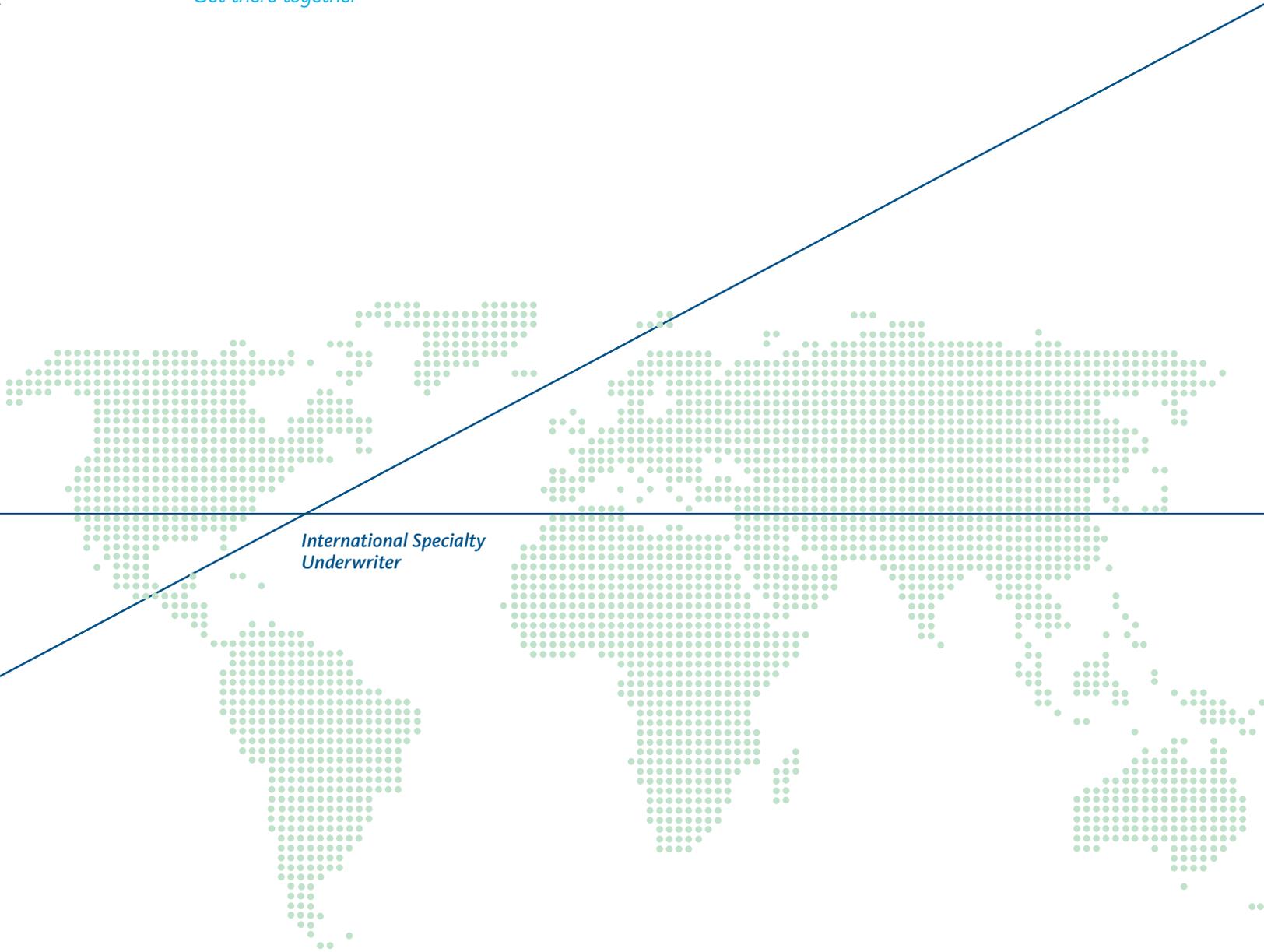




ARGO GROUP

Get there together



*International Specialty
Underwriter*

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 serves clients who cannot be insured in the standard market because of the nature of their businesses, their particular risk exposures or their

loss histories. Commercial Specialty provides standard-market property and casualty insurance to highly specialized commercial and public entities. Reinsurance writes insurance and reinsurance business worldwide through the broker market, with offerings including specialty property catastrophe reinsurance along with excess casualty and professional insurance. International Specialty operates through Lloyd's of London syndicates offering property and liability coverage. Argo Group International Holdings, Ltd. is headquartered in Bermuda.

Financial highlights

(in millions, except per share amounts)

	For the Years Ended December 31,		
	2009	2008	2007
Gross written premiums	\$ 1,988.9	\$ 1,601.5	\$ 1,180.9
Net written premiums	1,421.4	1,151.0	854.2
Earned premiums	1,414.9	1,127.1	859.8
Investment income and realized gains	128.8	115.1	140.2
Total revenue	1,544.8	1,249.4	1,000.0
Net income	\$ 117.5	\$ 62.9	\$ 143.8
Net income per common share:			
Basic	\$ 3.82	\$ 2.05	\$ 5.66
Diluted	\$ 3.81	\$ 2.05	\$ 5.58
Combined ratio	96.9%	100.5%	99.4%
Total assets	\$ 6,896.8	\$ 6,381.5	\$ 5,123.5
Shareholders' equity	\$ 1,614.9	\$ 1,352.9	\$ 1,384.5
Weighted average number of shares outstanding:			
Basic	30.7	30.6	25.4
Diluted	30.8	30.8	25.8

NOTICE

The Financial highlights herein are a summarized version of Argo Group's audited consolidated financial statements and do not contain sufficient information to allow as full an understanding of the financial position, results of operations or changes in financial position or cash flows of Argo Group as would be provided by the complete financial statements of Argo Group. A registered shareholder of Argo Group receiving these summarized financial statements may notify Argo Group in writing that they elect to receive the complete financial statements for the period for which the summarized financial statements are prepared, or for subsequent periods, or both.

Letter to shareholders



ARGO GROUP produced record financial results in 2009 while making significant progress toward its strategic objective of becoming a leading international specialty underwriter. As we assess our gains over the past year, however, we remain confident that Argo Group's true potential is still ahead of us and has yet to be realized fully.

Last year, in a market with intense competition and uncertain conditions, we drew on that potential to deliver new company highs in gross, net and earned premiums, revenue and operating income. Our success allowed us to set one more record as well, as we achieved a new high for book value per share (BVPS), which increased by more than 18% in 2009. We are particularly proud of our long-term track record of increasing BVPS, which on a compounded basis has grown by more than 12% over each of the last seven years.

A number of factors fueled these results in 2009. Positive operating results for the year in each segment in our diversified platform were backed by solid performance in our investment portfolio. Of particular note were the outstanding returns generated by our Reinsurance segment, which we formed just two years ago.

A key factor to Argo Group's financial standing is the strength of our balance sheet. Although the turmoil and uncertain market conditions of the last 18 months have been challenging on many levels, our strong capital position always ensured that we had sufficient capital to execute our business plan throughout. Stabilization of the markets in the latter part of 2009 further strengthened our position, and by year-end gave us additional flexibility to adjust our capital deployment strategy. In late February, our Board of Directors declared a quarterly cash dividend on our common stock of \$0.12 per outstanding share. This action

reflects first and foremost Argo Group's stable and strong balance sheet. It also demonstrates recognition by our board that repatriation of a portion of our capital directly to shareholders is the right course of action when business conditions warrant.

Over the last 10 years that I have had the privilege to serve as your CEO, we have successfully built and combined into one platform a range of complementary insurance enterprises. By diversifying our mix of businesses, we have also achieved a sound balance in our exposure to market risks. I'm pleased with where we are and who we are as a company today. We have focused on consistency – in our strategy, in our execution and in our performance. And by doing so, we have established a strong foundation for continued growth and we are committed to fulfilling that potential.

The challenge of transitioning a company and positioning it for success is not easy and it is never a completed task. It requires relentless effort, passion and resolve. Our entire team demonstrated all of those characteristics over the past few years. Our goal is to be an industry leader in the businesses where we choose to concentrate, and it's one that we have already achieved in a number of our segments. Given what we've accomplished so far, I have no doubt that Argo Group will continue to prosper as we begin to bring the full force of our combined operations to bear in the marketplace.

We also experienced another important milestone in 2009: for the first time we earned more of our income from non-U.S. operations than domestically. This shift is reflective of the growth strategy we have been executing over the last few years, which required us to deploy a sizable portion of our capital pursuing opportunities in international markets. It is also consistent with our focus on adjusting and redirecting our capital effectively, dedicating more to businesses where we see potential for sustained growth. Our international expansion has diversified our product offerings and completed the build-out of our specialty platform that now includes reinsurance and excess casualty operations in Bermuda and worldwide property and non-U.S. liability operations in London. Going forward, we expect our international businesses to significantly contribute to our operating results and complement our U.S. segments as the pricing environment in the U.S. continues to challenge premium volume and margins in our Excess & Surplus Lines and Commercial Specialty segments.

Despite our steady progress, we still have work to do. During the past year we made significant changes to reconfigure certain lines within our International Specialty segment in order to position them for prudent growth and profitability in the future. We reunderwrote the property book and are still making a few changes to our binding authority business. As the effects work their way through the first half of 2010, I believe our International Specialty segment has barely scratched the surface of its upside potential.

As part of our portfolio management strategy, we have kept our duration fairly short with an overall duration of three years. Along with very low interest rates, equity valuations in most sectors appear full, given the rally post-crisis, and that the global recovery remains lackluster and spotty. Therefore, we have positioned our investments conservatively with our equity allocation at 6% at year-end 2009. However, we have the flexibility to deploy our investment capital as valuations become more attractive relative to risk.

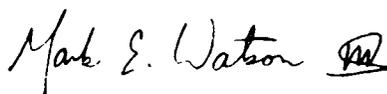
In addition to growing book value, another gauge of Argo Group's success will be the continued improvement of our return on equity (ROE), which should average 15% or better over the cycle. For 2009, ROE on a beginning

equity basis improved to 9.7% and by the fourth quarter had reached 12% on an annualized basis. Under difficult market conditions, these accomplishments underscore the merits of our strategy. And, as the cycle returns to form and markets strengthen, I believe our most rewarding opportunities remain in front of us as we drive to consistently deliver double-digit ROE.

Our measurement of success as a company, however, extends beyond our financial performance. We also evaluate our ability to cultivate a rewarding and inclusive work environment for our employees. Their diverse perspectives and talents provide an important competitive advantage for us in the marketplace. We remain at heart a company dedicated to the pursuit of serving the needs of others and this extends to all aspects of our business. The entire Argo Group team is excited, energized and poised to fulfill that mission.

The prospects on the horizon are exciting for Argo Group. Continued success will require our collective abilities to adapt to an ever-changing and often unpredictable market environment. To meet this challenge we have assembled a very strong franchise and invested our capital in businesses that have come together to work very effectively. And we have a very talented group of employees who will continue to succeed for our shareholders. It's this dynamic combination of factors that we believe will differentiate us in the marketplace and help us to outperform our competitors.

On behalf of the board of directors and Argo Group's 1,325 colleagues across the globe, thank you for your confidence over the last 10 years in both our company and our vision. I look forward to keeping you apprised of our continued progress.

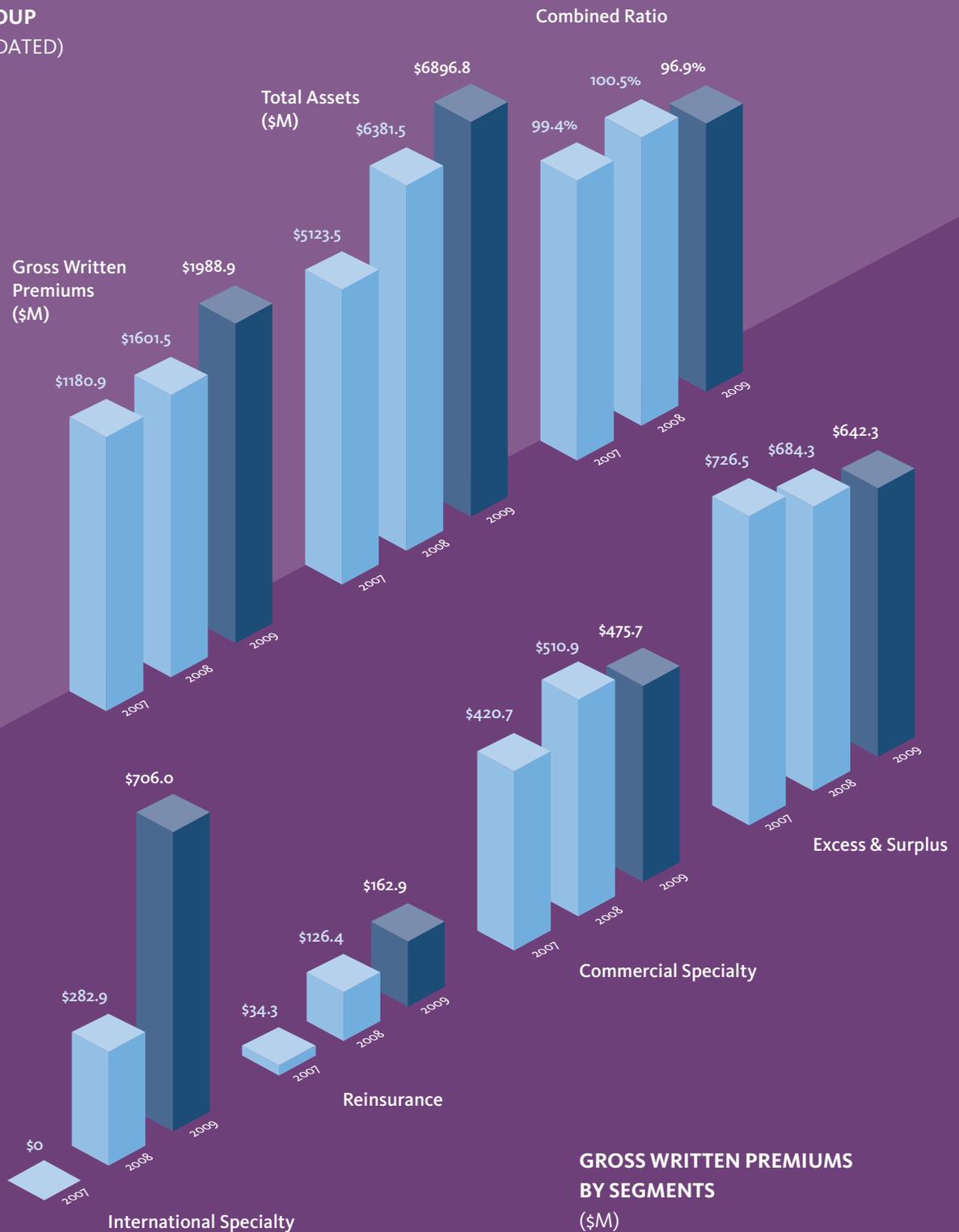


Mark E. Watson III
President and Chief Executive Officer

Financial results

2009 at a glance

ARGO GROUP
(CONSOLIDATED)



SEGMENT

(in millions)

For the Years Ended December 31,

	2009	2008	2007
EXCESS AND SURPLUS LINES			
Gross written premiums	\$ 642.3	\$ 684.3	\$ 726.5
Earned premiums	537.0	531.9	542.6
Losses and loss adjustment expenses	355.0	320.2	311.8
Underwriting expense	180.1	175.8	172.6
Underwriting income	1.9	35.9	58.2
Net investment income	62.8	62.4	54.5
Income before taxes	\$ 64.7	\$ 98.3	\$ 112.7
Loss ratio	66.1%	60.2%	57.5%
Expense ratio	33.5%	33.1%	31.8%
Combined ratio	99.6%	93.3%	89.3%

COMMERCIAL SPECIALTY

Gross written premiums	\$ 475.7	\$ 510.9	\$ 420.7
Earned premiums	364.0	357.6	302.2
Losses and loss adjustment expenses	239.9	243.1	182.2
Underwriting expense	108.0	101.8	85.9
Underwriting income	16.1	12.7	34.1
Net investment income	29.3	29.7	27.2
Fee income, net	0.4	0.6	—
Income before taxes	\$ 45.8	\$ 43.0	\$ 61.3
Loss ratio	65.9%	68.0%	60.3%
Expense ratio	29.7%	28.5%	28.4%
Combined ratio	95.6%	96.5%	88.7%

REINSURANCE

Gross written premiums	\$ 162.9	\$ 126.4	\$ 34.3
Earned premiums	87.7	69.9	18.1
Losses and loss adjustment expenses	15.4	33.0	9.8
Underwriting expense	30.5	21.5	5.8
Underwriting income	\$ 41.8	15.4	2.5
Net investment income	8.5	8.2	5.6
Income before taxes	\$ 50.3	\$ 23.6	\$ 8.1
Loss ratio	17.5%	47.1%	54.4%
Expense ratio	34.8%	30.8%	31.7%
Combined ratio	52.3%	77.9%	86.1%

INTERNATIONAL SPECIALTY

Gross written premiums	\$ 706.0	\$ 282.9*	—
Earned premiums	424.1	183.4	—
Losses and loss adjustment expenses	244.4	142.8	—
Underwriting expense	161.9	63.0	—
Underwriting income	17.8	(22.4)	—
Net investment income	11.5	10.6	—
Fee income, net	0.7	6.6	—
Impairment of intangible asset	5.9	—	—
Loss before taxes	\$ 24.1	\$ (5.2)	—
Loss ratio	57.6%	77.9%	—
Expense ratio	38.2%	34.4%	—
Combined ratio	95.8%	112.3%	—

* Last seven months from the acquisition date for the period ending December 31, 2008.

Argo Re

Deep customer insight and superior service. Innovation through all market cycles. An entrepreneurial approach. These are the characteristics that define the strategy adopted by Argo Group's reinsurance arm, Argo Re. A **Short Tail Reinsurance Specialist** based in Bermuda and supported by Argo Group affiliates in London (UK), New Jersey (USA) and Brussels, (Belgium), Argo Re works with trading partners around the globe to provide worldwide property catastrophe reinsurance. Other coverage provided includes property per risk, proportional property and personal accident reinsurance.

Argo Re's underwriting discipline has allowed it to achieve excellent financial results while maintaining its appetite for reinsuring more complex risks, such as industrial and commercial property. We specialize in difficult to analyze client property assets that tend to go beyond the capabilities of traditional risk modeling systems.

Argo Re accounts for 8% of Argo Group's total gross written premiums. Our dedicated risk analysis team works in tandem with experienced underwriters to provide the highly specialized service and customized solutions that contribute to the continued growth of the division's presence and reputation in the industry, as well as its share of the organization's overall revenue.

Argo Re's operations continued to expand during 2009. Our conservative investment philosophy allowed us to emerge from the recent turmoil in the financial markets well-positioned for growth. Leveraging our Bermuda platform, strong balance sheet and market insight, Argo Re was able to expand its offerings to include **Casualty and Professional Lines**. The Casualty and Professional coverage now available includes:

- *General and Products Liability*
- *Product Recall*
- *Excess Directors' & Officers' Liability*
- *A Side – Primary, Lead DIC & Follow Form*
- *Excess Errors & Omissions Liability*
- *Primary & Excess EPL*

The launch of our strategic entry in this new segment was marked by recruitment of one of the industry's most well-respected underwriting teams to spearhead our effort. The results to date are impressive, and we are rapidly establishing our market presence for superior casualty and professional risk solutions tailored to the needs of "blue chip" business concerns around the world.

In 2008, despite several significant catastrophic events, Argo Re still achieved a market leading combined ratio, validating our strategy of maintaining underwriting discipline across the market cycle. We continued to build on that success in 2009, which by contrast saw few significant cat events worldwide. Argo Re grew our gross written premiums in property catastrophe for the year ended December 31, 2009, with a total gross written premiums of \$162.9 million, representing a \$36.5 million increase over 2008. Our pre-tax operating income for the year was \$50.3 million, up from \$23.6 million the previous year. Our combined ratio for 2009 was 52.3%, as compared to 77.9% in 2008. The segment's underwriting results for the year include favorable prior year loss development of \$9.1 million, up from \$2.7 million in 2008.

ARGO RE • REINSURANCE • CASUALTY AND PROFESSIONAL
LINES • EXCESS OF LOSS • PERSONAL ACCIDENT •
PROPERTY PER RISK • PROPORTIONAL PROPERTY •
GENERAL AND PRODUCTS LIABILITY • PRODUCT
RECALL • EXCESS D & O LIABILITY • A SIDE – PRIMARY,
LEAD DIC & FOLLOW FORM • EXCESS E & O LIABILITY •
PRIMARY & EXCESS EPL

Japanese Industrial and Commercial Property

Argo Re has cultivated relationships with experts around the world in order to diversify its risk profile, providing opportunities for it to specialize in markets such as Japanese commercial property.



Commercial Specialty

Based in the U.S. and making up 24% of the organization's total gross written premiums, Argo Group's Commercial Specialty division focuses on business classes and industries with distinct risk profiles that can truly benefit from specially designed insurance programs, tailored risk profiles and expert claims handling. The niche industries we serve span a broad range of business classes, such as municipalities, mines, grocery stores and restaurants. By developing an in-depth understanding of each client's business and specific requirements, we have positioned ourselves as leaders in our targeted markets with a reputation for being uniquely qualified to develop the customized programs our customers need to effectively manage their risks.

Our Commercial Specialty products and services are offered through four specialized operating units:

- **Argo Surety** focuses on writing all forms of surety bonds, with a particular emphasis on contract surety and commercial surety obligations. We serve this niche insurance segment by partnering with agents that specialize in surety lines, including national brokers and agents.
- **Argo Select** is a specialty underwriter that provides customized property, liability and workers' compensation coverage to select niche markets. Over the years, Argo Select has developed expertise in serving businesses with specialized needs that are often overlooked in the traditional commercial insurance marketplace. Its diverse portfolio includes grocery stores, dry cleaners, self-storage facilities, restaurants, convenience stores, retail shopping centers, funeral directors and the pet care industry.
- With a reputation built over 50 years of service, **Rockwood** offers industry-leading advice and specialty workers' compensation protection for coal mining operations in Pennsylvania and other targeted states, in addition to selected non-mining commercial accounts with risks that require \$10,000 or less in annual premium. Rockwood also offers companion lines for mining and mining-related commercial contractors, including general liability, pollution liability, automobile and surety bond coverage.
- One of the largest providers of commercial insurance for small- to intermediate-sized public entities, **Trident** has developed a well-deserved reputation for its expertise in meeting the special insurance needs of public concerns such as municipalities, counties, special districts and public schools. As a managing general agent, Trident partners with licensed agents and brokers to provide comprehensive insurance and risk management solutions. Trident also offers insurance programs specifically designed for petroleum marketers, school bus operators, waste & septic haulers, private schools and law firms.

Over the past year, our Commercial Specialty division has focused on leveraging the talents of its experienced underwriters with a renewed emphasis on responsiveness, creativity, flexibility and integrity in order to continue to exceed clients' expectations. Our strong focus on the needs of our distribution partners and insured enables us to meet our clients' requirements in a consistent and timely manner. We pride ourselves on rapid turnaround for quotes, competitive pricing and skillful, responsive claims handling. During 2009, the Commercial Specialty division also continued to develop and launch new products and services to focus on industries less susceptible to financial recession throughout the marketplace.

From a financial perspective, Argo's Commercial Specialty division posted strong results for the year ended December 31, 2009. Gross written premiums were \$475.7 million, generating a pre-tax operating income of \$45.8 million – as compared to results for 2008 which included gross written premiums of \$510.9 million and a pre-tax operating income of \$43.0 million. Our combined ratio for 2009 was 95.6%, down slightly from 96.5% in 2008. The segment's underwriting results include favorable prior year loss development of \$3.7 million, as compared to \$8.2 million in 2008. These results are reflective of a combination of factors, including a highly competitive market and the exiting of certain classes of business.

COMMERCIAL SPECIALTY • TRIDENT • ROCKWOOD •
ARGO SELECT • ARGO SURETY • GENERAL LIABILITY •
AUTOMOBILE LIABILITY AND PHYSICAL DAMAGE •
PUBLIC OFFICIALS LIABILITY • EXCESS LIABILITY •
PROPERTY & ALLIED LINES • INDEPENDENT GROCERS •
SPECIALTY RETAIL • FABRICARE • PUBLIC ENTITY •
RESTAURANTS • MINING & COMMERCIAL • WORKERS'
COMPENSATION • CONTRACT & COMMERCIAL •
SURETY BONDS

New England Municipalities

*Trident is one of the premier specialist providers of commercial insurance
for small- to intermediate-sized public entities in the United States.*



International Specialty

Without a doubt, 2009 was a significant year for Argo Group's International Specialty division. The integration of Heritage Managing Agency Ltd., acquired in June 2008, was completed during the first half of 2009, and culminated with Heritage being renamed Argo Managing Agency Ltd. in June 2009 as part of the new Argo International business platform. Based in London and operating out of Lloyd's Syndicates 1200 and 3245, Argo International specializes in worldwide property and liability business and now accounts for the greatest share (35%) of Argo Group's overall gross written premiums.

The coverage available through Argo International is broker-oriented and divided into a property division and a liability division. With expert underwriting teams and an unwavering commitment to gaining the in-depth understanding of each client's business necessary to deliver the best possible solutions, our reputation as an industry leader continues to grow. In April 2010, Argo International will begin expanding its underwriting products to include a broad spectrum of Marine Cargo lines, with specialization in oil majors and project cargos, including coverage for delayed start up (DSU) risks.

During 2010 our **Property Division** will continue to focus on underwriting short tail risks with an emphasis on commercial, industrial and residential property throughout the world. Current offerings available through the Property Division of Argo International include:

- **Direct and Facultative Property** coverage of all risks, including fire and allied perils, earthquake, wind and flood in high risk areas, for occupancies such as hotels, real estate (including offices and apartments), mining, steel and other manufacturing. Placement style includes primary, full value and excess of loss.
- **North American and International Property Binding Authorities** primarily for non-catastrophe exposed homeowners and small commercial businesses across North America, Australia and New Zealand.
- **Transportation**, specializing in coverage for smaller fleets of commercial trucks and cars, primarily in North America, against fire, theft and collision.
- **Personal Accident** coverage for both individual and group policies on a facultative and treaty basis, including international medical, treaty excess of loss, war and sports.
- **International Property Treaty** coverage, including Catastrophe Excess of Loss and Excess Risk in the United Kingdom, Western Europe, Australasia, Canada and Japan.

Argo International's **Liability Division** specializes in:

- **Professional Indemnity** coverage for non-U.S. risks targeting traditional and emerging professions both within the UK and internationally, such as engineers, contractors, architects, information technology and media specialists, environmental professionals, health and safety consultants and alternative medicine professionals.
- **Banks and Financial Institutions** coverage against a wide range of risks, including theft, fraud and negligence, based on extensive experience in Latin America, Europe, the Middle East and the Far East. Though our focus is on Bankers Blanket Bond, cash in transit, plastic card fraud and commercial crime for banks and financial institutions, companion lines include crime cover for other commercial entities and armoured car companies.
- **Liability** coverage for risks outside the U.S., including a wide range of general liability products is offered for the construction, energy and commercial industries, with particular expertise in Canada, South Africa and select regions in Europe.

In addition to the rebranding of Heritage to Argo International, the International Specialty segment marked other important milestones in 2009. As part of the integration process, we aligned our underwriting practices with those of Argo Group with the goal of presenting a consolidated approach to risk selection to the industry at large. With an eye on expanding and enhancing our diverse geographical presence, the company investigated several new classes of business and established a representative office in Malta, becoming that country's first distribution point for attracting new European business.

During its first full year of operations in 2009, International Specialty posted strong financial results. Although the segment benefitted from a lack of major storm activity, this was offset in part by the underperformance in the property binder book of business. Gross written premiums for the year ended December 31, 2009 were \$706.0 million, generating pre-tax operating income of \$24.1 million. The combined ratio was 95.8%. The underwriting results include unfavorable prior year loss development of \$23.5 million, which was offset by favorable prior year premium development of \$24.1 million.

ARGO INTERNATIONAL • LIABILITY • PROPERTY •
PROPERTY BINDING AUTHORITIES • TRANSPORTATION •
GENERAL LIABILITY • PROFESSIONAL INDEMNITY •
FINANCIAL INSTITUTIONS • LLOYD'S OF LONDON •
PERSONAL ACCIDENT • MARINE CARGO

Lloyd's of London Syndicates 1200 and 3245

*Argo International specializes in worldwide property and liability
business underwritten through the Lloyd's of London market.*



Excess & Surplus Lines

From product manufacturers, to garages, to healthcare providers, Argo Group's Excess & Surplus (E&S) lines segment offers coverage for a broad range of risks that fall outside of the standard insurance market's portfolio and appetite for risk. Accounting for 32% of Argo Group's total gross written premiums, the E&S segment consists of three separate divisions, each with its own distinct area of specialization:

- **Colony** focuses on difficult small- to medium-sized risks that the standard market is unwilling or unable to underwrite, and is approved as a non-admitted insurer in 50 states, the District of Columbia and the U.S. Virgin Islands. Colony's book of business is organized into two underwriting segments – Brokerage (Property & Casualty) and Binding Authority. Brokerage Casualty is a specialty niche market targeting contractors, manufacturers and distributors along with premises and retail-driven accounts. Brokerage Property writes E&S property risks on a monoline basis with capacity of up to \$60 million. Colony's Binding Authority divisions target Contract Property & Casualty risks such as contractors, convenience stores, daycares and other mercantile establishments; garage risks on an admitted and non-admitted basis such as auto dealerships and service facilities; and transportation risks such as commercial auto, auto liability and cargo risks.
- **Argonaut Specialty** works exclusively with wholesale brokers to provide primary general liability and excess/umbrella coverage for medium- and large-sized businesses that have difficulty finding coverage because of their unique risk characteristics. Such characteristics may include the presence of physical perils, the risks inherent in nature of the business or the particular insured's loss experience. Our primary casualty business focuses on product manufacturers, importers and distributors; owners, landlords and tenants/premises-related exposures; and commercial contractors. A leading underwriter in the excess market, Argonaut Specialty offers up to \$10 million capacity for umbrellas and direct excess policies, targeting consumer, industrial and medical products; owners, landlords and tenants/premises-related exposures; commercial contractors; and auto liability.
- **Argo Pro** provides a wide array of specialty professional liability and environmental risks on both a non-admitted and admitted basis. In particular, Argo Pro focuses on the unique risks faced by social service agencies, allied healthcare providers and long-term care facilities. Coverages offered include Allied Medical; Errors & Omissions for insurance agents, lawyers, information technology and other miscellaneous professionals; environmental coverage for environmental contractors, consultants and facilities, including risks associated with underground storage tanks and dry cleaners; professional liability insurance for architects & engineers, accountants and insurance agents (offered through newly acquired Insight Insurance Services, Inc.); and Employment Practices Liability insurance (offered in partnership with Premier Professional Liability Services, LLC).

Throughout 2009, the talented underwriting teams in our E&S segment worked diligently to successfully maintain our strong position as a leader in our industry, a challenge made difficult due to increased competition from standard markets. In particular, our Argo Pro division experienced significant growth and expanded its presence in the environmental and pollution liability fields. We also completed the integration of Insight Insurance Services, Inc., which was acquired in 2008 and provides program administration specializing in professional liability for architects and engineers.

The financial results from the E&S segment continue to reflect the highly competitive market conditions currently affecting our industry. For the year ended December 31, 2009, the segment posted \$642.3 million in gross written premiums, for a total pre-tax operating income of \$64.7 million, as compared to \$684.3 million in gross written premiums and total pre-tax operating income of \$98.3 million in 2008. The segment's combined ratio for 2009 was 99.6%. Underwriting results for the year include favorable prior year loss development of \$15.4 million, down from \$39.6 million in 2008.

EXCESS AND SURPLUS • COLONY • ARGONAUT
SPECIALTY • ARGO PRO • CONTRACT PROPERTY
AND CASUALTY • BROKERAGE CASUALTY • EXCESS
CASUALTY • SPECIALTY PROPERTY • INLAND MARINE •
TRANSPORTATION • GARAGE • PRIMARY CASUALTY •
EXCESS / UMBRELLA LIABILITY • ARGO PRO • E & O •
ENVIRONMENTAL • ALLIED MEDICAL

Small Business

Colony provides facilities, on a binding authority basis, to General Agents offering specialized coverage for small and medium businesses such as auto garages and dealerships.



Executive leadership

BOARD OF DIRECTORS

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

(1) Member of the Executive Committee of the Board of Directors

(2) Member of the Audit Committee of the Board of Directors

(3) Member of the Human Resources Committee of the Board of Directors

(4) Member of the Investment Committee of the Board of Directors

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

OFFICERS

ARGO GROUP INTERNATIONAL HOLDINGS, LTD.

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

ARGO GROUP US, INC.

Mark E. Watson III	Chairman
Jay S. Bullock	Executive Vice President, Finance
Barbara L. Sutherland	Senior Vice President, General Counsel and Chief Claim Officer
Craig S. Comeaux	Vice President, Secretary and Deputy General Counsel
Daniel A. Cotter	Vice President and Deputy General Counsel
Lynn K. Geurin	Vice President and Treasurer
Karen C. Meriwether	Vice President, Internal Audit
Daniel G. Platt	Vice President and Controller

EXCESS AND SURPLUS LINES

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

COMMERCIAL SPECIALTY

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

INTERNATIONAL SPECIALTY

Julian Enoizi	Chief Executive Officer
Ciaran O'Donnell	Chief Financial Officer
Neil Chapman	Active Underwriter, Property
Paul Kneafsey	Active Underwriter, Liability

REINSURANCE

Andrew Carrier	Argo Re – President
Kevin Copeland	Vice President and Chief Financial Officer
Matthew Wilken	Chief Underwriting Officer – Reinsurance
Nigel Mortimer	Chief Underwriting Officer – Casualty and Professional

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, 2009 and 2008 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, 2009 (not presented separately herein) and in our report dated February 26, 2010, 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, 2009, 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 26, 2010 (not presented separately herein) expressed an unqualified opinion thereon.

Ernst & Young LLP

San Antonio, Texas
February 26, 2010

Condensed Summary of Significant Accounting Policies

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

On May 14, 2008, Argo Group, through its wholly-owned subsidiary, Argo 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 the Company's condensed consolidated statements of income and cash flows for the year ended December 31, 2008, is seven months of activity specifically attributable to Argo International.

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

The information in the Condensed Consolidated Balance Sheets, the Condensed Consolidated Statements of Income and the Condensed Consolidated Statements of Cash Flows, shown on pages 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.'s 2009 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.'s 2009 Form 10-K. See also Management's Discussion and Analysis of Financial Condition and Results of Operations and other information in the 2009 Form 10-K.

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

Investments. Investments in fixed maturities at December 31, 2009 and 2008 include bonds, notes and redeemable preferred stocks. Equity securities include common and nonredeemable preferred stocks. Short-term investments consist of funds in excess of the Company's near-term operating and claims paying needs and funds on deposit with Lloyd's of London as security to support the Corporate member's capital and are invested in certificates of deposit,

commercial paper, money market funds, United Kingdom short-term government gilts, U.S. Treasury bills, sovereign debt and interest-bearing cash accounts. Short-term investments, maturing in less than one year, are classified as investments in the consolidated financial statements as they relate principally to the Company's investment activities.

Goodwill and Intangible Assets. The Company's goodwill is the result of the purchase prices of its 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 Condensed 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 2009 and 2008 associated with assets having a finite life were \$3.8 million and \$3.7 million, respectively.

In June 2009, the Company 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. The impairment expense is included in "Interest expense and other" in the accompanying Condensed Consolidated Statements of Income.

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

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

(Further information on the Company's accounting policies can be found in Argo Group's 2009 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)

ASSETS	For the Years Ended December 31,	
	2009	2008
Investments:		
Fixed maturities, at fair value:		
Available-for-sale (cost: 2009 – \$3,445.8; 2008 – \$3,145.3)	\$ 3,529.9	\$ 3,150.4
Trading (cost: 2009 – \$2.2; 2008 – \$2.1)	2.2	2.1
Equity securities, at fair value (cost: 2009 – \$181.6; 2008 – \$251.8)	265.9	272.3
Other investments, at fair value (cost: 2009 – \$97.4; 2008 – \$56.8)	97.0	57.0
Short-term investments, at fair value (cost: 2009 – \$439.4; 2008 – \$542.0)	439.3	513.6
Total investments	4,334.3	3,995.4
Cash	18.1	5.2
Premiums receivable and reinsurance recoverables	1,760.1	1,533.2
Goodwill and other intangibles	248.7	257.6
Current income taxes receivable, net	7.9	—
Deferred tax assets, net	6.6	50.0
Ceded unearned premiums	197.7	208.8
Other assets	323.4	331.3
Total assets	\$ 6,896.8	\$ 6,381.5
LIABILITIES AND SHAREHOLDERS' EQUITY		
Reserves for losses and loss adjustment expenses	\$ 3,203.2	\$ 2,996.6
Unearned premiums	803.6	807.6
Ceded reinsurance payable, net	707.9	603.4
Other indebtedness	69.2	117.3
Junior subordinated debentures	311.4	311.4
Current income taxes payable, net	—	2.1
Other liabilities	186.6	190.2
Total liabilities	5,281.9	5,028.6
Shareholders' equity:		
Common shares – \$1.00 par, 30,982,839 and 30,768,878 shares issued and outstanding at December 31, 2009 and 2008, respectively	31.0	30.8
Additional paid-in capital	702.4	694.2
Treasury shares (145,999 shares at December 31, 2009 and 2008, respectively)	(5.1)	(5.1)
Retained earnings	779.2	655.2
Accumulated other comprehensive income, net of taxes	(107.4)	(22.2)
Total shareholders' equity	1,614.9	1,352.9
Total liabilities and shareholders' equity	\$ 6,896.8	\$ 6,381.5

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

Condensed Consolidated Statements of Income

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

	For the Years Ended December 31,		
	2009	2008	2007
Premiums and other revenue:			
Earned premiums	\$ 1,414.9	\$ 1,127.1	\$ 859.8
Net investment income	145.5	150.2	134.3
Fee income, net	1.1	7.2	—
Realized investment and other (losses) gains, net	(16.7)	(35.1)	5.9
Total revenue	1,544.8	1,249.4	1,000.0
Expenses:			
Losses and loss adjustment expenses	853.1	724.9	526.9
Underwriting, acquisition and insurance expenses	517.9	407.1	328.1
Interest expense and other	31.4	31.0	25.2
Total expenses	1,402.4	1,163.0	880.2
Income before income taxes and extraordinary item	142.4	86.4	119.8
Provision for income taxes	24.9	23.5	42.3
Income before extraordinary item	117.5	62.9	77.5
Extraordinary item	—	—	66.3
Net income	\$ 117.5	\$ 62.9	\$ 143.8
Net income per common share – basic:			
Income before extraordinary item	\$ 3.82	\$ 2.05	\$ 3.05
Extraordinary item	—	—	2.61
Net income	\$ 3.82	\$ 2.05	\$ 5.66
Net income per common share – diluted:			
Income before extraordinary item	\$ 3.81	\$ 2.05	\$ 3.01
Extraordinary item	—	—	2.57
Net income	\$ 3.81	\$ 2.05	\$ 5.58
Weighted average number of shares outstanding:			
Basic	30,731,226	30,622,025	25,367,004
Diluted	30,842,894	30,765,420	25,773,631

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

Condensed Consolidated Statements of Cash Flows

(in millions)

	For the Years Ended December 31,		
	2009	2008	2007
Cash flows from operating activities:			
Net income	\$ 117.5	\$ 62.9	\$ 143.8
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization and depreciation	22.4	17.0	8.4
Share-based payments expense	7.9	6.9	19.3
Excess tax expense (benefits) from share-based payments arrangements	0.3	0.2	(3.3)
Deferred federal income tax (benefit) provision	(1.9)	(13.1)	3.6
Realized investment and other gains (losses)	16.7	38.2	(5.9)
Impairment of intangible asset	5.9	—	—
Extraordinary gain due to merger	—	—	(66.3)
Change in:			
Receivables	(226.9)	(139.4)	(62.7)
Reserves for losses and loss adjustment expenses	206.6	124.3	130.3
Unearned premiums	(4.0)	(49.2)	(10.3)
Ceded reinsurance payable and funds held	100.2	108.2	(12.0)
Other assets and liabilities, net	57.1	(37.5)	21.3
Cash provided by operating activities	301.8	118.5	166.2
Cash flows from investing activities:			
Sales, maturities and mandatory calls of investments	1,778.8	839.2	724.5
Purchases of investments	(2,057.2)	(1,065.5)	(1,011.1)
Change in short-term investments and overseas deposits	51.6	364.9	93.3
Acquisitions, net of cash acquired	—	(294.2)	10.4
Sale of investment in subsidiary – continuing operations	—	57.7	—
Other, net	(14.0)	(17.5)	(6.4)
Cash used by investing activities	(240.8)	(115.4)	(189.3)
Cash flows from financing activities:			
Activity under revolving credit facility, net	(50.9)	(8.0)	58.0
Activity under stock incentive plans	3.1	1.7	11.4
Repurchase of common shares	—	(5.1)	—
Excess tax (expense) benefits from share-based payment arrangements	(0.3)	(0.2)	3.3
Payment of cash dividend to common shareholders	—	—	(57.1)
Payment of cash dividend to preferred shareholders	—	—	(0.1)
Cash (used) provided by financing activities	(48.1)	(11.6)	15.5
Change in cash	12.9	(8.5)	(7.6)
Cash, beginning of period	5.2	13.7	21.3
Cash, end of period	\$ 18.1	\$ 5.2	\$ 13.7

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

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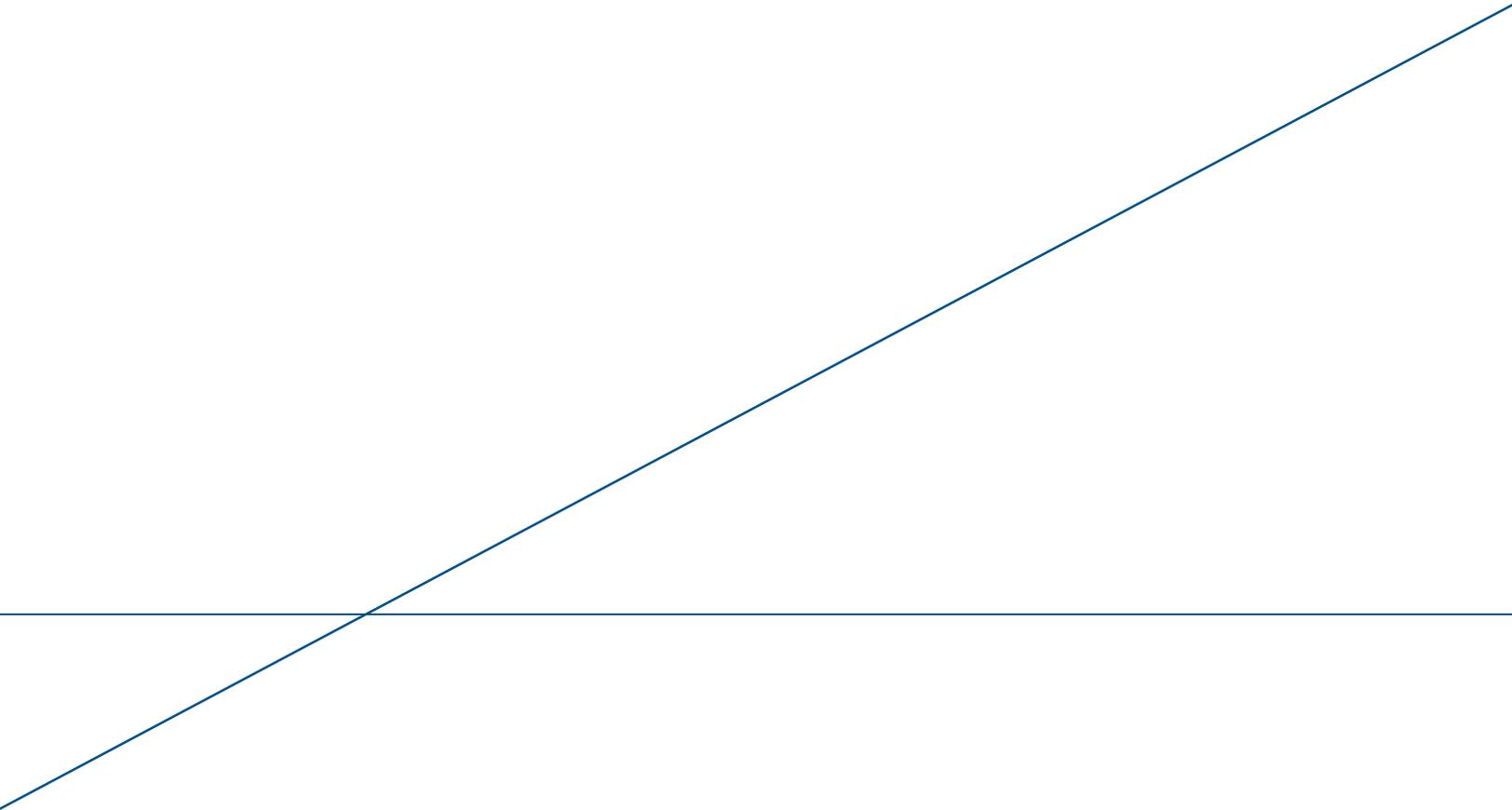
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Forward-Looking Statements Disclosure

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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