ANNUAL REPORT 2012

ARGO GROUP

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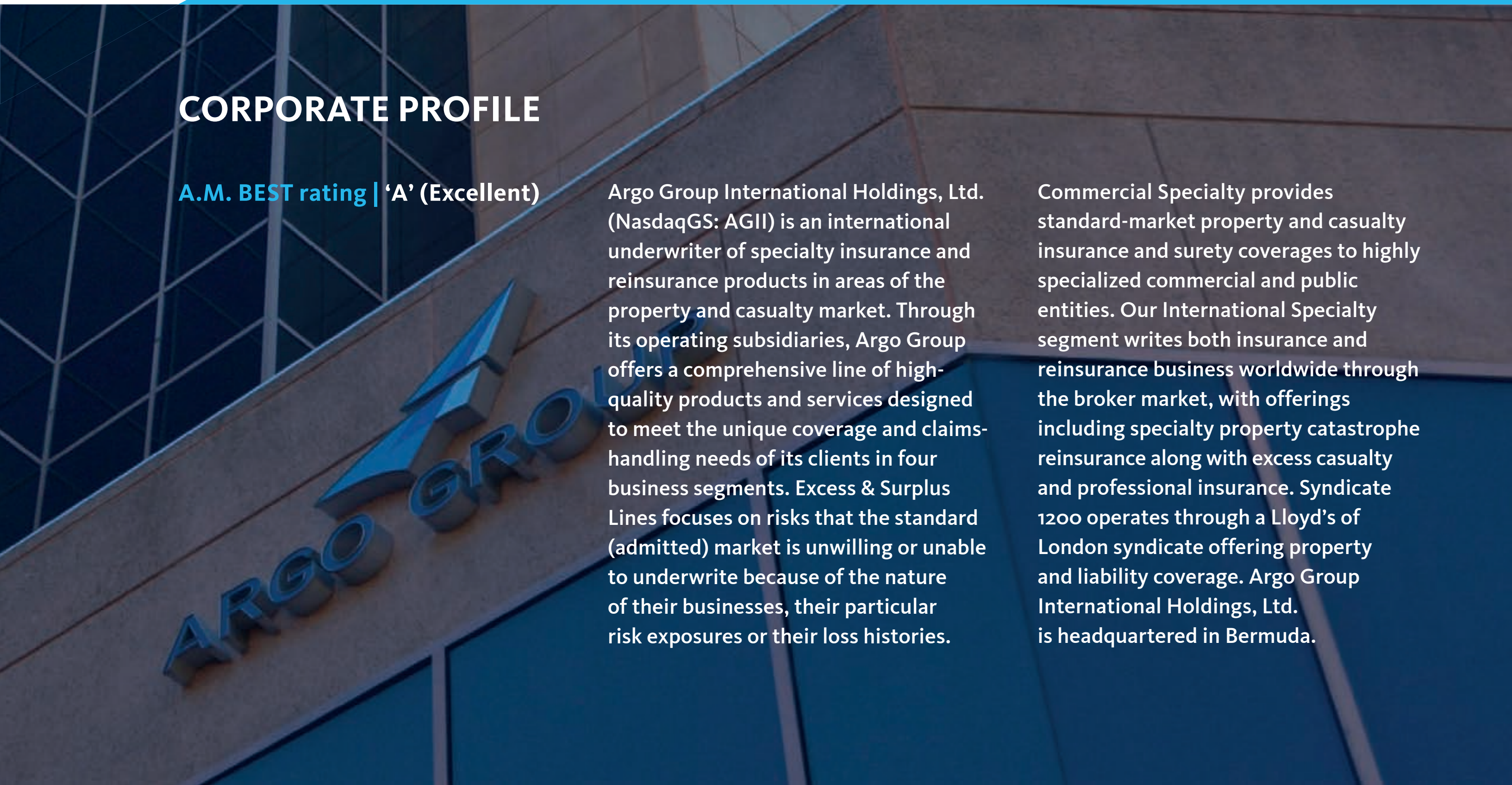


CORPORATE PROFILE

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 International Specialty segment writes both insurance and reinsurance business worldwide through the broker market, with offerings including specialty property catastrophe reinsurance along with excess casualty and professional insurance. Syndicate 1200 operates through a Lloyd's of London syndicate offering property and liability coverage. Argo Group International Holdings, Ltd. is headquartered in Bermuda.

FINANCIAL HIGHLIGHTS

(in millions, except per share amounts)

	For the Years Ended December 31,		
	2012	2011[(a)]	2010[(a)]
Gross written premiums	**$ 1,745.7**	$ 1,544.8	$ 1,527.1
Net written premiums	**1,244.5**	1,071.8	1,095.7
Net earned premiums	**1,186.5**	1,082.0	1,211.6
Net investment income and realized gains	**144.5**	175.0	170.4
Total revenue	**1,336.3**	1,258.4	1,384.5
Net income (loss)	**$ 52.3**	$ (81.9)	$ 86.7
Net income (loss) per common share:			
Basis	**$ 2.05**	$ (3.02)	$ 2.93
Diluted	**$ 2.01**	$ (3.02)	$ 2.90
Combined ratio	**104.6%**	119.8%	102.7%
Total assets	**$ 6,688.9**	$ 6,378.3	$ 6,463.9
Shareholders' equity	**$ 1,514.1**	$ 1,463.0	$ 1,609.6
Weighted average number of shares outstanding:			
Basis	**25.5**	27.2	29.6
Diluted	**26.0**	27.2	29.9
Book value per share	**$ 60.75**	$ 55.60	$ 57.82

[(a)] As adjusted for the retrospective application of ASU 2010-26 which modified the definition of deferred acquisition costs.

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, 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

After a challenging 2010 and 2011, we began 2012 with a renewed focus on execution; and throughout the year, each business unit was aligned in its attention to improving its bottom line. While we accomplished many of our objectives for the year, further improvement is still needed in certain aspects of our business. The performance of our Commercial Specialty segment, whose results for 2012 were affected by significant negative development from prior years, was disappointing. The economic environment across the globe continued to pose challenges and some of our newer ventures were slower to gain traction than we would have liked. And, while we're moving in the right direction on many fronts, I am anxious to see the pace of that improvement accelerate.

Although not satisfied with our results on every measure, I am nonetheless pleased with the achievements Argo Group made on many fronts during the year. All of our business segments are stronger than they were a year ago and three of our four operating segments generated growth and underwriting profitability for the full year. Our Syndicate at Lloyd's and our Excess and Surplus Lines business, in particular, showed real improvement in many key metrics including written premium, loss ratio and combined ratio – not to mention underwriting profit.

Over the course of the past year, notwithstanding market conditions, we made progress growing our profitable lines of business, strengthening relationships with key brokers and business partners, and delivering excellent customer service and claims settlement. We maintained our consistent, rigorous and disciplined approach to underwriting and that is making a difference in our financial results. We acquired several new business units, expanding our fee-based opportunities, as well as developing valuable new partnerships in many business areas. The investments we made in our international expansion over the past few years to broaden our geographic risk are bringing new business onto our books as we establish our presence in these new markets with innovative products and superior service.

In addition to the strides we made in attracting and retaining profitable business, we continued our successful efforts at improving the efficiency of our operations. Our finance teams put much hard work into improving the rigor in our planning and review processes.

Colleagues in all areas and at all levels identified and employed actions large and small to reduce expenses. We implemented a number of new initiatives to more effectively manage our capital, and we continue to fine-tune the way we purchase reinsurance to help improve our bottom line.

Early in the year, we officially kicked off the development phase of a transformative business initiative to build an end-to-end business delivery platform to replace our multiple legacy systems. Many of our best and brightest Argo Group colleagues have been actively engaged in this endeavor; and we will begin utilizing a portion of the new platform in 2013. Once complete, we'll have a single, common, state-of-the-art system that will streamline our internal processes, reduce expenses and improve our flexibility and responsiveness to customer needs and market conditions.

In May, we took advantage of attractive commercial lease opportunities and relocated our U.S. home office to the downtown San Antonio business district; several of the photographs in this year's annual report were taken in that new office. As a result of the move, we've consolidated space and brought our colleagues closer together in a state-of-the-art environment designed to foster greater collaboration. In June, we were pleased to honor our own Barbara Bufkin, who was named Insurance Woman of the Year by the Association of Professional Insurance Women. We pride ourselves on the caliber of talent we have throughout Argo Group, and it's always rewarding for that talent to be acknowledged and recognized by others in our industry.

We restructured our Commercial Specialty segment to better align business units with similar business models, most notably by segregating our risk-bearing business within Trident from our non-risk-bearing business, Alteris. In doing so, we are better positioned to leverage surplus and augment our fee-based income from Alteris while enabling Trident to refocus on its core competencies and return to the path of profitability. In addition, we completed several program acquisitions during the latter half of the year to complement some of our niche-focused offerings.

In stark contrast to the year before, the first three quarters of 2012 were relatively quiet in terms of catastrophe activity. Then Hurricane Sandy did its best to make up for that period of calm. Like all of our competitors, we had losses but I'm very pleased that the work that we'd done over the past two years really made a difference. With our revisions to underwriting and reinsurance, the impact of Sandy was not only consistent with our expectations, it was about half of what we might have seen a few years ago. This validates the strategic changes we had made to our risk portfolio.

And after Hurricane Sandy, Argo Group, and in fact our entire industry, came together to help our customers, employees and communities deal with that storm's devastating aftermath. With our New York and New Jersey offices temporarily inaccessible, colleagues from other offices around the U.S. pitched in to pick up workloads without interruption to our customers. Argo Group employees in storm-affected areas found innovative and resourceful ways to stay connected and accessible to their customers. And Argo International, our Syndicate at Lloyd's, was named by global insurance broker, Willis, as the leading insurer in handling claims resulting from Sandy while, in addition, earning recognition in third-party studies for their overall improvements in claims handling.

In the latter portion of the year, we completed a whole account quota share reinsurance transaction for our Syndicate business from years 2009 and prior, freeing up capital that we can deploy to opportunities affording better capital returns. In addition, we achieved long-term interest expenses saving and ongoing accretion to our earning per share by issuing senior retail notes and using the proceeds to repurchase the more expensive tranches of our previously outstanding capital trust securities. And during the fourth quarter, we executed on our first sidecar vehicle, Harambee Re, for 2013, which will afford fee-generating opportunities with third-party provided capital.

In combination, all of these achievements contributed to a year-end book value per share of $60.75, an increase of 9.3% from the end of the previous year. We still have a ways to go to deliver the returns we desire but I'm confident in our strategy, our business model and the talented team we have on board; and I'm very optimistic about the future prospects and successes of our enterprise. As always, I'm grateful for the contributions our colleagues, partners and shareholders have made to enable us to reach where we are today.

Thank you for your continued support.

Regards,

Mark E. Watson

Mark E. Watson III
President and Chief Executive Officer

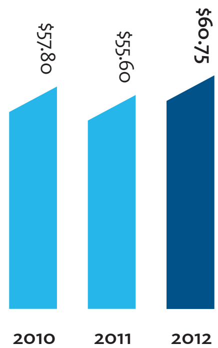
FINANCIAL RESULTS

2012 at a glance

Gross Written Premiums
(dollar amounts in millions)

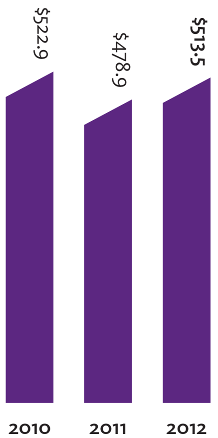
Total Assets
(dollar amounts in millions)

Combined Ratio



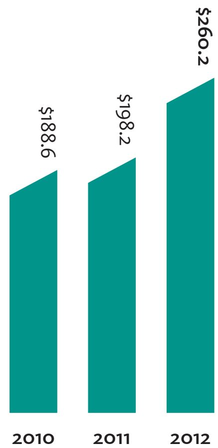
Book Value per Share

ARGO GROUP (Consolidated)

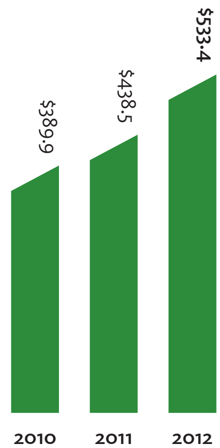


Excess & Surplus Lines

Commercial Specialty



International Specialty



Syndicate 1200

GROSS WRITTEN PREMIUMS BY SEGMENTS

(dollar amounts in millions)

SEGMENTS

For the Years Ended December 31,
(dollar values in millions)

	2012	2011[a]	2010[a]
EXCESS & SURPLUS LINES			
Gross written premiums	$ 513.5	$ 478.9	$ 522.9
Earned premiums	$ 399.3	$ 405.3	$ 489.7
Losses and loss adjustment expenses	223.3	247.1	311.1
Underwriting, acquisition and insurance expenses	143.9	139.8	166.2
Underwriting income	32.1	18.4	12.4
Net investment income	51.1	56.0	58.6
Interest expense	(9.1)	(8.5)	(6.4)
Income before income taxes	$ 74.1	$ 65.9	$ 64.6
Loss ratio	55.9%	61.0%	63.5%
Expense ratio	36.0%	34.5%	33.9%
Combined ratio	91.9%	95.5%	97.4%
Loss reserves at December 31	$ 1,209.0	$ 1,271.8	$ 1,338.0
COMMERCIAL SPECIALTY			
Gross written premiums	$ 437.0	$ 428.8	$ 428.1
Earned premiums	$ 317.5	$ 316.7	$ 332.8
Losses and loss adjustment expenses	257.0	236.4	221.8
Underwriting, acquisition and insurance expenses	108.3	106.7	104.7
Underwriting (loss) income	(47.8)	(26.4)	6.3
Net investment income	27.6	27.7	29.8
Interest expense	(5.9)	(5.0)	(4.1)
Fee income, net	1.3	0.1	0.2
(Loss) income before income taxes	$ (24.8)	$ (3.6)	$ 32.2
Loss ratio	81.0%	74.6%	66.6%
Expense ratio	34.1%	33.7%	31.5%
Combined ratio	115.1%	108.3%	98.1%
Loss reserves at December 31	$ 660.0	$ 622.8	$ 610.5
INTERNATIONAL SPECIALTY			
Gross written premiums	$ 260.2	$ 198.2	$ 188.6
Earned premiums	$ 130.1	$ 101. 3	$ 100.3
Losses and loss adjustment expenses	73.5	149.1	43.3
Other reinsurance-related expenses	9.4	—	—
Underwriting, acquisition and insurance expenses	43.8	30.8	28.7
Underwriting income (loss)	3.4	(78.6)	28.3
Net investment income	12.3	10.9	8.4
Interest expense	(4.4)	(3.2)	(3.6)
Income (loss) before income taxes	$ 11.3	$ (70.9)	$ 33.1
Loss ratio	60.9%	147.1%	43.1%
Expense ratio	36.2%	30.4%	28.6%
Combined ratio	97.1%	177.5%	71.7%
Loss reserves at December 31	$ 257.3	$ 237.9	$ 123.0
SYNDICATE 1200			
Gross written premiums	$ 533.4	$ 438.5	$ 389.9
Earned premiums	$ 337.9	$ 259.3	$ 290.1
Losses and loss adjustment expenses	184.0	222.6	203.2
Other reinsurance-related expenses	7.5	—	—
Underwriting, acquisition and insurance expenses	133.9	119.0	131.1
Underwriting income (loss)	12.5	(82.3)	(44.2)
Net investment income	15.3	17.2	14.2
Interest expense	(3.7)	(3.2)	(3.1)
Fee income, net	4.0	1.3	2.3
Income (loss) before income taxes	$ 28.1	$ (67.0)	$ (30.8)
Loss ratio	55.7%	85.8%	70.0%
Expense ratio	40.5%	45.9%	45.2%
Combined ratio	96.2%	131.7%	115.2%
Loss reserves at December 31	$ 738.9	$ 755.3	$ 623.7

[a] As adjusted for the retrospective application of ASU 2010-26 which modified the definition of deferred acquisition costs.

EXCESS & SURPLUS LINES

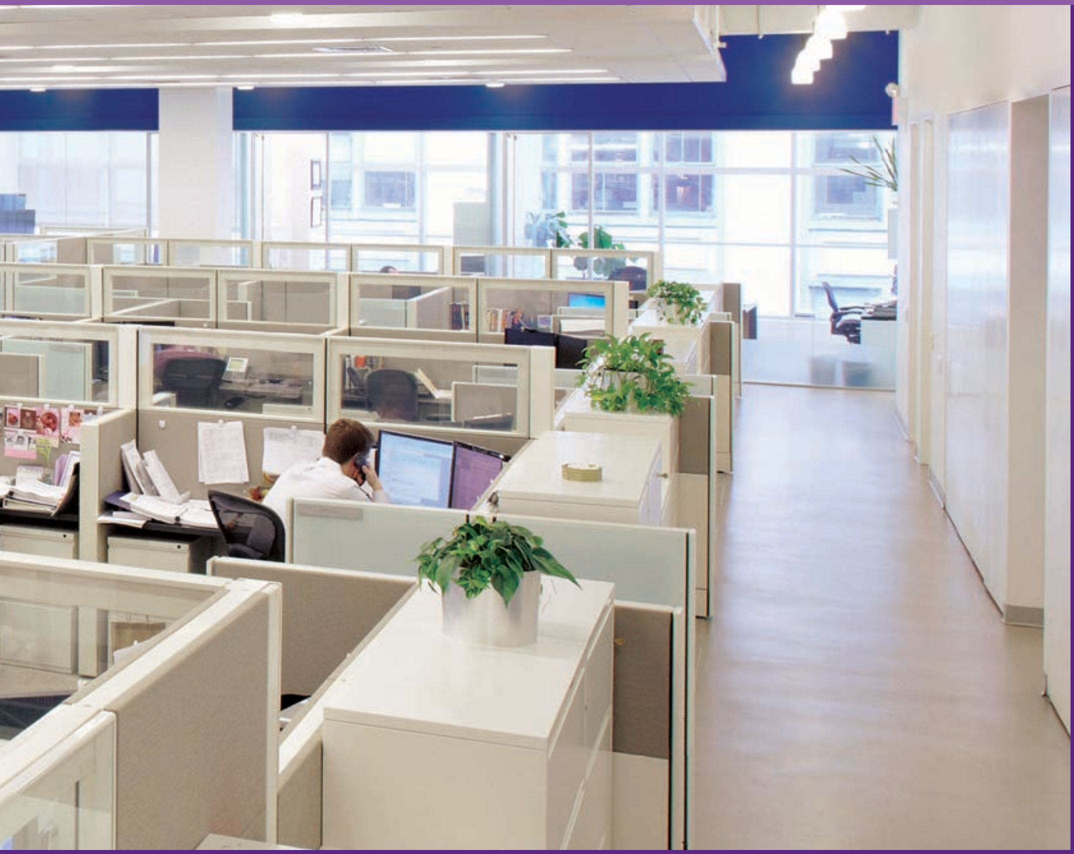
Our Excess and Surplus Lines (E&S) segment is focused on providing superior underwriting solutions for risks typically not underwritten by the standard market. Our E&S segment operates through two underwriting platforms: Colony Specialty for property and casualty risks and Argo Pro for professional lines risks.

Colony Specialty underwrites risks on both an admitted and non-admitted basis through six divisions: Casualty, Contract, Environmental, Specialty Property, Transportation and Allied Medical. We provide coverage to a broad group of commercial enterprises including contractors, manufacturers, distributors, environmental consultants and contractors, real estate owners and developers, retailers, restaurants and smaller social service and medical facilities.

Argo Pro underwrites small to medium size professional liability risks on both an admitted and non-admitted basis through three divisions: Management Liability, Errors & Omissions (E&O), and Insight. We provide coverage to a specialized group of commercial enterprises including accountants, architects, engineers, lawyers and providers of information technology and services as well as select financial institutions in the middle market and upper middle market segments.

For the past two years, we have positioned our E&S Lines business for long-term success by transitioning the organization to better meet the needs of our customers, increasing the efficiencies of our operations, and improving our underwriting profitability. We were very pleased with the strides we made during 2012 in executing our long-term plan.

After deliberately reducing our gross written premium in 2011 as we exited underperforming classes of business,



New York

At the intersection of Broadway and Houston Street in the vibrant SoHo neighborhood, Argo Group's New York City location serves as home base for approximately 40 associates from various functions within the Company's E&S segment and corporate operations.

we ended 2012 with strong premium growth of $34.6 million. Most importantly, that growth came from a better mix of business as we continued to engrain an underwriting culture focused on sustainable underwriting margin. With our emphasis on a strong and profitable mix of business, we introduced a number of new products including: cyber liability, environmental auto and excess, multiyear policies and directors and officers (D&O). We continued to refine our organizational structure to enhance value and ease of doing business. During the year we integrated our E&O and D&O businesses under the Argo Pro banner and consolidated our Transportation and Contract divisions into a single Binding platform.

Our claims team is integral to our goal of delivering outstanding customer service and we are truly building a best-in-class claims organization. We ended the year with a favorable claims closing ratio of 112%, having reduced our open claims count by 1,469 files. In addition, through prudent management and oversight, we've reduced our claims handling indemnity and legal expenses, which contributed to our positive financial results for the year.

We pride ourselves on building and maintaining long-term and mutually beneficial partnerships with our customers. To that end, we continued our efforts to strategically position underwriting talent in our locations throughout the country and to maintain frequent contact and visibility with our partners.

For 2012, gross written premiums in our E&S Lines segment totaled $513.5 million, with pre-tax operating income of $74.1 million. Catastrophe losses for the year totaled $12.6 million. The combined ratio for the year improved to 91.9% while underwriting profit improved to $32.1 million.

We were very pleased with the strides we made during 2012 in executing our long-term plan. After deliberately reducing our gross written premium in 2011 as we exited underperforming classes of business, we ended 2012 with strong premium growth of $34.6 million.

COMMERCIAL SPECIALTY

Argo Group's Commercial Specialty segment is comprised of seven niche-focused divisions delivering custom insurance products and services through a broad distribution platform. These divisions include providers of specialty insurance products and services - Rockwood, Trident, Argo Insurance and ARIS; our surety business – Argo Surety; and our programs and fee-based divisions – Commercial Programs and Alteris. Specialty underwriting expertise, customized insurance programs, and expert claims handling are the hallmarks of the divisions within our Commercial Specialty segment.

Primarily focused on distribution of products designed for small-to medium-sized commercial risks, most of our commercial specialty business is written through independent agents and, to a lesser extent, regional brokers and direct writers. We emphasize strong marketing relationships with our distribution partners and offer a broad array of products with clearly defined underwriting policies and competitive prices. Our target industry sectors include: grocery stores, mining, specialty retail, restaurants, non-construction surety products, municipal and county government entities.

During the year, we reorganized the segment, decoupling our risk-bearing business within Trident from our non-risk-bearing business, Alteris. This realignment, which was completed in the fourth quarter, will enhance shareholder value by enabling us to better leverage surplus and augment our fee-based income. In 2012, Alteris completed three acquisitions to add to its offerings: John Sutak Insurance Brokers, a pioneer and leading provider of insurance programs for the wine industry; Sonoma Risk Insurance Agency, developer of the first and only contract litigation insurance product available in the U.S.; and Mattei Insurance Services, a Seattle-based program manager with niche offerings in the logging and waste systems industries.

With our organizational realignment, Trident, previously a division of Alteris, is returning its focus to providing insurance solutions to municipalities and schools. Both Trident and

San Antonio

The San Antonio office, overlooking the city's famed River Walk, serves as the headquarters for Argo Group's US operations. The company's state-of-the-art video conference facilities connect workers in the San Antonio office with their colleagues throughout the world.

Argo Insurance, our insurance operation targeting the grocery, restaurant and specialty retail sectors, faced major re-underwriting of their portfolios during 2012 in order to return these businesses to underwriting profitability. Both business divisions reduced their gross written premiums for the year while shedding underperforming business and refocusing on their target industries and geographic regions in their areas of differentiating expertise.

Our Rockwood division, a leading specialty underwriter of workers compensation for the mining industry, and our Argo Surety division both achieved profitable organic growth in 2012 in spite of an increasingly competitive marketplace. The strong momentum achieved during the first half of 2012 was tempered somewhat by slower coal demand, oversupply of natural gas, continued industry consolidation and sluggish economic conditions in the second half of the year.

Overall, our Commercial Specialty segment achieved a modest increase in gross written premiums, closing the year with $437 million. Unfavorable prior year loss development and catastrophe losses from Hurricane Sandy and other storms contributed to a pre-tax operating loss of $24.8 million and a combined ratio of 115.1%.

During the year, we reorganized the segment, decoupling our risk-bearing business within Trident from our non-risk-bearing business, Alteris. This realignment will enhance shareholder value by enabling us to better leverage surplus and augment our fee-based income.

INTERNATIONAL SPECIALTY

Situated in key insurance markets throughout the globe, our International Specialty segment consists of our reinsurance business and our non-Lloyd's international insurance business. The segment underwrites insurance and reinsurance risks worldwide through the broker market, specializing in specialty property catastrophe reinsurance, excess casualty insurance and professional liability insurance. Divisions of our International Specialty segment include: Argo Re and Argo Insurance – Worldwide Casualty and Professional Lines in Bermuda, Argo Seguros in Brazil, Argo Re (DIFC) in the U.A.E., and ArgoGlobal SE in Malta.

Argo Re, established in 2008, is a recognized provider of reinsurance products targeting a relatively small number of clients with whom we've built a trading history. Our clients recognize us for the market expertise and insights we provide regarding their accounts as well as the financial security we offer. In addition to analyzing data and written commentary, we focus on building relationships through face-to-face interactions with our clients, which enables us to understand fully the nature of portfolios we protect. Each year, the number of individual programs presented to our team has increased, with 641 programs being assessed in 2012.

Also notable for the year was the establishment and launch of Harambee Re, Argo Group's first sidecar vehicle, which is funded by third-party capital. This new venture provides capacity of approximately 5% of premium income for specific property portfolios that represent two of Argo Group's core businesses: Argo Re and Colony Specialty. Harambee Re is the first sidecar transaction in the market to support both a reinsurance and an insurance portfolio.

Argo Insurance's Excess Casualty and Professional Liability Lines, which operate through our Bermuda platform, continued to increase market presence and increased gross written premiums over the previous year. Argo Re (DIFC), which launched last year in Dubai to serve the Middle East and North Africa markets, began to establish itself as a leading underwriter in this region

Bermuda

Argo House has served as the corporate headquarters of Argo Group since 2007. With easy access to the numerous insurance and reinsurance brokers and partners on the Island, it is ideally situated on the edge of scenic Hamilton Harbour.

and we added to our underwriting team there, given the strong interest generated in those markets. Our professional liability business serving Continental Europe, ArgoGlobal SE, which also launched last year, is now up and running. The management team took a prudently cautious approach in its initial year given the volatile economic situation in Europe and expects to fine-tune its strategy for developing those markets in 2013.

Our insurance company in Brazil, Argo Seguros, completed its first full year, having already built a reputation as a recognized and differentiated player in most of our target markets. During the year, we launched an innovative online platform targeted to members of affinity groups. Sales through this platform have been strong and we are seeking ways to introduce a version of the platform in other businesses throughout the Group.

Catastrophe loss experience was significantly improved from the previous year. Having completed a comprehensive assessment of the volatility of our portfolio, the impact of Hurricane Sandy, one of the costliest catastrophes to hit the U.S., was less severe than it would have been in prior years. Catastrophe losses, net of reinstatement premiums, totaled 19.3 million compared to $111.9 million in 2011. The combined activity in our new business contributed to an increase in gross written premiums, which totaled $260.2 million compared to $198.2 million in 2011. The combined ratio for the segment improved to 97.1% for the year.

Argo Insurance's Excess Casualty and Professional Liability Lines, which operate through our Bermuda platform, continued to increase market presence and increased gross written premiums over the previous year.

SYNDICATE 1200

Within the Lloyd's of London global franchise, our Syndicate 1200 segment specializes in underwriting worldwide property, specialty and non-U.S. liability insurance under the Argo International brand. Combining the resources of a large company with the attitude of a small one, we take client service as a personal commitment. We constantly seek to better understand the needs of our clients and provide excellent underwriting solutions and claim services to help them achieve their ambitions.

Our underwriters are organized in four divisions to provide deep, specialized knowledge to meet the needs of our clients. Our property division focuses mainly on underwriting short-tail risks with an emphasis on commercial properties that are exposed to catastrophes and other man-made or natural disasters. Our liability division underwrites professional indemnity, general liability and directors and officers insurance. Our specialty division underwrites cargo, energy, and yachts and hull insurance while our aerospace division underwrites space and aviation risks.

During 2012, we continued optimizing the blend of business written by the Syndicate with a view to managing volatility, eliminating less profitable business and improving capital efficiency. To this end, we deemphasized certain areas of our property portfolio, notably international property and heavy industry exposures. At the same time, we grew our non-U.S. liability and specialty writings to take advantage of profitable underwriting prospects while at the same time achieving a more diversified portfolio of business. Although market conditions were challenging throughout the year and opportunities for meaningful pricing increases were scarce, we achieved our planned gross written premium goals for virtually all of our business lines while maintaining discipline in pricing and contract terms. This has translated into much improved loss ratios for the business.

London

Across from the iconic Gherkin building and just down the street from Lloyd's of London sits Exchequer Court, home of Argo International. The location, in the heart of one of the world's most important insurance markets, provides a convenient meeting place for brokers and business partners from around the world.

We recruited additional underwriting talent to reinforce our market profile in key lines of business; and we are also investing in future talent through our graduate recruitment program, which is now in its second year.

Through our ongoing achievement of greater diversification of our portfolio, we continue to improve the capital efficiency of our business. Towards this objective, in 2012 we completed a whole account quota share reinsurance transaction for business from years 2009 and prior. This transaction freed up capital, which can now be deployed to new opportunities, which afford better returns. It also allowed us to remove from our books any exposure to business written by the Syndicate under prior management and enabled our team to devote its full time and attention to operating the business going forward.

We made demonstrable improvements in operational efficiency during 2012 as the quality and cost-effectiveness of the outsourcing of support functions, which occurred in 2011, began to show a positive impact in reducing non-acquisition costs. Our investment in the claims function yielded dividends as marked by considerable improvements noted by third-party studies; and we were particularly pleased to be named by Willis as the leading insurer in handling claims resulting from Hurricane Sandy.

Our financial results for 2012 provided validation of our strategies and efforts over recent years. While we incurred losses in the fourth quarter resulting from Hurricane Sandy, they were within our forecast for the year. We closed 2012 with an increase in gross written premiums of 21.6% over 2011, a combined ratio of 96.2% and pre-tax operating income of $28.1 million.

We continued optimizing the blend of business written by the Syndicate with a view to managing volatility, eliminating less profitable business and improving capital efficiency.

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]
Nabil N. El-Hage	Director [4]
Mural R. Josephson	Director [2]
Kathleen A. Nealon	Director [2]
John R. Power, Jr.	Director [2,3,5]
John H. Tonelli	Director [4]
Mark E. Watson III	Director [1,4]

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

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

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

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

(5) Member of the Nominating Committee of the Board of Directors

SENIOR MANAGEMENT

Argo Group International Holdings, Ltd.

Mark E. Watson III	President and Chief Executive Officer
Jay S. Bullock	Executive Vice President and Chief Financial Officer
Barbara C. Bufkin	Executive Vice President, Business Development
Andrew Carrier	Group Chief Underwriting Officer
Michael Fusco	Senior Vice President and Chief Actuary
George Luecke	Senior Vice President and Treasurer
Karen C. Meriwether	Senior Vice President and Chief Risk Officer
Farid Nagji	Senior Vice President and Chief Information Officer
Anastasios Omiridis	Senior Vice President and Chief Accounting Officer
Mark H. Rose	Senior Vice President and Chief Investment Officer

Argo Group US

Kevin J. Rehnberg	President

Excess & Surplus Lines

Louis Levinson	President
Michael Fleischer	Chief Underwriting Officer

Commercial Specialty

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

International Specialty

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

Syndicate 1200

Jeff Radke	Managing Director

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, 2012 and 2011 and the related consolidated statements of income (loss), comprehensive income (loss), shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2012 (not presented separately herein) and in our report dated February 28, 2013, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated financial statements as of December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012 (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, 2012, 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 28, 2013 (not presented separately herein) expressed an unqualified opinion thereon.

Ernst + Young LLP

San Antonio, Texas
February 28, 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The information in the Condensed Consolidated Balance Sheets, the Condensed Consolidated Statements of Income (Loss) 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 (Loss) and the Consolidated Statements of Cash Flow in Argo Group International Holdings, Ltd. 2012 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. 2012 Form 10-K. See also Management’s Discussion and Analysis of Financial Condition and Results of Operations and other information in the 2012 Form 10-K.

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

Accounting Standard Retrospectively Adopted in 2012. In October 2010, the Financial Accounting Standards Board issued Accounting Standards Update 2010-26 that modified the definition of the types of costs incurred by insurance entities that can be capitalized in the acquisition of new and renewal contracts. To qualify for capitalization, the guidance specifies that a cost must be directly related to the successful acquisition of an insurance contract. Effective January 1, 2012, we retrospectively adopted the update. The condensed consolidated financial statements for prior periods have been adjusted to reflect the adoption of this new standard. (Further information on the impact of this accounting standard can be found in Argo Group’s 2012 Form 10-K in Note 1 to the Financial Statements).

Investments. Investments in fixed maturities at December 31, 2012 and 2011 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 2012 and 2011 associated with assets having a finite life were $5.2 million and $4.6 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 2012 Form 10-K: in the Critical Accounting Policies section of Management’s Discussion and Analysis and also in Note 1 to the Financial Statements).

CONDENSED CONSOLIDATED BALANCE SHEETS

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

	As of December 31, 2012	2011 (as adjusted)
Assets		
Investments:		
Fixed maturities, at fair value:		
Available-for-sale (cost: 2012 - $2,993.1; 2011 - $3,095.4)	**$ 3,154.0**	$ 3,215.5
Equity securities, at fair value (cost: 2012 - $383.5; 2011 - $291.5)	**531.4**	403.6
Other investments (cost: 2012 - $284.8; 2011 - $232.3)	**281.0**	232.0
Short-term investments, at fair value (cost: 2012 - $234.3; 2011 - $294.6)	**234.3**	294.6
Total investments	**4,200.7**	4,145.7
Cash	**95.8**	102.7
Premiums receivable and reinsurance recoverable	**1,681.9**	1,453.1
Goodwill and other intangibles, net of accumulated amortization	**245.3**	246.8
Current income taxes receivable, net	**12.9**	11.2
Ceded unearned premiums	**193.6**	179.4
Other assets	**258.7**	239.4
Total assets	**$ 6,688.9**	$ 6,378.3
Liabilities and Shareholders' Equity		
Reserves for losses and loss adjustment expenses	**$ 3,223.5**	$ 3,291.1
Unearned premiums	**730.2**	658.2
Ceded reinsurance payable, net	**612.1**	424.5
Senior unsecured fixed rate notes	**143.8**	—
Other indebtedness	**63.8**	65.5
Junior subordinated debentures	**193.3**	311.5
Deferred tax liabilities, net	**43.8**	18.5
Other liabilities	**164.3**	146.0
Total liabilities	**5,174.8**	4,915.3
Shareholders' equity:		
Common shares - $1.00 par, 31,384,271 and 31,285,469 shares issued and outstanding at December 31, 2012 and 2011, respectively	**31.4**	31.3
Additional paid-in capital	**722.7**	716.8
Treasury shares (6,459,613 and 4,971,305 shares at December 31, 2012 and 2011, respectively)	**(205.5)**	(160.9)
Retained earnings	**776.0**	736.0
Accumulated other comprehensive income, net of taxes	**189.5**	139.8
Total shareholders' equity	**1,514.1**	1,463.0
Total liabilities and shareholders' equity	**$ 6,688.9**	$ 6,378.3

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

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)

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

	For the Years Ended December 31,		
	2012	2011 (as adjusted)	2010 (as adjusted)
Premiums and other revenue:			
Earned premiums	**$ 1,186.5**	$ 1,082.0	$ 1,211.6
Net investment income	**118.8**	125.8	133.6
Fee income, net	**5.3**	1.4	2.5
Net realized investment and other gains	**25.7**	49.2	36.8
Total revenue	**1,336.3**	1,258.4	1,384.5
Expenses:			
Losses and loss adjustment expenses	**747.6**	863.1	777.5
Other reinsurance-related expense	**27.3**	5.9	—
Underwriting, acquisition and insurance expenses	**464.5**	425.7	466.0
Interest expense and other	**23.7**	22.1	22.9
Debt extinguishment costs	**2.2**	—	—
Foreign currency exchange loss (gain)	**4.3**	3.5	(3.8)
Total expenses	**1,269.6**	1,320.3	1,262.6
Income (loss) before income taxes	**66.7**	(61.9)	121.9
Provision for income taxes	**14.4**	20.0	35.2
Net income (loss)	**$ 52.3**	$ (81.9)	$ 86.7
Net income (loss) per common share:			
Basic	**$ 2.05**	$ (3.02)	$ 2.93
Diluted	**$ 2.01**	$ (3.02)	$ 2.90
Cash dividend declared per common share:	**$ 0.48**	$ 0.48	$ 0.48
Weighted average common shares:			
Basic	**25,539,991**	27,169,132	29,566,004
Diluted	**26,044,755**	27,169,132	29,935,972

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

	For the Years Ended December 31, 2012	2011 (as adjusted)	2010 (as adjusted)
Cash flows from operating activities:			
Net income (loss)	$ 52.3	$ (81.9)	$ 86.7
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:			
Amortization and depreciation	36.6	30.8	31.2
Share-based payments expense	10.5	4.6	10.1
Excess tax expense from share-based payments arrangements	—	0.1	0.3
Deferred federal income tax provision (benefit), net	5.0	10.2	(3.8)
Net realized investment and other gains	(25.7)	(49.2)	(36.4)
Gain on sale of real estate	—	—	(0.4)
Loss on disposal of fixed assets, net	0.3	1.0	0.2
Debt extinguishment costs	2.2	—	—
Change in:			
Receivables	24.9	53.6	255.8
Reserves for losses and loss adjustment expenses	(78.9)	138.9	(51.1)
Unearned premiums	72.6	4.1	(149.5)
Ceded reinsurance payable and funds held	(67.5)	(97.4)	(180.8)
Other assets and liabilities, net	(1.8)	(32.5)	34.6
Cash provided (used) by operating activities	30.5	(17.7)	(3.1)
Cash flows from investing activities:			
Sales, maturities and mandatory calls of investments	1,613.7	1,821.6	2,432.7
Purchases of investments	(1,621.5)	(1,778.4)	(2,270.8)
Change in short-term investments, foreign regulatory deposits and voluntary pools	37.7	70.1	42.1
Settlements of foreign currency exchange forward contracts	0.4	7.7	—
Other, net	(34.0)	(18.9)	(20.1)
Cash (used) provided by investing activities	(3.7)	102.1	183.9
Cash flows from financing activities:			
Proceeds from issuance of senior unsecured fixed rate notes, net	138.7	—	—
Redemption of trust preferred securities, net	(117.2)	—	—
Activity under stock incentive plans	1.2	1.1	(4.3)
Repurchase of Company's common shares	(44.2)	(49.5)	(105.2)
Excess tax expense from share-based payment arrangements	—	(0.1)	(0.3)
Payment of cash dividend to common shareholders	(12.3)	(13.1)	(14.2)
Cash used by financing activities	(33.8)	(61.6)	(115.4)
Effect of exchange rate changes on cash	0.1	(3.6)	—
Change in cash	(6.9)	19.2	65.4
Cash, beginning of period	102.7	83.5	18.1
Cash, end of period	$ 95.8	$ 102.7	$ 83.5

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

SHAREHOLDER INFORMATION

Stock Listing

Argo Group International Holdings, Ltd.'s common stock trades on the NasdaqGS under the symbol AGII.

Stock Transfer Agent

Questions regarding stock registration, change of address, change of name, or transfer should be directed to:

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Forward-Looking Statements Disclosure

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

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