.3	707.9
Funds held	33.4	38.0
Other indebtedness	65.0	69.2
Junior subordinated debentures	311.5	311.4
Deferred tax liability, net	10.5	—
Other liabilities	27.1	47.8
<b>Total liabilities</b>	<b>4,855.8</b>	<b>5,281.9</b>
Shareholders' equity:		
Common shares - \$1.00 par, 500,000,000 shares authorized; 31,206,796 and 30,982,839 shares issued and outstanding at December 31, 2010 and 2009, respectively	31.2	31.0
Additional paid-in capital	711.4	702.4
Treasury shares (3,363,560 and 145,999 shares at December 31, 2010 and 2009, respectively)	(111.6)	(5.1)
Retained earnings	847.5	779.2
Accumulated other comprehensive gain, net of taxes	147.6	107.4
<b>Total shareholders' equity</b>	<b>1,626.1</b>	<b>1,614.9</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 6,481.9</b>	<b>\$ 6,896.8</b>

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

ARGO GROUP INTERNATIONAL HOLDINGS, LTD.

# Condensed Consolidated Statements of Income

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

	For the Years Ended December 31,		
	2010	2009	2008
Premiums and other revenue:			
Earned premiums	\$ 1,211.6	\$ 1,414.9	\$ 1,127.1
Net investment income	133.6	145.5	150.2
Fee income, net	2.5	1.1	7.2
Realized investment and other gains (losses), net	36.8	(16.7)	(35.1)
<b>Total revenue</b>	<b>1,384.5</b>	<b>1,544.8</b>	<b>1,249.4</b>
Expenses:			
Losses and loss adjustment expenses	777.5	853.1	724.9
Underwriting, acquisition and insurance expenses	472.6	517.9	407.1
Interest expense and other	22.9	25.7	30.5
Foreign currency exchange (gain) loss	(3.8)	(0.2)	0.5
Impairment of intangible asset	—	5.9	—
<b>Total expenses</b>	<b>1,269.2</b>	<b>1,402.4</b>	<b>1,163.0</b>
Income before income taxes	115.3	142.4	86.4
Provision for income taxes	32.7	24.9	23.5
<b>Net income</b>	<b>\$ 82.6</b>	<b>\$ 117.5</b>	<b>\$ 62.9</b>
Net income per common share:			
Basic	\$ 2.80	\$ 3.82	\$ 2.05
Diluted	\$ 2.76	\$ 3.81	\$ 2.05
Cash dividend declared per common share:	\$ 0.48	\$ —	\$ —
Weighted average common shares:			
Basic	29,566,004	30,731,226	30,622,025
Diluted	29,935,972	30,842,894	30,765,420

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



ARGO GROUP INTERNATIONAL HOLDINGS, LTD.

# Condensed Consolidated Statements of Cash Flows

(dollar amount in millions)

	For the Years Ended December 31,		
	2010	2009	2008
Cash flows from operating activities:			
Net income	\$ 82.6	\$ 117.5	\$ 62.9
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization and depreciation	32.3	22.4	17.0
Share-based payments expense	10.1	7.9	6.9
Excess tax expense from share-based payments arrangements	0.3	0.3	0.2
Deferred federal income tax benefit	(6.3)	(1.9)	(13.1)
Realized investment and other (gains) losses	(36.4)	16.7	38.2
Gain on sale of real estate	(0.4)	—	—
Loss on disposal of fixed assets, net	0.2	—	—
Impairment of intangible asset	—	5.9	—
Change in:			
Receivables	254.4	(226.9)	(139.4)
Reserves for losses and loss adjustment expenses	(51.1)	206.6	124.3
Unearned premiums	(149.5)	(4.0)	(49.2)
Ceded reinsurance payable and funds held	(180.8)	100.2	108.2
Other assets and liabilities, net	41.5	57.1	(37.5)
Cash (used) provided by operating activities	(3.1)	301.8	118.5
Cash flows from investing activities:			
Sales, maturities and mandatory calls of investments	2,432.4	1,778.8	839.2
Purchases of investments	(2,270.8)	(2,057.2)	(1,065.5)
Change in short-term investments and overseas deposits	42.1	51.6	364.9
Acquisitions, net of cash acquired	(1.9)	—	(294.2)
Sale of investment in subsidiary - continuing operations	—	—	57.7
Other, net	(17.9)	(14.0)	(17.5)
Cash provided (used) by investing activities	183.9	(240.8)	(115.4)
Cash flows from financing activities:			
Activity under revolving credit facility, net	—	(50.9)	(8.0)
Activity under stock incentive plans	4.3	3.1	1.7
Repurchase of common shares	(105.2)	—	(5.1)
Excess tax (expense) benefits from share-based payment arrangements	(0.3)	(0.3)	(0.2)
Payment of cash dividend to common shareholders	(14.2)	—	—
Cash (used) by financing activities	(115.4)	(48.1)	(11.6)
Change in cash	65.4	12.9	(8.5)
Cash, beginning of period	18.1	5.2	13.7
Cash, end of period	\$ 83.5	\$ 18.1	\$ 5.2

Please see accompanying "Condensed 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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59 Maiden Lane – Plaza Level  
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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.



ARGO GROUP

There's nothing together

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