

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2015

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-15259

**ARGO GROUP INTERNATIONAL HOLDINGS, LTD.**

(Exact name of registrant as specified in its charter)

Bermuda  
(State or other jurisdiction of  
incorporation or organization)

110 Pitts Bay Road  
Pembroke HM08  
Bermuda  
(Address of principal executive offices)

98-0214719  
(I.R.S. Employer  
Identification Number)

P.O. Box HM 1282  
Hamilton HM FX  
Bermuda  
(Mailing address)

(441) 296-5858

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Security  
Common Stock, par value of \$1.00 per share  
Guarantee of Argo Group US, Inc. 6.500% Senior Notes due 2042

Name of Each Exchange on Which Registered  
NASDAQ Global Select Market  
NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

Indicate the number of shares outstanding (net of treasury shares) of each of the issuer's classes of common shares as of May 5, 2015.

Title  
Common Shares, par value \$1.00 per share

Outstanding  
27,932,719

INDEX

	<b><u>Page</u></b>
<b><u>PART I. Financial Information</u></b>	3
Item 1. <a href="#"><u>Consolidated Financial Statements (unaudited)</u></a>	3
<a href="#"><u>Consolidated Balance Sheets as of March 31, 2015 and December 31, 2014</u></a>	3
<a href="#"><u>Consolidated Statements of Income for three months ended March 31, 2015 and 2014</u></a>	4
<a href="#"><u>Consolidated Statements of Comprehensive Income for the three months ended March 31, 2015 and 2014</u></a>	5
<a href="#"><u>Consolidated Statements of Cash Flows for the three months ended March 31, 2015 and 2014</u></a>	6
<a href="#"><u>Notes to Consolidated Financial Statements</u></a>	7
Item 2. <a href="#"><u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u></a>	34
Item 3. <a href="#"><u>Quantitative and Qualitative Disclosures About Market Risk</u></a>	42
Item 4. <a href="#"><u>Controls and Procedures</u></a>	44
<b><u>PART II. Other Information</u></b>	44
Item 1. <a href="#"><u>Legal Proceedings</u></a>	44
Item 1A. <a href="#"><u>Risk Factors</u></a>	44
Item 2. <a href="#"><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></a>	44
Item 3. <a href="#"><u>Defaults Upon Senior Securities</u></a>	45
Item 4. <a href="#"><u>Mine Safety Disclosures</u></a>	45
Item 5. <a href="#"><u>Other Information</u></a>	45
Item 6. <a href="#"><u>Exhibits</u></a>	45
<a href="#"><u>Signatures</u></a>	47

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**PART I. FINANCIAL INFORMATION**  
**Item 1. Consolidated Financial Statements**

**ARGO GROUP INTERNATIONAL HOLDINGS, LTD.**  
**CONSOLIDATED BALANCE SHEETS**  
(in millions, except number of shares and per share amounts)

	March 31, 2015 (Unaudited)	December 31, 2014 *
<b>Assets</b>		
Investments:		
Fixed maturities, at fair value:		
Available-for-sale (cost: 2015 - \$2,778.6; 2014 - \$2,817.2)	\$ 2,788.6	\$ 2,840.7
Equity securities, at fair value (cost: 2015 - \$315.3; 2014 - \$307.3)	483.4	486.3
Other investments (cost: 2015 - \$501.8; 2014 - \$488.9)	520.9	495.1
Short-term investments, at fair value (cost: 2015 - \$271.8; 2014 - \$275.8)	271.5	275.8
Total investments	4,064.4	4,097.9
Cash	89.1	81.0
Accrued investment income	20.9	22.1
Premiums receivable	371.7	353.6
Reinsurance recoverables	987.3	997.2
Goodwill	152.2	152.2
Intangible assets, net of accumulated amortization	78.8	78.6
Current income taxes receivable, net	4.2	14.9
Deferred acquisition costs, net	129.7	124.6
Ceded unearned premiums	256.6	207.6
Other assets	222.2	226.6
<b>Total assets</b>	<b>\$ 6,377.1</b>	<b>\$ 6,356.3</b>
<b>Liabilities and Shareholders' Equity</b>		
Reserves for losses and loss adjustment expenses	\$ 3,035.1	\$ 3,042.4
Unearned premiums	826.4	817.2
Accrued underwriting expenses	125.7	143.1
Ceded reinsurance payable, net	207.9	178.8
Funds held	52.6	55.0
Senior unsecured fixed rate notes	143.8	143.8
Other indebtedness	57.5	62.0
Junior subordinated debentures	172.7	172.7
Deferred tax liabilities, net	53.8	53.0
Other liabilities	38.8	41.6
<b>Total liabilities</b>	<b>4,714.3</b>	<b>4,709.6</b>
Commitments and contingencies (Note 14)		
Shareholders' equity:		
Common shares - \$1.00 par, 500,000,000 shares authorized; 36,915,795 and 34,318,224 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively	36.9	34.3
Additional paid-in capital	960.9	836.3
Treasury shares (8,959,543 and 8,606,489 shares at March 31, 2015 and December 31, 2014, respectively)	(319.5)	(301.4)
Retained earnings	898.4	969.4
Accumulated other comprehensive income, net of taxes	86.1	108.1
<b>Total shareholders' equity</b>	<b>1,662.8</b>	<b>1,646.7</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 6,377.1</b>	<b>\$ 6,356.3</b>

\* Derived from audited consolidated financial statements.

See accompany notes.

**ARGO GROUP INTERNATIONAL HOLDINGS, LTD.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(in millions, except number of shares and per share amount)  
(Unaudited)

	<b>For the Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Premiums and other revenue:		
Earned premiums	\$ 334.6	\$ 325.7
Net investment income	20.8	23.3
Net realized investment and other gains	16.0	11.1
Total revenue	<u>371.4</u>	<u>360.1</u>
Expenses:		
Losses and loss adjustment expenses	183.7	182.5
Underwriting, acquisition and insurance expenses	129.6	128.7
Interest expense	4.9	5.0
Fee expense, net	0.4	1.4
Foreign currency exchange (gain) loss	(9.6)	(0.2)
Total expenses	<u>309.0</u>	<u>317.4</u>
Income before income taxes	62.4	42.7
Provision for income taxes	3.6	2.5
Net income	<u>\$ 58.8</u>	<u>\$ 40.2</u>
Net income per common share:		
Basic	<u>\$ 2.09</u>	<u>\$ 1.38</u>
Diluted	<u>\$ 2.05</u>	<u>\$ 1.36</u>
Dividend declared per common share	<u>\$ 0.20</u>	<u>\$ 0.14</u>
Weighted average common shares:		
Basic	<u>28,129,692</u>	<u>29,165,911</u>
Diluted	<u>28,677,379</u>	<u>29,663,090</u>
	<b>For the Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Net realized investment and other gains before other-than-temporary impairment losses	\$ 16.5	\$ 11.1
Other-than-temporary impairment losses recognized in earnings:		
Other-than-temporary impairment losses on fixed maturities	(0.4)	—
Other-than-temporary impairment losses on equity securities	(0.1)	—
Impairment losses recognized in earnings	(0.5)	—
Net realized investment and other gains	<u>\$ 16.0</u>	<u>\$ 11.1</u>

*See accompanying notes.*

**ARGO GROUP INTERNATIONAL HOLDINGS, LTD.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(in millions)  
(Unaudited)

	<b>For the Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Net income	\$ 58.8	\$ 40.2
Other comprehensive (loss) income:		
Foreign currency translation adjustments	(3.1)	(0.2)
Unrealized gains on securities:		
(Losses) gains arising during the year	(24.3)	5.1
Reclassification adjustment for gains included in net income	2.5	(0.1)
Other comprehensive (loss) income before tax	(24.9)	4.8
Income tax (benefit) provision related to other comprehensive income (loss):		
Unrealized gains (losses) on securities:		
(Losses) gains arising during the year	(2.8)	3.8
Reclassification adjustment for gains included in net income	(0.1)	(0.1)
Income tax (benefit) provision related to other comprehensive income (loss)	(2.9)	3.7
Other comprehensive (loss) income, net of tax	(22.0)	1.1
Comprehensive income	<u>\$ 36.8</u>	<u>\$ 41.3</u>

*See accompanying notes.*

**ARGO GROUP INTERNATIONAL HOLDINGS, LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in millions)  
(Unaudited)

	<b>For the Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Cash flows from operating activities:		
Net income	\$ 58.8	\$ 40.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and depreciation	8.9	10.4
Share-based payments expense	5.2	4.4
Excess tax benefit from share-based payment arrangements	—	(0.1)
Deferred income tax provision, net	3.8	1.1
Net realized investment and other gains	(16.0)	(11.1)
Loss on disposals of fixed assets, net	0.2	—
Change in:		
Accrued investment income	1.2	1.7
Receivables	(12.5)	261.0
Deferred acquisition costs	(5.4)	—
Ceded unearned premiums	(51.0)	(55.2)
Reserves for losses and loss adjustment expenses	(2.2)	(182.5)
Unearned premiums	13.1	3.3
Ceded reinsurance payable and funds held	27.9	(6.4)
Income taxes	7.7	(15.5)
Accrued underwriting expenses	(18.9)	6.7
Other, net	6.8	(14.4)
Cash provided by operating activities	<u>27.6</u>	<u>43.6</u>
Cash flows from investing activities:		
Sales of fixed maturity investments	399.3	243.4
Maturities and mandatory calls of fixed maturity investments	142.0	78.4
Sales of equity securities	14.7	14.9
Sales of other investments	9.0	5.0
Purchases of fixed maturity investments	(514.5)	(290.4)
Purchases of equity securities	(19.9)	(7.5)
Purchases of other investments	(22.8)	(9.4)
Change in foreign regulatory deposits and voluntary pools	1.1	(9.0)
Change in short-term investments	3.7	(44.9)
Settlements of foreign currency exchange forward contracts	(2.2)	(1.4)
Purchases of fixed assets	(17.8)	(6.0)
Other, net	9.5	(18.1)
Cash provided (used) by investing activities	<u>2.1</u>	<u>(45.0)</u>
Cash flows from financing activities:		
Activity under stock incentive plans	0.9	0.8
Repurchase of Company's common shares	(17.0)	(3.7)
Excess tax expense from share-based payment arrangements	—	0.1
Payment of cash dividends to common shareholders	(5.7)	(4.0)
Cash used by financing activities	<u>(21.8)</u>	<u>(6.8)</u>
Effect of exchange rate changes on cash	0.2	0.3
Change in cash	8.1	(7.9)
Cash, beginning of period	81.0	157.4
Cash, end of period	<u>\$ 89.1</u>	<u>\$ 149.5</u>

*See accompanying notes.*

**ARGO GROUP INTERNATIONAL HOLDINGS, LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. Basis of Presentation**

The accompanying consolidated financial statements of Argo Group International Holdings, Ltd. (“Argo Group,” “we” or the “Company”) and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. The preparation of interim 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 reported amounts of revenues and expenses during the reporting period. The major estimates reflected in our consolidated financial statements include, but are not limited to, reserves for losses and loss adjustment expenses; reinsurance recoverables, including the reinsurance recoverables allowance for doubtful accounts; estimates of written and earned premiums; reinsurance premium receivable; fair value of investments and assessment of potential impairment; valuation of goodwill and intangibles and our deferred tax asset valuation allowance. Actual results could differ from those estimates. Certain financial information that normally is included in annual financial statements, including certain financial statement footnotes, prepared in accordance with GAAP, is not required for interim reporting purposes and has been condensed or omitted. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2014, filed with the Securities and Exchange Commission on February 27, 2015.

The interim financial information as of, and for the three months ended, March 31, 2015 and 2014 is unaudited. However, in the opinion of management, the interim information includes all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the results presented for the interim periods. The operating results for the interim periods are not necessarily indicative of the results to be expected for the full year. All significant intercompany amounts have been eliminated in consolidation. Certain amounts in prior years’ financial statements have been reclassified to conform to the current presentation.

**10% Stock Dividend**

On February 17, 2015, our Board of Directors declared a 10% stock dividend, payable on March 16, 2015, to shareholders of record at the close of business on March 2, 2015. As a result of the stock dividend, 2,554,506 additional shares were issued. Cash was paid in lieu of fractional shares of our common shares. All references to share and per share amounts in this document and related disclosures have been adjusted to reflect the stock dividend for all periods presented.

**2. Recently Issued Accounting Pronouncements**

In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers” (Topic 606). The ASU is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The ASU provides a five-step analysis of transactions to determine when and how revenue is recognized and requires additional disclosures sufficient to describe the nature, amount, timing and uncertainty of revenue and cash flows for these transactions. This ASU is effective for annual reporting periods beginning after December 15, 2016 and early adoption is not permitted. Accordingly, we will adopt this ASU on January 1, 2017. On April 1, 2015 the FASB voted to propose to defer ASU 2014-09 for one year, which if accepted, would delay our adoption date until January 1, 2018. Companies may use either a “full retrospective” adoption, meaning the update is applied to all periods presented, or a “modified retrospective” adoption, meaning the update is applied only to the most current period presented in the financial statements. While insurance contracts are excluded from this ASU, fee income related to our brokerage operations and management of the third-party capital for our underwriting Syndicate at Lloyd’s will be subject to this updated guidance. We are currently evaluating what impact this ASU will have on our financial results and disclosures and which adoption method to apply.

In February 2015, the FASB issued ASU 2015-02, “Consolidation (Topic 810): Amendments to the Consolidation Analysis.” ASU 2015-02 changes the analysis that a reporting entity must perform to determine whether entities should be consolidated as they are deemed variable interest entities. It is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. We are currently in the process of evaluating the impact of the adoption of ASU 2015-02 on our consolidated financial statements .

### 3. Investments

#### Composition of Invested Assets

The amortized cost, gross unrealized gains, gross unrealized losses and fair value of investments were as follows:

March 31, 2015

(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturities				
USD denominated:				
U.S. Governments	\$ 181.3	\$ 1.6	\$ 0.1	\$ 182.8
Non-U.S. Governments	81.3	0.7	0.5	81.5
Obligations of states and political subdivisions	457.7	22.7	0.4	480.0
Credit-Financial	472.7	13.0	1.0	484.7
Credit-Industrial	460.5	11.0	1.6	469.9
Credit-Utility	146.2	3.8	2.8	147.2
Structured securities:				
CMO/MBS-agency <sup>(1)</sup>	160.8	8.2	0.3	168.7
CMO/MBS-non agency	12.6	0.8	—	13.4
CMBS <sup>(2)</sup>	184.4	1.7	0.1	186.0
ABS <sup>(3)</sup>	223.2	1.0	0.8	223.4
Foreign denominated:				
Governments	157.1	1.5	17.0	141.6
Credit	240.8	3.6	35.0	209.4
Total fixed maturities	2,778.6	69.6	59.6	2,788.6
Equity securities	315.3	177.2	9.1	483.4
Other investments	501.8	19.2	0.1	520.9
Short-term investments	271.8	—	0.3	271.5
Total investments	<u>\$ 3,867.5</u>	<u>\$ 266.0</u>	<u>\$ 69.1</u>	<u>\$ 4,064.4</u>

<sup>(1)</sup> Collateralized mortgage obligations/mortgage-backed securities (“CMO/MBS”).

<sup>(2)</sup> Commercial mortgage-backed securities (“CMBS”).

<sup>(3)</sup> Asset-backed securities (“ABS”).



## December 31, 2014

(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Fixed maturities</b>				
USD denominated:				
U.S. Governments	\$ 184.0	\$ 1.3	\$ 0.3	\$ 185.0
Non-U.S. Governments	79.9	0.6	0.6	79.9
Obligations of states and political subdivisions	468.1	22.9	0.3	490.7
Credit-Financial	508.1	12.3	2.3	518.1
Credit-Industrial	493.7	9.4	3.5	499.6
Credit-Utility	142.7	3.2	3.9	142.0
Structured securities:				
CMO/MBS-agency <sup>(1)</sup>	168.0	8.0	0.7	175.3
CMO/MBS-non agency	13.2	0.8	—	14.0
CMBS <sup>(2)</sup>	178.6	1.6	0.2	180.0
ABS <sup>(3)</sup>	221.4	0.6	1.0	221.0
Foreign denominated:				
Governments	148.4	1.2	9.4	140.2
Credit	211.1	2.7	18.9	194.9
<b>Total fixed maturities</b>	<b>2,817.2</b>	<b>64.6</b>	<b>41.1</b>	<b>2,840.7</b>
Equity securities	307.3	184.1	5.1	486.3
Other investments	488.9	7.5	1.3	495.1
Short-term investments	275.8	—	—	275.8
<b>Total investments</b>	<b>\$ 3,889.2</b>	<b>\$ 256.2</b>	<b>\$ 47.5</b>	<b>\$ 4,097.9</b>

<sup>(1)</sup> Collateralized mortgage obligations/mortgage-backed securities (“CMO/MBS”).

<sup>(2)</sup> Commercial mortgage-backed securities (“CMBS”).

<sup>(3)</sup> Asset-backed securities (“ABS”).

Included in “Total investments” in our Consolidated Balance Sheets at March 31, 2015 and December 31, 2014 is \$70.9 million and \$75.2 million, respectively, of assets managed on behalf of the trade capital providers, who are third-party participants that provide underwriting capital to our Syndicate 1200 segment.

### Contractual Maturity

The amortized cost and fair values of fixed maturity investments as of March 31, 2015, by contractual maturity, were as follows:

(in millions)	Amortized Cost	Fair Value
Due in one year or less	\$ 258.8	\$ 252.6
Due after one year through five years	1,171.1	1,166.9
Due after five years through ten years	582.5	589.5
Thereafter	185.2	188.1
Structured securities	581.0	591.5
<b>Total</b>	<b>\$ 2,778.6</b>	<b>\$ 2,788.6</b>

The expected maturities may differ from the contractual maturities because debtors may have the right to call or prepay obligations.

### ***Other Invested Assets***

Details regarding the carrying value and unfunded investment commitments of the other invested assets portfolio as of March 31, 2015 and December 31, 2014 were as follows:

#### **March 31, 2015**

(in millions)	Carrying Value	Unfunded Commitments
<b>Investment Type</b>		
Hedge funds	\$ 145.5	\$ —
Private equity	139.6	60.6
Long only funds	115.0	—
Other investments	120.8	—
<b>Total other invested assets</b>	<b>\$ 520.9</b>	<b>\$ 60.6</b>

#### **December 31, 2014**

(in millions)	Carrying Value	Unfunded Commitments
<b>Investment Type</b>		
Hedge funds	\$ 153.2	\$ —
Private equity	123.6	72.9
Long only funds	104.4	—
Other investments	113.9	—
<b>Total other invested assets</b>	<b>\$ 495.1</b>	<b>\$ 72.9</b>

The following describes each investment type:

- **Hedge funds:** Hedge funds include equity long/short, multi-strategy credit, relative value credit and distressed event credit funds.
- **Private equity:** Private equity includes buyout funds, real asset/infrastructure funds, credit special situations funds, mezzanine lending funds and direct investments and strategic non-controlling minority investments in private companies that are principally accounted for using the equity method of accounting.
- **Long only funds:** These funds include a long-only fund that invest in high yield fixed income securities and funds that primarily invest in distressed debt.
- **Other investments:** Other investments include assets on deposit with various regulatory authorities to support Syndicate 1200 segment's insurance and reinsurance operations and foreign exchange currency forward contracts to manage exposure on losses related to global catastrophic events, our Canadian dollar investment portfolio and certain Euro denominated investments.

### Unrealized Losses and Other-than-temporary Impairments

An aging of unrealized losses on our investments in fixed maturities, equity securities, other investments and short-term investments is presented below:

March 31, 2015

(in millions)	Less Than One Year		One Year or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>Fixed maturities</b>						
USD denominated:						
U.S. Governments <sup>(2)</sup>	\$ 18.6	\$ 0.1	\$ 4.1	\$ —	\$ 22.7	\$ 0.1
Non-U.S. Governments	9.0	0.3	3.4	0.2	12.4	0.5
Obligations of states and political subdivisions	21.1	0.1	9.2	0.3	30.3	0.4
Credit-Financial	103.2	0.9	8.4	0.1	111.6	1.0
Credit-Industrial <sup>(2)</sup>	85.0	1.6	8.2	—	93.2	1.6
Credit-Utility <sup>(2)</sup>	44.3	2.8	1.5	—	45.8	2.8
Structured securities:						
CMO/MBS-agency <sup>(1)</sup>	5.2	—	8.1	0.3	13.3	0.3
CMBS <sup>(2)</sup>	28.4	0.1	3.5	—	31.9	0.1
ABS	74.9	0.5	8.5	0.3	83.4	0.8
Foreign denominated:						
Governments	125.5	17.0	—	—	125.5	17.0
Credit	199.2	34.8	0.9	0.2	200.1	35.0
Total fixed maturities	714.4	58.2	55.8	1.4	770.2	59.6
Equity securities	73.3	9.1	—	—	73.3	9.1
Other investments	0.2	0.1	—	—	0.2	0.1
Short-term investments	20.7	0.3	—	—	20.7	0.3
Total	<u>\$ 808.6</u>	<u>\$ 67.7</u>	<u>\$ 55.8</u>	<u>\$ 1.4</u>	<u>\$ 864.4</u>	<u>\$ 69.1</u>

<sup>(1)</sup> Unrealized losses less than one year are less than \$0.1 million.

<sup>(2)</sup> Unrealized losses one year or greater are less than \$0.1 million.

December 31, 2014

(in millions)	Less Than One Year		One Year or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>Fixed maturities</b>						
USD denominated:						
U.S. Governments	\$ 55.0	\$ 0.2	\$ 15.7	\$ 0.1	\$ 70.7	\$ 0.3
Non-U.S. Governments	36.5	0.4	5.2	0.2	41.7	0.6
Obligations of states and political subdivisions	10.4	0.1	16.6	0.2	27.0	0.3
Credit-Financial	195.7	2.2	11.1	0.1	206.8	2.3
Credit-Industrial	240.8	3.3	12.2	0.2	253.0	3.5
Credit-Utility	63.1	3.8	1.9	0.1	65.0	3.9
Structured securities:						
CMO/MBS-agency	10.1	0.1	19.2	0.6	29.3	0.7
CMBS	49.3	0.1	6.0	0.1	55.3	0.2
ABS	129.2	0.7	8.1	0.3	137.3	1.0
Foreign denominated:						
Governments	123.7	9.3	11.2	0.1	134.9	9.4
Credit	190.8	18.7	0.9	0.2	191.7	18.9
Total fixed maturities	1,104.6	38.9	108.1	2.2	1,212.7	41.1
Equity securities	53.6	5.1	—	—	53.6	5.1
Other investments	(0.9)	1.3	—	—	(0.9)	1.3
Short-term investments	—	—	—	—	—	—
Total	<u>\$ 1,157.3</u>	<u>\$ 45.3</u>	<u>\$ 108.1</u>	<u>\$ 2.2</u>	<u>\$ 1,265.4</u>	<u>\$ 47.5</u>

We regularly evaluate our investments for other than temporary impairment. For fixed maturity securities, the evaluation for a credit loss is generally based on the present value of expected cash flows of the security as compared to the amortized book value. For structured securities, frequency and severity of loss inputs are used in projecting future cash flows of the securities. Loss frequency is measured as the credit default rate, which includes such factors as loan-to-value ratios and credit scores of borrowers. For equity securities and other investments, the length of time and the amount of decline in fair value are the principal factors in determining other-than-temporary impairment. We also recognize other-than-temporary losses on fixed maturity securities that we intend to sell.

We hold a total of 6,406 securities, of which 1,830 were in an unrealized loss position for less than one year and 90 were in an unrealized loss position for a period one year or greater as of March 31, 2015. Unrealized losses greater than twelve months on fixed maturities were the result of a number of factors, including increased credit spreads, foreign currency fluctuations and higher market yields relative to the date the securities were purchased, and for structured securities, by the performance of the underlying collateral, as well. In considering whether an investment is other-than-temporarily impaired or not, we also considered that we do not intend to sell the investments and it is unlikely that we will be required to sell the investments before recovery of their amortized cost bases, which may be maturity. In situations where we did not recognize other-than-temporary losses on investments in our equity portfolio, we have evaluated the near-term prospects of the investment in relation to the severity and duration of the impairment and based on that evaluation, have the ability and intent to hold these investments until a recovery of the cost basis. We do not consider these investments to be other-than-temporarily impaired at March 31, 2015.

We recognized other-than-temporary losses on our fixed maturities portfolio of \$0.4 million for the three months ended March 31, 2015. We recognized other-than-temporary losses on our equity portfolio of \$0.1 million for the three months ended March 31, 2015. We did not recognize any other-than-temporary losses on our fixed maturities or equity portfolios for the three months ended March 31, 2014.

### ***Realized Gains and Losses***

The following table presents our gross realized investment gains (losses) and other:

(in millions)	For the Three Months Ended March 31,	
	2015	2014
<b>Realized gains</b>		
Fixed maturities	\$ 4.1	\$ 4.6
Equity securities	3.8	6.5
Other investments	20.9	12.7
Gain on sale of real estate holdings	0.3	—
Gross realized investment gains	29.1	23.8
<b>Realized losses</b>		
Fixed maturities	(3.7)	(3.5)
Equity securities	(0.7)	(0.1)
Other investments	(7.1)	(4.9)
Short-term investments	(1.1)	(0.2)
Other assets	—	(4.0)
Other-than-temporary impairment losses on fixed maturities	(0.4)	—
Other-than-temporary impairment losses on equity securities	(0.1)	—
Gross realized investment and other losses	(13.1)	(12.7)
Net realized investment gains and other	<u>\$ 16.0</u>	<u>\$ 11.1</u>

Realized gains (losses) and changes in unrealized appreciation (depreciation) related to fixed maturity and equity security investments are summarized as follows:

(in millions)	Fixed Maturities	Equity Maturities	Other Investments	Other	Real Estate Holdings	Tax Effects	Total
<b>Three Months Ended March 31, 2015</b>							
Realized before impairments	\$ 0.4	\$ 3.1	\$ 13.8	\$ (1.1)	\$ 0.3	\$ (6.1)	\$ 10.4
Realized - impairments	(0.4)	(0.1)	—	—	—	0.2	(0.3)
Change in unrealized	(12.3)	(10.8)	1.6	(0.3)	—	2.9	(18.9)
<b>Three Months Ended March 31, 2014</b>							
Realized before impairments	\$ 1.1	\$ 6.4	\$ 7.8	\$ (4.2)	\$ —	\$ (3.5)	\$ 7.6
Realized - impairments	—	—	—	—	—	—	—
Change in unrealized	8.1	(3.1)	—	—	—	3.7	8.7

We enter into foreign currency exchange forward contracts to manage currency exposure on losses related to certain global catastrophe events. These currency forward contracts are carried at fair value in our Consolidated Balance Sheets in “Other investments.” The realized and unrealized gains and losses on these contracts are included in “Net realized investment and other gains” in our Consolidated Statements of Income. The notional amount of these currency forward contracts was \$8.7 million and \$46.6 million at March 31, 2015 and 2014, respectively. The fair value of these currency forward contracts was a gain of \$0.1 million and \$1.2 million at March 31, 2015 and 2014, respectively. For the three months ended March 31, 2015 and 2014, we recognized \$0.3 million and \$2.3 million in realized gains and \$1.2 million and \$1.3 million in realized losses, respectively, from these currency forward contracts.

In the third quarter of 2014, we entered into foreign currency exchange forward contracts to manage currency exposure on our Canadian dollar (“CAD”) investment portfolio. The currency forward contracts are carried at fair value in our Consolidated Balance Sheets in “Other investments.” The realized and unrealized gains and losses are included in “Net realized investment and other gains” in our Consolidated Statements of Income. The notional amount of the currency forward contracts was CAD 141.8 million (USD \$112.1 million) as of March 31, 2015. The fair value of the currency forward contracts was a gain of \$6.4 million as of March 31, 2015. For the three months ended March 31, 2015, we recognized \$7.5 million in realized gains and \$2.0 million in realized losses, respectively, from the CAD currency forward contracts.

We also enter into foreign currency exchange forward contracts to manage currency exposure on certain Euro denominated investments. The currency forward contracts are carried at fair value in our Consolidated Balance Sheets in “Other investments.” The realized and unrealized gains and losses are included in “Net realized investment and other gains” in our Consolidated Statements of Income. The fair value of the currency forward contracts was \$5.8 million as of March 31, 2015. For the three months ended March 31, 2015, we recognized \$6.3 million in realized gains from the currency forward contracts. The fair value of the currency forward contracts at March 31, 2014 and the amounts recognized in realized gains for the three months ended March 31, 2014 were not significant.

#### ***Regulatory Deposits, Pledged Securities and Letters of Credit***

At March 31, 2015, the amortized cost and fair value of investments on deposit with U.S., Canadian and various agencies for regulatory purposes were \$184.3 million and \$191.8 million, respectively. At December 31, 2014, the amortized cost and fair value of investments on deposit with U.S., Canadian and various agencies for regulatory purposes were \$186.6 million and \$194.2 million, respectively.

At March 31, 2015, investments with an amortized cost of \$48.9 million and fair value of \$49.2 million were pledged as collateral in support of irrevocable letters of credit (“LOCs”) in the amount of \$36.2 million issued under the terms of certain reinsurance agreements in respect of reported loss and loss expense reserves. At December 31, 2014, investments with an amortized cost of \$55.0 million and fair value of \$55.3 million were pledged as collateral in support of irrevocable LOCs in the amount of \$43.6 million issued under the terms of certain reinsurance agreements in respect of reported loss and loss expense reserves.

Our Corporate member’s capital supporting our Lloyd’s business was \$209.3 million and \$217.9 million at March 31, 2015 and December 31, 2014, respectively.

#### ***Fair Value Measurements***

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement assumes that the transaction to sell the asset or transfer the liability

occurs in the principal market for the asset or liability, or in the absence of a principal market, the most advantageous market. Market participants are buyers and sellers in the principal (or most advantageous) market that are independent, knowledgeable, able to transact for the asset or liability and willing to transfer the asset or liability.

Valuation techniques consistent with the market approach, income approach and/or cost approach are used to measure fair value. The inputs of these valuation techniques are categorized into three levels.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the reporting date. We define actively traded as a security that has traded in the past seven days. We receive one quote per instrument for Level 1 inputs.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. We receive one quote per instrument for Level 2 inputs.
- Level 3 inputs are unobservable inputs. Unobservable inputs reflect our own judgments about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances.

We receive fair value prices from third-party pricing services and our outside investment managers. These prices are determined using observable market information such as dealer quotes, market spreads, cash flows, yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the security's terms and conditions, among other things. We have reviewed the processes used by the third-party providers for pricing the securities, and have determined that these processes result in fair values consistent with GAAP requirements. In addition, we review these prices for reasonableness, and have not adjusted any prices received from the third-party providers as of March 31, 2015. A description of the valuation techniques we use to measure assets at fair value is as follows:

*Fixed Maturities (Available-for-Sale) Levels 1 and 2:*

- United States Treasury securities are typically valued using Level 1 inputs. For these securities, we obtain fair value measurements from third-party pricing services using quoted prices (unadjusted) in active markets at the reporting date.
- United States Government agencies, non-U.S. Government securities, obligations of states and political subdivisions, credit securities and foreign denominated securities are reported at fair value using Level 2 inputs. For these securities, we obtain fair value measurements from third-party pricing services. Observable data may include dealer quotes, market spreads, yield curves, live trading levels, trade execution data, credit information and the security's terms and conditions, among other things.
- CMO/MBS agency, CMO/MBS non-agency, CMBS, ABS residential and ABS non-residential securities are reported at fair value using Level 2 inputs. For these securities, we obtain fair value measurements from third-party pricing services. Observable data may include dealer quotes, market spreads, cash flows, yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the security's terms and conditions, among other things.

*Equity Securities Level 1:* Equity securities are principally reported at fair value using Level 1 inputs. For these securities, we obtain fair value measurements from a third-party pricing service using quoted prices (unadjusted) in active markets at the reporting date.

*Equity Securities Level 2:* We own interests in equity and mutual funds that are reported at fair value using Level 2 inputs. The valuations are based on the funds' net asset value per share, determined weekly or at the end of each month. The underlying assets in the funds are valued primarily on the basis of closing market quotations or official closing prices on each valuation day.

*Equity Securities Level 3:* We own certain equity securities that are reported at fair value using Level 3 inputs. The valuation techniques for these securities include the following:

- Fair value measurements are obtained from the National Association of Insurance Commissioners' Security Valuation Office at the reporting date.
- Fair value measurements for an investment in an equity fund obtained by applying final prices provided by the administrator of the fund, which is based upon certain estimates and assumptions.

*Other Investments Level 2:* Foreign regulatory deposits are assets held in trust in jurisdictions where there is a legal and regulatory requirement to maintain funds locally in order to protect policyholders. Lloyd's is the appointed investment manager for the funds. These assets are invested in short-term government securities, agency securities and corporate bonds and are valued using Level 2 inputs based upon values obtained from Lloyd's. Foreign currency future contracts are valued by our counterparty using market driven foreign currency exchange rates and are considered Level 2 investments.

*Short-term Investments:* Short-term investments are principally reported at fair value using Level 1 inputs, with the exception of short-term corporate bonds reported at fair value using Level 2 inputs as described in the fixed maturities section above. Values for the investments categorized as Level 1 are obtained from various financial institutions as of the reporting date.

*Transfers Between Level 1 and Level 2 Securities:* There were no transfers between Level 1 and Level 2 securities during the three months ended March 31, 2015.

Based on an analysis of the inputs, our financial assets measured at fair value on a recurring basis have been categorized as follows:

(in millions)	March 31, 2015	Fair Value Measurements at Reporting Date Using		
		Level 1 <sup>(a)</sup>	Level 2 <sup>(b)</sup>	Level 3 <sup>(c)</sup>
Fixed maturities				
USD denominated:				
U.S. Governments	\$ 182.8	\$ 102.0	\$ 80.8	\$ —
Non-U.S. Governments	81.5	—	81.5	—
Obligations of states and political subdivisions	480.0	—	480.0	—
Credit-Financial	484.7	—	484.7	—
Credit-Industrial	469.9	—	469.9	—
Credit-Utility	147.2	—	147.2	—
Structured securities:				
CMO/MBS-agency	168.7	—	168.7	—
CMO/MBS-non agency	13.4	—	13.4	—
CMBS	186.0	—	186.0	—
ABS	223.4	—	223.4	—
Foreign denominated:				
Governments	141.6	—	141.6	—
Credit	209.4	—	209.4	—
Total fixed maturities	2,788.6	102.0	2,686.6	—
Equity securities	483.4	482.6	—	0.8
Other investments	104.9	—	104.9	—
Short-term investments	271.5	271.1	0.4	—
	<u>\$ 3,648.4</u>	<u>\$ 855.7</u>	<u>\$ 2,791.9</u>	<u>\$ 0.8</u>

<sup>(a)</sup> Quoted prices in active markets for identical assets

<sup>(b)</sup> Significant other observable inputs

<sup>(c)</sup> Significant unobservable inputs

(in millions)	December 31, 2014	Fair Value Measurements at Reporting Date Using		
		Level 1 <sup>(a)</sup>	Level 2 <sup>(b)</sup>	Level 3 <sup>(c)</sup>
Fixed maturities				
USD denominated:				
U.S. Governments	\$ 185.0	\$ 99.2	\$ 85.8	\$ —
Non-U.S. Governments	79.9	—	79.9	—
Obligations of states and political subdivisions	490.7	—	490.7	—
Credit-Financial	518.1	—	518.1	—
Credit-Industrial	499.6	—	499.6	—
Credit-Utility	142.0	—	142.0	—
Structured securities:				
CMO/MBS-agency	175.3	—	175.3	—
CMO/MBS-non agency	14.0	—	14.0	—
CMBS	180.0	—	180.0	—
ABS	221.0	—	221.0	—
Foreign denominated:				
Governments	140.2	—	140.2	—
Credit	194.9	—	194.9	—
Total fixed maturities	2,840.7	99.2	2,741.5	—
Equity securities	486.3	485.4	—	0.9
Other investments	97.3	—	97.3	—
Short-term investments	275.8	273.9	1.9	—
	<u>\$ 3,700.1</u>	<u>\$ 858.5</u>	<u>\$ 2,840.7</u>	<u>\$ 0.9</u>

(a) Quoted prices in active markets for identical assets

(b) Significant other observable inputs

(c) Significant unobservable inputs

The fair value measurements in the tables above do not equal “Total investments” on our Consolidated Balance Sheets as they exclude certain other investments that are accounted for under the equity-method of accounting.

A reconciliation of the beginning and ending balances for the investments categorized as Level 3 are as follows:

#### Fair Value Measurements Using Observable Inputs (Level 3)

(in millions)	Equity Securities	Total
Beginning balance, January 1, 2015	\$ 0.9	\$ 0.9
Transfers into Level 3	—	—
Transfers out of Level 3	—	—
Total gains or losses (realized/unrealized):		
Included in net income (loss)	—	—
Included in other comprehensive income (loss)	—	—
Purchases, issuances, sales, and settlements		
Purchases	—	—
Issuances	—	—
Sales	(0.1)	(0.1)
Settlements	—	—
Ending balance, March 31, 2015	<u>\$ 0.8</u>	<u>\$ 0.8</u>
Amount of total gains or losses for the year included in net income (loss) attributable to the change in unrealized gains or losses relating to assets still held at March 31, 2015	<u>\$ —</u>	<u>\$ —</u>



(in millions)	Equity Securities	Other Assets	Total
Beginning balance, January 1, 2014	\$ 1.3	\$ 2.6	\$ 3.9
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Total gains or losses (realized/unrealized):			
Included in net income (loss)	—	—	—
Included in other comprehensive income (loss)	0.1	—	0.1
Purchases, issuances, sales, and settlements			
Purchases	—	—	—
Issuances	—	—	—
Sales	(0.5)	—	(0.5)
Settlements	—	(2.6)	(2.6)
Ending balance, December 31, 2014	<u>\$ 0.9</u>	<u>\$ —</u>	<u>\$ 0.9</u>
Amount of total gains or losses for the year included in net income (loss) attributable to the change in unrealized gains or losses relating to assets still held at December 31, 2014	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

At March 31, 2015 and December 31, 2014, we did not have any financial assets or financial liabilities measured at fair value on a nonrecurring basis or any financial liabilities on a recurring basis.

#### 4. Reserves for Losses and Loss Adjustment Expenses

The following table provides a reconciliation of reserves for losses and loss adjustment expenses (“LAE”):

(in millions)	For the Three Months Ended March 31,	
	2015	2014
Net reserves beginning of the year	\$ 2,137.1	\$ 2,107.6
Add:		
Losses and LAE incurred during current calendar year, net of reinsurance:		
Current accident year	187.4	191.4
Prior accident years	(3.7)	(8.9)
Losses and LAE incurred during calendar year, net of reinsurance	<u>183.7</u>	<u>182.5</u>
Deduct:		
Losses and LAE payments made during current calendar year, net of reinsurance:		
Current accident year	19.8	27.9
Prior accident years	141.0	150.1
Losses and LAE payments made during current calendar year, net of reinsurance:	<u>160.8</u>	<u>178.0</u>
Change in participation interest <sup>(1)</sup>	(1.2)	24.7
Foreign exchange adjustments	(6.0)	1.7
Net reserves - end of period	2,152.8	2,138.5
Add:		
Reinsurance recoverables on unpaid losses and LAE, end of period	882.3	903.9
Gross reserves - end of period	<u>\$ 3,035.1</u>	<u>\$ 3,042.4</u>

<sup>(1)</sup> Amount represents (decreases) increases in reserves due to change in syndicate participation

Reserves for losses and LAE represent the estimated indemnity cost and related adjustment expenses necessary to investigate and settle claims. Such estimates are based upon individual case estimates for reported claims, estimates from ceding companies for reinsurance assumed and actuarial estimates for losses that have been incurred but not yet reported to the insurer. Any change in probable ultimate liabilities is reflected in current operating results.

Impacting losses and LAE for the three months ended March 31, 2015 was \$3.7 million in favorable prior years' loss reserve development comprised of the following: \$8.2 million of net favorable development in the Excess and Surplus Lines segment primarily caused by favorable development in the general and products liability lines and commercial automobile, partially offset by unfavorable development in property lines; \$7.2 million of net unfavorable development in the Commercial Specialty segment, primarily driven by unfavorable development in general liability due to increases in claim severity, as well as unfavorable development in short tail lines and workers compensation, partially offset by favorable development in auto liability; \$2.5 million of net favorable development in the International Specialty segment primarily driven by favorable development in Argo Re and long-tail lines, partially offset by unfavorable development in the Brazil unit; \$0.3 million of net favorable development in the Syndicate 1200 segment primarily driven by favorable development in various property classes, partially offset by unfavorable development in general liability; and \$0.1 million of unfavorable development in the Run-off Lines segment primarily caused by unfavorable development in workers compensation lines and assumed asbestos and environmental liability, offset in part by favorable development in run-off reinsurance claims.

Impacting losses and LAE for the three months ended March 31, 2014 was \$8.9 million in favorable prior years' loss reserve development comprised of the following: \$8.0 million of net favorable development in the Excess and Surplus Lines segment primarily caused by favorable development of \$21.6 million in the general and products liability lines, partially offset by \$9.4 million unfavorable development in commercial automobile and \$4.2 million of unfavorable development in property lines; \$2.0 million of net unfavorable development in the Commercial Specialty segment, primarily driven by \$6.7 million of unfavorable development in general liability due to increases in claim severity, partially offset by \$4.3 million of favorable development in workers compensation and \$1.1 million of favorable development in short-tail lines; \$0.4 million of net unfavorable development in the International Specialty segment; \$8.8 million of net favorable development in the Syndicate 1200 segment primarily driven by favorable development in marine and energy lines, as well as favorable development in professional indemnity and general liability; and \$5.5 million of unfavorable development in the Run-off Lines segment primarily caused by \$4.5 million of unfavorable development in workers compensation lines driven by increasing medical costs on older claims, as well as \$1.0 million unfavorable development in asbestos liability on assumed business.

In the opinion of management, our reserves represent the best estimate of our ultimate liabilities, based on currently known facts, current law, current technology and assumptions considered reasonable where facts are not known. Due to the significant uncertainties and related management judgments, there can be no assurance that future loss development, favorable or unfavorable, will not occur.

## **5. Debt**

### *Borrowing Under Revolving Credit Facility*

On March 7, 2014, each of Argo Group, Argo Group US, Inc., Argo International Holdings Limited and Argo Underwriting Agency Limited (the "Borrowers") entered into a \$175.0 million credit agreement ("Credit Agreement") with JPMorgan Chase Bank, N.A., as administrative agent. The Credit Agreement provides for a \$175.0 million revolving credit facility with a maturity date of March 7, 2018 unless extended in accordance with the terms of the Credit Agreement. Borrowings under the Credit Agreement may be used for general corporate purposes, including working capital and permitted acquisitions, and each of the Borrowers has agreed to be jointly and severally liable for the obligations of the other Borrowers under the Credit Agreement.

The Credit Agreement contains customary events of default. If an event of default occurs and is continuing, the Borrowers might be required immediately to repay all amounts outstanding under the Credit Agreement. Lenders holding at least a majority of the loans and commitments under the Credit Agreement may elect to accelerate the maturity of the loans and/or terminate the commitments under the Credit Agreement upon the occurrence and during the continuation of an event of default.

Included in the Credit Agreement is a provision that allows up to \$17.5 million of the revolving credit facility to be used for LOCs, subject to availability. As of March 31, 2015 and December 31, 2014, there were no borrowings outstanding and \$0.2 million in LOCs against the Credit Facility.

### *Junior Subordinated Debentures*

On July 16, 2014, Argo Group US, Inc. purchased the outstanding PXRE Capital Trust V \$20,000,000 Junior Subordinated Debt Securities ("Capital Trust V") at a discount equal to 90.0% of the principal amount plus accrued and unpaid interest through the date of purchase for a total price of \$18.2 million, resulting in the recognition of a \$2.0 million pre-tax realized gain. In accordance with ASC Topic 405, "Liabilities," we have eliminated the outstanding debt, associated interest, and intercompany balances related to the purchase of the Capital Trust V since the purchase by Argo Group US, Inc., in essence, reduces our outstanding debt related to the Junior Subordinated Debentures. As of March 31, 2015, the Capital Trust V had not yet been redeemed and continued to accrue interest. The Capital Trust V was redeemed on April 29, 2015.

## 6. Disclosures about Fair Value of Financial Instruments

*Cash.* The carrying amount approximates fair value.

*Investment securities and short-term investments.* See Note 3, “Investments,” for additional information.

*Premiums receivable and reinsurance recoverables on paid losses.* The carrying value of current receivables approximates fair value. At March 31, 2015 and December 31, 2014, the carrying values of premiums receivable over 90 days were \$12.8 million and \$12.4 million, respectively. Included in “Reinsurance recoverables” in our Consolidated Balance Sheets at March 31, 2015 and December 31, 2014, are amounts that are due from trade capital providers associated with the operations of ArgoGlobal Syndicate 1200. Upon settlement, the receivable is offset against the liability also reflected in our accompanying Consolidated Balance Sheets. At March 31, 2015 and December 31, 2014, the payable was in excess of the receivable. Of our reinsurance recoverables on paid losses, excluding amounts attributable to ArgoGlobal Syndicate 1200’s trade capital providers, at March 31, 2015 and December 31, 2014, the carrying values over 90 days were \$6.8 million and \$9.9 million, respectively. Our methodology for establishing our allowances for doubtful accounts includes specifically identifying all potential uncollectible balances regardless of aging. At March 31, 2015 and December 31, 2014, the allowance for doubtful accounts for premiums receivable was \$4.5 million and \$5.2 million, respectively, and the allowance for doubtful accounts for reinsurance recoverables on paid losses was \$2.1 million and \$1.8 million, respectively. Premiums receivable over 90 days were secured by collateral in the amount of \$0.3 million and \$0.3 million at March 31, 2015 and December 31, 2014, respectively. Reinsurance recoverables on paid losses over 90 days were secured by collateral in the amount of \$0.7 million and \$0.4 at March 31, 2015 and December 31, 2014, respectively.

At March 31, 2015 and December 31, 2014, the fair value of our Junior subordinated debentures, Senior unsecured fixed rate notes and Other indebtedness was estimated using appropriate market indices or quoted prices from external sources based on current market conditions.

A summary of our financial instruments whose carrying value did not equal fair value is shown below:

(in millions)	March 31, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Junior subordinated debentures	\$ 172.7	\$ 155.5	\$ 172.7	\$ 155.5
Senior unsecured fixed rate notes	143.8	132.3	143.8	132.3
Other indebtedness:				
Floating rate loan stock	56.9	51.2	61.3	55.2
Note payable	0.6	0.6	0.7	0.6
	<u>\$ 374.0</u>	<u>\$ 339.6</u>	<u>\$ 378.5</u>	<u>\$ 343.6</u>

## 7. Shareholders’ Equity

On May 5, 2015, our Board of Directors declared a quarterly cash dividend in the amount of \$0.20 on each share of common stock outstanding. The dividend will be paid on June 15, 2015 to shareholders of record at the close of business on June 1, 2015.

On February 17, 2015, our Board of Directors declared a 10% stock dividend, payable on March 16, 2015, to shareholders of record at the close of business on March 2, 2015. As a result of the stock dividend, 2,554,506 additional shares were issued. Cash was paid in lieu of fractional shares of our common shares. All references to share and per share amounts in this document and related disclosures have been adjusted to reflect the stock dividend for all periods presented.

In addition, on February 17, 2015, our Board of Directors declared a quarterly cash dividend in the amount of \$0.20 on each share of common stock outstanding, on a post-stock dividend basis. On March 19, 2015, we paid \$5.7 million to our shareholders of record on March 2, 2015.

On February 18, 2014, our Board of Directors declared a quarterly cash dividend in the amount of \$0.15 on each share of common stock outstanding or \$0.14 on each share outstanding adjusted for the 10% stock dividend. On March 17, 2014, we paid \$4.0 million to our shareholders of record on March 3, 2014.

On November 5, 2013, our Board of Directors authorized the repurchase of up to \$150.0 million of our common shares (“2013 Repurchase Authorization”). The 2013 Repurchase Authorization supersedes all the previous Repurchase Authorizations. As of March 31, 2015, availability under the 2013 Repurchase Authorization for future repurchases of our common shares was \$74.7 million.

For the three months ended March 31, 2015, we repurchased a total of 353,054 common shares for \$18.1 million. A summary of activity for shares repurchased on the open market and under Security Exchange Act of 1934 Rule 10b5-1 from January 1, 2015 through March 31, 2015 is described below.

For the three months ended March 31, 2015, we purchased 196,864 common shares on the open market for \$9.9 million. In 2015, we repurchased shares under Securities Exchange Act of 1934 Rule 10b5-1 trading plans as follows:

Date Trading Plan Initiated	2015 Purchase Period	Number of Shares Repurchased	Average Price of Shares Repurchased	Total Cost (in millions)	Repurchase Authorization Year
12/15/2014	01/05/2015-02/12/2015	117,482	\$ 53.50	\$ 6.3	2013
03/16/2015	03/18/2015-03/31/2015	38,708	\$ 49.65	\$ 1.9	2013

## 8 . Accumulated Other Comprehensive Income (Loss)

A summary of changes in accumulated other comprehensive income (loss), net of taxes (where applicable) by component for the three months ended March 31, 2015 and 2014 is presented below:

(in millions)	Foreign Currency Translation Adjustments	Unrealized Holding Gains on Securities	Defined Benefit Pension Plans	Total
<b>Balance, January 1, 2015</b>	\$ (15.6)	\$ 130.7	\$ (7.0)	\$ 108.1
Other comprehensive loss before reclassifications	(3.1)	(21.5)	—	(24.6)
Amounts reclassified from accumulated other comprehensive income (loss)	—	2.6	—	2.6
Net current-period other comprehensive loss	(3.1)	(18.9)	—	(22.0)
<b>Balance at March 31, 2015</b>	<u>\$ (18.7)</u>	<u>\$ 111.8</u>	<u>\$ (7.0)</u>	<u>\$ 86.1</u>

(in millions)	Foreign Currency Translation Adjustments	Unrealized Holding Gains on Securities	Defined Benefit Pension Plans	Total
<b>Balance, January 1, 2014</b>	\$ (11.5)	\$ 163.9	\$ (4.6)	\$ 147.8
Other comprehensive (loss) income before reclassifications	(0.2)	1.3	—	1.1
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	—	—
Net current-period other comprehensive (loss) income	(0.2)	1.3	-	1.1
<b>Balance at March 31, 2014</b>	<u>\$ (11.7)</u>	<u>\$ 165.2</u>	<u>\$ (4.6)</u>	<u>\$ 148.9</u>

The amounts reclassified from accumulated other comprehensive income (loss) shown in the above table have been included in the following captions in our Consolidated Statements of Income:

(in millions)	For the Three Months Ended March 31,	
	2015	2014
Unrealized gains and losses on securities:		
Net realized investment gains	\$ 2.5	\$ (0.1)
Provision for income taxes	0.1	0.1
Net of taxes	<u>\$ 2.6</u>	<u>\$ —</u>

## 9. Net Income Per Common Share

The following table presents the calculation of net income per common share on a basic and diluted basis (all balances have been adjusted to reflect the 10% stock dividend):

(in millions, except number of shares and per share amounts)	For the Three Months Ended March 31,	
	2015	2014
Net income	\$ 58.8	\$ 40.2
Weighted average common shares outstanding - basic	28,129,692	29,165,911
Effect of dilutive securities:		
Equity compensation awards	547,687	497,179
Weighted average common shares outstanding - diluted	28,677,379	29,663,090
Net income per common share:		
Basic	\$ 2.09	\$ 1.38
Diluted	\$ 2.05	\$ 1.36

Excluded from the weighted average common shares outstanding calculation at March 31, 2015, and 2014 are 8,959,543 shares and 7,723,529 shares, respectively, which are held as treasury shares. The shares are excluded as of their repurchase date. For the three months ended March 31, 2015, equity compensation awards to purchase 1,760 shares of common stock were excluded from the computation of diluted net income per common share as these instruments were anti-dilutive. These instruments expired during the second quarter 2015. For the three months ended March 31, 2014, equity compensation awards to purchase 3,300 shares of common stock were excluded from the computation of diluted net income per common share as these instruments were anti-dilutive. These instruments expired or will expire at varying times from 2014 through 2020.

## 10. Supplemental Cash Flow Information

*Income taxes paid.* We paid income taxes of \$0.5 million and \$15.6 million during the three months ended March 31, 2015 and 2014, respectively.

*Income taxes recovered.* During the three months ended March 31, 2015, \$11.6 million of income taxes was recovered. No income taxes were recovered during the three months ended March 31, 2014.

*Interest paid.*

(in millions)	For the Three Months Ended March 31,	
	2015	2014
Senior unsecured fixed rate notes	\$ 2.3	\$ 2.3
Junior subordinated debentures	1.7	2.0
Other indebtedness	0.8	0.9
Total interest paid	\$ 4.8	\$ 5.2

## 11. Share-based Compensation

The fair value method of accounting is used for equity-based compensation plans. Under the fair value method, compensation cost is measured based on the fair value of the award at the measurement date and recognized over the requisite service period. We use the Black-Scholes model to estimate the fair values on the measurement date for share options and share appreciation rights ("SARs"). The Black-Scholes model uses several assumptions to value a share award. The volatility assumption is based on the historical change in our stock price over the previous five years preceding the measurement date. The risk-free rate of return assumption is based on the five-year U.S. Treasury constant maturity rate on the measurement date. The expected award life is based upon the average holding period over the history of the incentive plan. The expected dividend yield is based on our history and expected dividend payouts.

The following table summarizes the assumptions we used for the three months ended March 31, 2015 and 2014:

	For the Three Months Ended March 31,	
	2015	2014
Risk-free rate of return	1.47%	1.74%
Expected dividend yields	1.63%	1.49%
Expected award life (years)	4.71	4.85
Expected volatility	22.09%	24.91%

All outstanding awards were adjusted to reflect the 10% stock dividend, resulting in a 10% increase to the number of awards outstanding and a 9.09% reduction in the exercise price.

#### *Argo Group's Long-Term Incentive Plans*

In November 2007, our shareholders approved the 2007 Long-Term Incentive Plan (the "2007 Plan"), which provides for an aggregate of 4.5 million shares of our common stock that may be issued to executives, non-employee directors, and other key employees. As of May 2014, 1,457,800 shares remained available for grant under the 2007 Plan. In May 2014, our shareholders approved the 2014 Long-Term Incentive Plan (the "2014 Plan"), which provides for an additional 2.8 million shares of our common stock to be available for issuance to executives, non-employee directors and other key employees. The share awards may be in the form of share options, SARs, restricted shares, restricted share awards, restricted share units awards, performance awards, other share-based awards and other cash-based awards. Shares issued under this plan may be shares that are authorized and unissued or shares that we reacquired, including shares purchased on the open market. Share options and SARs will count as one share for the purposes of the limits under the incentive plans; restricted shares, restricted share units, performance units, performance shares or other share-based incentive awards which settle in common shares will count as 2.75 shares for purpose of the limits under the 2014 Plan.

Share options may be in the form of incentive share options, non-qualified share options and restorative options. Share options are required to have an exercise price that is not less than the market value on the date of grant. We are prohibited from repricing the options. The term of the share options cannot exceed seven years from the grant date.

A summary of restricted share activity as of March 31, 2015 and changes during the three months then ended is as follows:

	Shares	Weighted-Average Grant Date Fair Value
Outstanding at January 1, 2015	313,716	\$ 35.17
Granted	51,873	\$ 46.57
Vested and issued	(110,982)	\$ 29.88
Expired or forfeited	(3,569)	\$ 36.38
Outstanding at March 31, 2015	251,038	\$ 39.85

The restricted shares vest over two to four years. Expense recognized under this plan for the restricted shares was \$1.5 million and \$0.7 million for the three months ended March 31, 2015 and 2014, respectively. Compensation expense for all share-based compensation awards is included in "Underwriting, acquisition and insurance expense" in the accompanying Consolidated Statements of Income. As of March 31, 2015, there was \$8.0 million of total unrecognized compensation cost related to restricted share compensation arrangements granted by Argo Group.

A summary of stock-settled SARs activity as of March 31, 2015 and changes during the three months then ended is as follows:

	Shares	Weighted-Average Exercise Price
Outstanding at January 1, 2015	1,313,901	\$ 28.65
Granted	243,306	\$ 37.33
Exercised	(24,622)	\$ 28.11
Expired or forfeited	(9,210)	\$ 30.68
Outstanding at March 31, 2015	1,523,375	\$ 29.26

The stock-settled SARs vest over a one to four year period. Upon exercise of the stock-settled SARs, the employee is entitled to receive shares of our common stock equal to the appreciation of the stock as compared to the exercise price. Expense recognized for

the stock-settled SARs was \$0.6 million for the three months ended March 31, 2015 and 2014. As of March 31, 2015, there was \$3.9 million of total unrecognized compensation cost related to stock-settled SARs outstanding.

A summary of cash-settled SARs activity as of March 31, 2015 and changes during the three months then ended is as follows:

	Shares	Weighted-Average Exercise Price
Outstanding at January 1, 2015	2,001,451	\$ 32.76
Granted	866,673	\$ 47.83
Exercised	(31,461)	\$ 29.77
Expired or forfeited	(70,547)	\$ 36.28
Outstanding at March 31, 2015	2,766,116	\$ 37.42

The cash-settled SARs vest over a one to four year period. Upon exercise of the cash-settled SARs, the employee is entitled to receive cash payment for the appreciation in the value of our common stock over the exercise price. We account for the cash-settled SARs as liability awards, which require the awards to be revalued at each reporting period. Expense recognized for the cash-settled SARs was \$2.7 million for the three months ended March 31, 2015 and 2014. As of March 31, 2015, there was \$14.5 million of total unrecognized compensation cost related to cash-settled SARs outstanding.

## 12. Underwriting, Acquisition and Insurance Expenses

Underwriting, acquisition and insurance expenses were as follows:

(in millions)	For the Three Months Ended March 31,	
	2015	2014
Commissions	\$ 58.7	\$ 54.9
General expenses	72.9	68.8
Premium taxes, boards and bureaus	0.6	6.6
	132.2	130.3
Net deferral of policy acquisition costs	(2.6)	(1.6)
Total underwriting, acquisition and insurance expenses	\$ 129.6	\$ 128.7

Included in general expenses for the three months ended March 31, 2015 and 2014 is \$4.9 million and \$4.3 million, respectively, of expense for our total equity compensation.

## 13. Income Taxes

We are incorporated under the laws of Bermuda and, under current Bermuda law, are not obligated to pay any taxes in Bermuda based upon income or capital gains. We have received an undertaking from the Supervisor of Insurance in Bermuda pursuant to the provisions of the Exempted Undertakings Tax Protection Act, 2011, which exempts us from any Bermuda taxes computed on profits, income or any capital asset, gain or appreciation or any tax in the nature of estate duty or inheritance tax, at least until the year 2035.

We do not consider ourselves to be engaged in a trade or business in the United States or the United Kingdom and, accordingly, do not expect to be subject to direct United States or United Kingdom income taxation.

We have subsidiaries based in the United Kingdom that are subject to the tax laws of that country. Under current law, these subsidiaries are taxed at the applicable corporate tax rates. Six of the United Kingdom subsidiaries are deemed to be engaged in business in the United States, and therefore, are subject to United States corporate tax in respect of a proportion of their United States underwriting business only. Relief is available against the United Kingdom tax liabilities in respect of overseas taxes paid that arise from the underwriting business. Corporate income tax losses incurred in the United Kingdom can be carried forward, for application against future income, indefinitely. Our United Kingdom subsidiaries file separate United Kingdom income tax returns.

We have subsidiaries based in the United States that are subject to United States tax laws. Under current law, these subsidiaries are taxed at the applicable corporate tax rates. Our United States subsidiaries file a consolidated United States federal income tax return.

We also have operations in Belgium, Switzerland, Brazil, France, Malta, Spain and Ireland, which also are subject to income taxes imposed by the jurisdiction in which they operate. We have operations in the United Arab Emirates, which are not subject to income tax under the laws of that country.



Our income tax provision includes the following components:

(in millions)	For the Three Months Ended March 31,	
	2015	2014
Current tax (benefit) provision	\$ (0.2)	\$ 1.4
Deferred tax provision related to:		
Future tax deductions	5.5	30.2
Valuation allowance change	(1.7)	(29.1)
Income tax provision	<u>\$ 3.6</u>	<u>\$ 2.5</u>

Our expected income tax provision computed on pre-tax income (loss) at the weighted average tax rate has been calculated as the sum of the pre-tax income (loss) in each jurisdiction multiplied by that jurisdiction's applicable statutory tax rate. For the three months ended March 31, 2015 and 2014, pre-tax income (loss) attributable to our operations and the operations' effective tax rates were as follows:

(in millions)	For the Three Months Ended March 31,			
	2015		2014	
	Pre-Tax Income (Loss)	Effective Tax Rate	Pre-Tax Income (Loss)	Effective Tax Rate
Bermuda	\$ 25.7	0.0%	\$ 21.9	0.0%
United States	28.5	20.2%	14.8	20.6%
United Kingdom	10.1	-21.9%	7.3	-7.7%
Belgium	(0.2)	-4.8%	— <sup>(1)</sup>	18.1%
Brazil	(1.9)	0.0%	—	0.0%
United Arab Emirates	0.1	0.0%	(0.9)	0.0%
Ireland	(0.2)	0.0%	—	0.0%
Malta	0.3	0.0%	(0.4)	0.0%
Switzerland	— <sup>(1)</sup>	21.0%	— <sup>(1)</sup>	-19.8%
Pre-tax income	<u>\$ 62.4</u>		<u>\$ 42.7</u>	

<sup>(1)</sup> Pre-tax income for the respective year was less than \$0.1 million.



A reconciliation of the difference between the provision for income taxes and the expected tax provision at the weighted average tax rate is as follows:

(in millions)	For the Three Months Ended March 31,	
	2015	2014
Income tax provision at expected rate	\$ 11.2	\$ 4.7
Tax effect of:		
Tax-exempt interest	(0.9)	(1.2)
Dividends received deduction	(0.6)	(0.6)
Valuation allowance change	(1.7)	(29.1)
Other permanent adjustments, net	0.2	0.1
Adjustment for annualized rate	(0.5)	0.8
United States state tax (benefit) expense	(2.5)	0.1
Capital loss carryforward from prior merger	—	29.8
Other foreign adjustments	(0.3)	—
Prior period adjustments to deferred	2.2	—
Prior year foreign taxes recovered	(1.2)	—
Foreign exchange adjustments	(2.4)	(2.2)
Foreign withholding taxes	0.1	0.1
Income tax provision	<u>\$ 3.6</u>	<u>\$ 2.5</u>
Income tax benefit - Foreign	\$ (2.2)	\$ (0.6)
Income tax provision - United States, Federal	9.5	2.8
Income tax (benefit) provision - United States, state	(3.8)	0.2
Foreign withholding tax - United States	0.1	0.1
Income tax provision	<u>\$ 3.6</u>	<u>\$ 2.5</u>

We recognize potential accrued interest and penalties within our global operations in “Interest expense” and “Underwriting, acquisition and insurance expenses,” respectively, in our Consolidated Statements of Income.

Our net deferred tax assets (liabilities) are supported by taxes paid in previous periods, reversal of taxable temporary differences and recognition of future income. Management regularly evaluates the recoverability of the deferred tax assets and makes any necessary adjustments to them based upon any changes in management’s expectations of future taxable income. Realization of deferred tax assets is dependent upon our generation of sufficient taxable income in the future to recover tax benefits that cannot be recovered from taxes paid in the carryback period, which is generally two years for net operating losses and three years for capital losses for our United States operations. At March 31, 2015, we had a total net deferred tax liability of \$30.0 million prior to any valuation allowance. Management has concluded that a valuation allowance is required for a portion of the tax effected net capital loss carryforward of \$17.8 million generated from a prior merger and for the tax effected net operating loss carryforward of \$1.0 million from ARIS. Of the capital loss carryforwards from a prior merger, \$16.3 million will expire if not used by December 31, 2025 and \$1.5 million will expire if not used by December 31, 2027. Of the ARIS loss carryforward, \$0.2 million will expire if not used by December 31, 2027, \$0.4 million will expire if not used by December 31, 2028 and \$0.4 million will expire if not used by December 31, 2029. The valuation allowances have been established as Internal Revenue Code Section 382 limits the application of net operating loss and net capital loss carryforwards following an ownership change. The loss carryforwards available per year are \$2.8 million as required by Internal Revenue Code Section 382. Further, due to cumulative losses since inception, management has concluded that a valuation allowance is required for the full amount of the tax effected net operating losses generated by our Brazil and Malta entities. Accordingly, a valuation allowance of \$23.8 million is required as of March 31, 2015 of which \$15.9 million relates to the prior merger and ARIS loss carryforwards, \$6.1 million relates to Brazil operations, and \$1.8 million relates to Malta operations. For the three months ended March 31, 2015, the valuation allowance was reduced by \$0.1 million pertaining to the prior merger and ARIS loss carryforwards, decreased by \$1.3 million pertaining to our Brazil operations and decreased by \$0.3 million pertaining to our Malta operations.

We had no material unrecognized tax benefits as of March 31, 2015 and 2014. Our United States subsidiaries are no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2011. Our United Kingdom subsidiaries are no longer subject to United Kingdom income tax examinations by Her Majesty’s Revenue and Customs for years before 2012.

#### 14. Commitments and Contingencies

Argo Group's subsidiaries are parties to legal actions incidental to their business. Based on the opinion of counsel, management believes that the resolution of these matters will not materially affect our financial condition or results of operations.

We have contractual commitments to invest up to \$60.6 million related to our limited partnership investments at March 31, 2015. These commitments will be funded as required by the partnership agreements.

#### 15. Segment Information

We are primarily engaged in underwriting property and casualty insurance and reinsurance. We have four ongoing reporting segments: Excess and Surplus Lines, Commercial Specialty, International Specialty and Syndicate 1200. Additionally, we have a Run-off Lines segment for certain products that we no longer underwrite.

We consider many factors, including the nature of each segment's insurance and reinsurance products, production sources, distribution strategies and the regulatory environment, in determining how to aggregate reporting segments.

In evaluating the operating performance of our segments, we focus on core underwriting and investing results before the consideration of realized gains or losses from the sales of investments. Realized investment gains are reported as a component of the Corporate and Other segment, as decisions regarding the acquisition and disposal of securities reside with the investment function and are not under the control of the individual business segments. Identifiable assets by segment are those assets used in the operation of each segment.

Revenue and income (loss) before income taxes for each segment were as follows:

(in millions)	For the Three Months Ended March 31,	
	2015	2014
Revenue:		
Earned premiums		
Excess and Surplus Lines	\$ 123.1	\$ 117.4
Commercial Specialty	72.6	71.7
International Specialty	37.3	37.0
Syndicate 1200	101.9	99.3
Run-off Lines	(0.3)	0.3
Total earned premiums	334.6	325.7
Net investment income		
Excess and Surplus Lines	8.5	9.3
Commercial Specialty	4.5	4.7
International Specialty	2.9	1.8
Syndicate 1200	2.2	3.7
Run-off Lines	2.0	2.5
Corporate and Other	0.7	1.3
Total net investment income	20.8	23.3
Net realized investment and other gains	16.0	11.1
Total revenue	\$ 371.4	\$ 360.1

(in millions)	For the Three Months Ended March 31,	
	2015	2014
Income (loss) before income taxes		
Excess and Surplus Lines	\$ 24.7	\$ 20.1
Commercial Specialty	3.8	1.7
International Specialty	9.1	6.8
Syndicate 1200	11.0	15.8
Run-off Lines	1.2	(5.9)
Total segment income before taxes	49.8	38.5
Corporate and Other	(3.4)	(6.9)
Net realized investment and other gains	16.0	11.1
Total income before income taxes	<u>\$ 62.4</u>	<u>\$ 42.7</u>

The table below presents earned premiums by geographic location for the three months ended March 31, 2015 and 2014. For this disclosure, we determine geographic location by the country of domicile of our subsidiaries that underwrite the business and not by the location of insureds or reinsureds from whom the business was generated.

(in millions)	For the Three Months Ended March 31,	
	2015	2014
Bermuda	\$ 23.9	\$ 24.4
Brazil	12.5	12.6
Malta	0.5	0.5
United Kingdom	101.9	98.9
United States	195.8	189.3
Total earned premiums	<u>\$ 334.6</u>	<u>\$ 325.7</u>

The following table represents identifiable assets:

(in millions)	March 31, 2015	December 31, 2014
Excess and Surplus Lines	\$ 2,352.8	\$ 2,350.7
Commercial Specialty	1,384.0	1,358.5
International Specialty	799.5	776.8
Syndicate 1200	1,232.5	1,258.5
Run-off Lines	557.8	552.8
Corporate and Other	50.5	59.0
Total	<u>\$ 6,377.1</u>	<u>\$ 6,356.3</u>

Included in total assets at March 31, 2015 and December 31, 2014 are \$294.2 million and \$315.4 million, respectively, in assets associated with trade capital providers.

## 16. Information Provided in Connection with Outstanding Debt of Subsidiaries

The following tables present condensed consolidating financial information at March 31, 2015 and December 31, 2014 and for the three months ended March 31, 2015 and 2014, for Argo Group (the “Parent Guarantor”) and Argo Group US (the “Subsidiary Issuer”). The Subsidiary Issuer is an indirect 100 percent-owned subsidiary of the Parent Guarantor. Investments in subsidiaries are accounted for by the Parent Guarantor under the equity method for purposes of the supplemental consolidating presentation. Earnings of subsidiaries are reflected in the Parent Guarantor’s investment accounts and earnings.

The Parent Guarantor fully and unconditionally guarantees certain of the debt of the Subsidiary Issuer. Condensed consolidating financial information of the Subsidiary Issuer is presented on a consolidated basis and consists principally of the net assets, results of operations and cash flows of operating insurance company subsidiaries.

**CONDENSED CONSOLIDATING BALANCE SHEET**  
**MARCH 31, 2015**  
(in millions)

	Argo Group International Holdings, Ltd (Parent Guarantor)	Argo Group US, Inc. and Subsidiaries (Subsidiary Issuer)	Other Subsidiaries and Eliminations (1)	Consolidating Adjustments (2)	Total
<b>Assets</b>					
Investments	\$ 7.2	\$ 2,851.4	\$ 1,205.8	\$ —	\$ 4,064.4
Cash	—	54.8	34.3	—	89.1
Accrued investment income	—	17.1	3.8	—	20.9
Premiums receivable	—	160.0	211.7	—	371.7
Reinsurance recoverables	—	1,152.0	(164.7)	—	987.3
Goodwill and other intangible assets, net	—	132.7	98.3	—	231.0
Current income taxes receivable, net	—	—	4.2	—	4.2
Deferred acquisition costs, net	—	60.0	69.7	—	129.7
Ceded unearned premiums	—	112.2	144.4	—	256.6
Other assets	12.7	175.4	59.1	(25.0)	222.2
Due from (to) affiliates	(16.0)	(19.3)	19.3	16.0	—
Intercompany note receivable	—	55.6	(55.6)	—	—
Investments in subsidiaries	1,722.8	—	—	(1,722.8)	—
<b>Total assets</b>	<u>\$ 1,726.7</u>	<u>\$ 4,751.9</u>	<u>\$ 1,630.3</u>	<u>\$ (1,731.8)</u>	<u>\$ 6,377.1</u>
<b>Liabilities and Shareholders' Equity</b>					
Reserves for losses and loss adjustment expenses	\$ —	\$ 2,138.8	\$ 896.3	\$ —	\$ 3,035.1
Unearned premiums	—	458.8	367.6	—	826.4
Funds held and ceded reinsurance payable, net	—	662.8	(402.3)	—	260.5
Long-term debt	49.0	288.7	56.9	(20.6)	374.0
Current income taxes payable, net	—	0.5	(0.5)	—	—
Deferred tax liabilities, net	—	44.7	9.1	—	53.8
Accrued underwriting expenses and other liabilities	14.9	91.7	57.9	—	164.5
<b>Total liabilities</b>	<u>63.9</u>	<u>3,686.0</u>	<u>985.0</u>	<u>(20.6)</u>	<u>4,714.3</u>
<b>Total shareholders' equity</b>	<u>1,662.8</u>	<u>1,065.9</u>	<u>645.3</u>	<u>(1,711.2)</u>	<u>1,662.8</u>
<b>Total liabilities and shareholders' equity</b>	<u>\$ 1,726.7</u>	<u>\$ 4,751.9</u>	<u>\$ 1,630.3</u>	<u>\$ (1,731.8)</u>	<u>\$ 6,377.1</u>

**CONDENSED CONSOLIDATING BALANCE SHEET**  
**DECEMBER 31, 2014**  
(in millions)

	Argo Group International Holdings, Ltd (Parent Guarantor)	Argo Group US, Inc. and Subsidiaries (Subsidiary Issuer)	Other Subsidiaries and Eliminations (1)	Consolidating Adjustments (2)	Total
<b>Assets</b>					
Investments	\$ 0.7	\$ 2,841.5	\$ 1,255.7	\$ —	\$ 4,097.9
Cash	—	49.3	31.7	—	81.0
Accrued investment income	—	17.8	4.3	—	22.1
Premiums receivable	—	154.6	199.0	—	353.6
Reinsurance recoverables	—	1,173.6	(176.4)	—	997.2
Goodwill and other intangible assets, net	—	131.7	99.1	—	230.8
Current income taxes receivable, net	—	10.1	4.8	—	14.9
Deferred acquisition costs, net	—	58.0	66.6	—	124.6
Ceded unearned premiums	—	98.5	109.1	—	207.6
Other assets	9.6	174.1	67.9	(25.0)	226.6
Due from (to) affiliates	2.9	(19.8)	19.8	(2.9)	—
Intercompany note receivable	—	72.0	(72.0)	—	—
Investments in subsidiaries	1,698.0	—	—	(1,698.0)	—
<b>Total assets</b>	<b>\$ 1,711.2</b>	<b>\$ 4,761.4</b>	<b>\$ 1,609.6</b>	<b>\$ (1,725.9)</b>	<b>\$ 6,356.3</b>
<b>Liabilities and Shareholders' Equity</b>					
Reserves for losses and loss adjustment expenses	\$ —	\$ 2,136.4	\$ 906.0	\$ —	\$ 3,042.4
Unearned premiums	—	448.9	368.3	—	817.2
Funds held and ceded reinsurance payable, net	—	675.1	(441.3)	—	233.8
Long-term debt	49.0	288.7	61.4	(20.6)	378.5
Deferred tax liabilities, net	—	41.2	11.8	—	53.0
Accrued underwriting expenses and other liabilities	15.5	104.2	65.0	—	184.7
<b>Total liabilities</b>	<b>64.5</b>	<b>3,694.5</b>	<b>971.2</b>	<b>(20.6)</b>	<b>4,709.6</b>
<b>Total shareholders' equity</b>	<b>1,646.7</b>	<b>1,066.9</b>	<b>638.4</b>	<b>(1,705.3)</b>	<b>1,646.7</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,711.2</b>	<b>\$ 4,761.4</b>	<b>\$ 1,609.6</b>	<b>\$ (1,725.9)</b>	<b>\$ 6,356.3</b>

(1) Includes all other subsidiaries of Argo Group International Holdings, Ltd. and all intercompany eliminations.

(2) Includes all Argo Group parent company eliminations.

**CONDENSED CONSOLIDATING STATEMENT OF INCOME**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2015**  
(in millions)

	Argo Group International Holdings, Ltd (Parent Guarantor)	Argo Group US, Inc. and Subsidiaries (Subsidiary Issuer)	Other Subsidiaries and Eliminations (1)	Consolidating Adjustments (2)	Total
Premiums and other revenue:					
Earned premiums	\$ —	\$ 135.1	\$ 199.5	\$ —	\$ 334.6
Net investment (expense) income	(0.2)	14.5	6.5	—	20.8
Net realized investment gains and other	—	15.9	0.1	—	16.0
Total revenue	(0.2)	165.5	206.1	—	371.4
Expenses:					
Losses and loss adjustment expenses	—	80.2	103.5	—	183.7
Underwriting, acquisition and insurance expenses	4.7	51.9	73.0	—	129.6
Interest expense	0.5	3.8	0.6	—	4.9
Fee expense (income), net	—	0.8	(0.4)	—	0.4
Foreign currency exchange loss (gain)	—	0.8	(10.4)	—	(9.6)
Total expenses	5.2	137.5	166.3	—	309.0
Income before income taxes	(5.4)	28.0	39.8	—	62.4
Provision for income taxes	—	5.8	(2.2)	—	3.6
Net income before equity in earnings of subsidiaries	(5.4)	22.2	42.0	—	58.8
Equity in undistributed earnings of subsidiaries	64.2	—	—	(64.2)	—
Net income	\$ 58.8	\$ 22.2	\$ 42.0	\$ (64.2)	\$ 58.8

(1) Includes all other subsidiaries of Argo Group International Holdings, Ltd. and all intercompany eliminations.

(2) Includes all Argo Group parent company eliminations.

**CONDENSED CONSOLIDATING STATEMENT OF INCOME**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2014**  
(in millions)

	Argo Group International Holdings, Ltd (Parent Guarantor)	Argo Group US, Inc. and Subsidiaries (Subsidiary Issuer)	Other Subsidiaries and Eliminations (1)	Consolidating Adjustments (2)	Total
Premiums and other revenue:					
Earned premiums	\$ —	\$ 112.0	\$ 213.7	\$ —	\$ 325.7
Net investment (expense) income	(0.1)	15.0	8.4	—	23.3
Net realized investment and other gains (loss)	—	11.5	(0.4)	—	11.1
Total revenue	(0.1)	138.5	221.7	—	360.1
Expenses:					
Losses and loss adjustment expenses	—	72.5	110.0	—	182.5
Underwriting, acquisition and insurance expenses	6.0	46.3	76.4	—	128.7
Interest expense	0.6	3.8	0.7	(0.1)	5.0
Fee expense, net	—	1.3	0.1	—	1.4
Foreign currency exchange (gain) loss	—	(0.1)	(0.1)	—	(0.2)
Total expenses	6.6	123.8	187.1	(0.1)	317.4
Income (loss) before income taxes	(6.7)	14.7	34.6	0.1	42.7
Provision (benefit) for income taxes	—	3.0	(0.5)	—	2.5
Net income (loss) before equity in earnings of subsidiaries	(6.7)	11.7	35.1	0.1	40.2
Equity in undistributed earnings of subsidiaries	46.9	—	—	(46.9)	—
Net income (loss)	\$ 40.2	\$ 11.7	\$ 35.1	\$ (46.8)	\$ 40.2

(1) Includes all other subsidiaries of Argo Group International Holdings, Ltd. and all intercompany eliminations.

(2) Includes all Argo Group parent company eliminations.

**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2015**  
(in millions)

	Argo Group International Holdings, Ltd (Parent Guarantor)	Argo Group US, Inc. and Subsidiaries (Subsidiary Issuer)	Other Subsidiaries and Eliminations (1)	Consolidating Adjustments (2)	Total
Net cash flows from operating activities	\$ 2.9	\$ 43.6	\$ (18.9)	\$ —	\$ 27.6
Cash flows from investing activities:					
Proceeds from sales of investments	—	340.1	82.9	—	423.0
Maturities and mandatory calls of fixed maturity investments	—	114.5	27.5	—	142.0
Purchases of investments	—	(471.4)	(85.8)	—	(557.2)
Change in short-term investments and foreign regulatory deposits	1.1	7.0	(3.3)	—	4.8
Settlements of foreign currency exchange forward contracts	0.7	—	(2.9)	—	(2.2)
Issuance of intercompany note, net	—	—	—	—	—
Purchases of fixed assets and other, net	0.1	(11.3)	2.9	—	(8.3)
Cash (used) provided by investing activities	1.9	(21.1)	21.3	—	2.1
Cash flows from financing activities:					
Borrowings under intercompany note, net	—	—	—	—	—
Activity under stock incentive plans	0.9	—	—	—	0.9
Repurchase of Company's common shares	—	(17.0)	—	—	(17.0)
Excess tax expense from share-based payment arrangements	—	—	—	—	—
Payment of cash dividend to common shareholders	(5.7)	—	—	—	(5.7)
Cash (used) provided by financing activities	(4.8)	(17.0)	—	—	(21.8)
Effect of exchange rate changes on cash	—	—	0.2	—	0.2
Change in cash	—	5.5	2.6	—	8.1
Cash, beginning of the period	—	49.3	31.7	—	81.0
Cash, end of period	\$ —	\$ 54.8	\$ 34.3	\$ —	\$ 89.1

(1) Includes all other subsidiaries of Argo Group International Holdings, Ltd. and all intercompany eliminations.

(2) Includes all Argo Group parent company eliminations.



**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2014**  
(in millions)

	Argo Group International Holdings, Ltd (Parent Guarantor)	Argo Group US, Inc. and Subsidiaries (Subsidiary Issuer)	Other Subsidiaries and Eliminations (1)	Consolidating Adjustments (2)	Total
Net cash flows from operating activities	\$ (9.4)	\$ (11.2)	\$ 64.2	\$ —	\$ 43.6
Cash flows from investing activities:					
Proceeds from sales of investments	—	163.3	100.0	—	263.3
Maturities and mandatory calls of fixed maturity investments	—	51.3	27.1	—	78.4
Purchases of investments	—	(178.6)	(128.7)	—	(307.3)
Change in short-term investments and foreign regulatory deposits	(0.9)	(29.8)	(23.2)	—	(53.9)
Settlements of foreign currency exchange forward contracts	0.9	—	(2.3)	—	(1.4)
Issuance of intercompany note, net	—	—	(12.5)	12.5	—
Purchases of fixed assets and other, net	0.1	(5.1)	(19.1)	—	(24.1)
Cash (used) provided by investing activities	0.1	1.1	(58.7)	12.5	(45.0)
Cash flows from financing activities:					
Borrowings under intercompany note, net	12.5	—	—	(12.5)	—
Activity under stock incentive plans	0.8	—	—	—	0.8
Repurchase of Company's common shares	—	(3.7)	—	—	(3.7)
Excess tax expense from share-based payment arrangements	—	0.1	—	—	0.1
Payment of cash dividend to common shareholders	(4.0)	—	—	—	(4.0)
Cash (used) provided by financing activities	9.3	(3.6)	—	(12.5)	(6.8)
Effect of exchange rate changes on cash	—	—	0.3	—	0.3
Change in cash	—	(13.7)	5.8	—	(7.9)
Cash, beginning of period	—	132.1	25.3	—	157.4
Cash, end of period	\$ —	\$ 118.4	\$ 31.1	\$ —	\$ 149.5

(1) Includes all other subsidiaries of Argo Group International Holdings, Ltd. and all intercompany eliminations.

(2) Includes all Argo Group parent company eliminations.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is a discussion and analysis of our results of operations for the three months ended March 31, 2015 compared with the three months ended March 31, 2014, and also a discussion of our financial condition as of March 31, 2015. This discussion and analysis should be read in conjunction with the attached unaudited interim Consolidated Financial Statements and notes thereto and Argo Group's Annual Report on Form 10-K for the year ended December 31, 2014 filed with the Securities and Exchange Commission ("SEC") on February 27, 2015, including the audited Consolidated Financial Statements and notes thereto.

### Forward Looking Statements

Management's Discussion and Analysis of Financial Condition and Results of Operations, Quantitative and Qualitative Disclosures About Market Risk and the accompanying Consolidated Financial Statements (including the notes thereto) may contain "forward looking statements," which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The forward looking statements are based on our current expectations and beliefs concerning future developments and their potential effects on us. There can be no assurance that actual developments will be those anticipated by us. Actual results may differ materially as a result of significant risks and uncertainties, including non-receipt of expected payments, capital markets and their effect on investment income and fair value of the investment portfolio, development of claims and the effect on loss reserves, accuracy in estimating loss reserves, changes in the demand for our products, effect of general economic conditions, adverse government legislation and regulations, government investigations into industry practices, developments relating to existing agreements, heightened competition, changes in pricing environments and changes in asset valuations. For a more detailed discussion of risks and uncertainties, see our public filings made with the SEC. We undertake no obligation to publicly update any forward-looking statements.

Generally, it is our policy to communicate events that may have a material adverse impact on our operations or financial position, including property and casualty catastrophic events and material losses in the investment portfolio, in a timely manner through a public announcement. It is also our policy not to make public announcements regarding events that are believed to have no material adverse impact on our results of operations or financial position based on management's current estimates and available information, other than through regularly scheduled calls, press releases or filings.

### Consolidated Results of Operations

For the three months ended March 31, 2015, we reported net income of \$58.8 million, or \$2.05 per fully diluted share. For the three months ended March 31, 2014, we reported net income of \$40.2 million, or \$1.36 per fully diluted share.

The following is a comparison of selected data from our operations:

(in millions)	Three Months Ended March 31,	
	2015	2014
Gross written premiums	\$ 476.7	\$ 463.1
Earned premiums	\$ 334.6	\$ 325.7
Net investment income	20.8	23.3
Net realized investment and other gains	16.0	11.1
Total revenue	\$ 371.4	\$ 360.1
Income before income taxes	62.4	\$ 42.7
Provision for income taxes	3.6	2.5
Net income	\$ 58.8	\$ 40.2
Loss ratio	54.9%	56.0%
Expense ratio	38.7%	39.5%
Combined ratio	93.6%	95.5%

The increase in consolidated gross written and earned premiums was primarily attributable to growth in our segments, excluding International Specialty, resulting from our introduction of new products and increased renewals. Partially offsetting these increases were declines in gross written premiums in the International Specialty segment due to increased competition in the property reinsurance market. All of our segments have been impacted by increased competition and pressure on rates.

Consolidated net investment income decreased for the three months ended March 31, 2015 as compared to the same period of 2014 due primarily to the continued reinvestment at market yields below the portfolio's book yield and an increased focus on total portfolio returns relative to current income.

Consolidated net realized investment and other gains were \$16.0 million and \$11.1 million for the three months ended March 31, 2015 and 2014, respectively. Consolidated net realized gains for the three months ended March 31, 2015 primarily consisted of \$3.1 million of gains recognized from our equity portfolio coupled with \$13.8 million in gains from our other invested assets portfolio, including our investments accounted for under the equity method. Partially offsetting these net realized gains was \$1.1 million for our short term portfolio and \$0.5 million from the recognition of other-than-temporary impairments on certain of our investment securities. Included in consolidated net realized investment and other gains for the three months ended March 31, 2014 were \$6.4 million in realized gains for our equity portfolio, coupled with \$7.8 million in realized gains from our other investments, including our equity method investments. Partially offsetting these gains was a \$4.0 million realized loss due to the write down of an asset held for sale.

We have purchased foreign currency 90 day future forward contracts to manage currency exposure on losses related to selected catastrophe events. The term of these contracts gives us the flexibility to adjust the notional amount of the contracts based on payments made and changes in estimates of future losses. We do not apply hedge accounting to these contracts; as a result, all gains (losses) are recognized in net realized investment gains (losses). For the three months ended March 31, 2015, we recognized \$0.5 million in foreign currency exchange gains related to the loss reserves recorded for the events offset by \$0.9 million in realized losses from the currency forward contracts. For the three months ended March 31, 2014, we recognized \$1.2 million in foreign currency exchange losses related to the loss reserves recorded for the events offset by \$1.0 million in realized gains from the currency forward contracts. The foreign currency exchange losses related to these loss reserves and the realized gains (losses) from the currency forward contracts are reported under Corporate.

Consolidated losses and loss adjustment expenses were \$183.7 million and \$182.5 million for the three months ended March 31, 2015 and 2014, respectively. Included in losses and loss adjustment expenses for the three months ended March 31, 2015 and 2014 was \$3.0 million and \$4.2 million, respectively, in catastrophe losses attributable to United States storms. Included in losses and loss adjustment expenses for the three months ended March 31, 2015 and 2014 was \$3.7 million and \$8.9 million, respectively, of net favorable loss reserve development on prior accident years.

The following table summarizes the above referenced loss reserve development with respect to prior year loss reserves by line of business for the three months ended March 31, 2015.

(in millions)	2014 Net Reserves	Net Reserve Development (Favorable)/Unfavorable	Percent of 2014 Net Reserves
General liability	\$ 913.0	\$ (10.0)	-1.1%
Workers compensation	327.9	2.1	0.6%
Syndicate 1200 property	99.2	(2.5)	-2.5%
Syndicate 1200 liability	202.4	1.6	0.8%
Commercial multi-peril	164.6	7.8	4.7%
Commercial auto liability	158.3	(1.5)	-0.9%
Reinsurance - nonproportional assumed property	79.7	(3.8)	-4.8%
Syndicate 1200 specialty	18.7	(0.3)	-1.6%
All other lines	173.3	2.9	1.7%
Total	<u>\$ 2,137.1</u>	<u>\$ (3.7)</u>	<u>-0.2%</u>

In determining appropriate reserve levels for the three months ended March 31, 2015, we maintained the same general processes and disciplines that were used to set reserves at prior reporting dates. No significant changes in methodologies were made to estimate the reserves since the last reporting date; however, at each reporting date we reassess the actuarial estimate of the reserve for losses and loss adjustment expenses and record our best estimate. Consistent with prior reserve valuations, as claims data becomes more mature for prior accident years, actuarial estimates were refined to weigh certain actuarial methods more heavily in order to respond to any emerging trends in the paid and reported loss data. While prior accident years' net reserves for losses and loss adjustment expenses for some lines of business have developed favorably in recent years, this does not imply that more recent accident years' reserves will also develop favorably; pricing, reinsurance costs, legal environment, general economic conditions including changes in inflation and many other factors impact management's ultimate loss estimates.

When determining reserve levels, we recognize that there are several factors that present challenges and uncertainties to the estimation of net loss reserves. Examples of these uncertainties include changes to the reinsurance structure and potential increases in inflation. Our net retained losses vary by product and they have generally increased over time. To properly recognize these uncertainties, actuarial reviews have given significant consideration to the paid and incurred Bornhuetter-Ferguson ("BF") methodologies. Compared with other actuarial methodologies, the paid and incurred BF methods assign smaller weight to actual reported loss

experience, with the greatest weight assigned to an expected or planned loss ratio. The expected or planned loss ratio has typically been determined using various assumptions pertaining to prospective loss frequency and loss severity. In setting reserves at March 31, 2015, we continued to consider the paid and incurred BF methods for recent years.

Our loss reserve estimates gradually blend in the results from development and frequency/severity methodologies over time. For general liability estimates, our own loss experience is not deemed fully credible for several years after the end of an accident year. We rely primarily on the BF methods during that period. For property business, our loss reserve estimates also blend in the results from development and frequency/severity methodologies over time. For property lines, in contrast to general liability estimates, where loss reporting and claims closing patterns settle more quickly, we give greater weight to development methods starting at the end of the accident year.

For the Run-off Lines segment, in determining appropriate reserve levels, we maintained the same general processes and disciplines that were used to set reserves at prior reporting dates. No changes in key assumptions were made to estimate the reserves since the last reporting date.

Consolidated gross reserves for losses and loss adjustment expenses were \$3,035.1 million (including \$79.4 million of reserves attributable to Syndicate 1200 segment's trade capital providers) and \$3,042.4 million (including \$66.6 million of reserves attributable to the Syndicate 1200 segment's trade capital providers) as of March 31, 2015 and 2014, respectively. Management has recorded its best estimate of loss reserves at each date based on current known facts and circumstances. Due to the significant uncertainties inherent in the estimation of loss reserves, there can be no assurance that future loss development, favorable or unfavorable, will not occur.

Consolidated underwriting, insurance and acquisition expenses were \$129.6 million and \$128.7 million for the three months ended March 31, 2015 and 2014, respectively. The decline in the consolidated expense ratio for 2015 as compared to 2014 was primarily attributable to an increase in earned premium and a reduction in premium taxes and other assessments, partially offset by fixed asset charges, compensation and consulting fees.

Consolidated interest expense of \$4.9 million for the three months ended March 31, 2014 was generally consistent with the \$5.0 million recognized for the three months ended March 31, 2014.

Consolidated foreign currency exchange gain was \$9.6 million and \$0.2 million for the three months ended March 31, 2015 and 2014, respectively. The increase in the foreign currency exchange gains was due to the strengthening of the U.S. Dollar, on a weighted average basis, against the currencies in which we transact our business.

The consolidated provision for income taxes was \$3.6 million and \$2.5 million for the three months ended March 31, 2015 and 2014, respectively. The income tax provision represents the income tax expense associated with our operations based on the tax laws of the jurisdictions in which we operate. Therefore, the provision for income taxes represents taxes on net income for our United States, Ireland, Belgium, Brazil, Switzerland and United Kingdom operations. The income tax provision for the three months ended March 31, 2015 and 2014 was primarily attributable to our United States operations.

## **Segment Results**

We are primarily engaged in writing property and casualty insurance and reinsurance. We have four ongoing reporting segments: Excess and Surplus Lines, Commercial Specialty, International Specialty and Syndicate 1200. Additionally, we have a Run-off Lines segment for products that we no longer underwrite.

We consider many factors, including the nature of each segment's insurance and reinsurance products, production sources, distribution strategies and regulatory environment, in determining how to aggregate reporting segments.

In evaluating the operating performance of our segments, we focus on core underwriting and investing results before consideration of realized gains or losses from the sales of investments. Intersegment transactions are allocated to the segment that initiated the transaction. Realized investment gains and losses are reported as a component of the Corporate and Other segment, as decisions regarding the acquisition and disposal of securities reside with the corporate investment function and are not under the control of the individual business segments. Although this measure of profit (loss) does not replace net income (loss) computed in accordance with GAAP as a measure of profitability, management uses this measure of profit (loss) to focus our reporting segments on generating operating income.

Since we generally manage and monitor the investment portfolio on an aggregate basis, the overall performance of the investment portfolio and related net investment income is discussed above on a consolidated basis under consolidated net investment income rather than within or by segment.

### ***Excess and Surplus Lines***

The following table summarizes the results of operations for the Excess and Surplus Lines segment:

(in millions)	Three Months Ended March 31,	
	2015	2014
Gross written premiums	\$ 162.6	\$ 140.0
Earned premiums	123.1	\$ 117.4
Losses and loss adjustment expenses	65.4	64.9
Underwriting, acquisition and insurance expenses	40.0	40.1
Underwriting income	17.7	12.4
Net investment income	8.5	9.3
Interest expense	(1.5)	(1.6)
Income before income taxes	\$ 24.7	\$ 20.1
Loss ratio	53.1 %	55.3 %
Expense ratio	32.5 %	34.1 %
Combined ratio	85.6 %	89.4 %

The increase in gross written and earned premiums for the three months ended March 31, 2015 as compared to the same period in 2014 was primarily attributable to increased underwriting activity in virtually all lines. Gross written premiums for certain casualty lines increased by \$13.7 million, coupled with a \$9.6 million increase in the management liability and error and omissions lines. Partially offsetting these increases were reduced writings in the transportation unit, as we continued to exit unprofitable accounts.

Included in losses and loss adjustment expense for the three months ended March 31, 2015 was \$0.5 million in catastrophe losses from winter storm activity in the United States. Offsetting these catastrophe losses was \$8.2 million of net favorable loss reserve development on prior accident years primarily within the general and products liability lines of business, partially offset by unfavorable development in property lines.

Included in losses and loss adjustment expense for the three months ended March 31, 2014 was \$1.8 million in catastrophe losses. Offsetting these catastrophe losses was \$8.0 million of net favorable loss reserve development on prior accident years primarily within the general and products liability lines of business, partially offset by unfavorable development in commercial automobile and property lines.

The decline in the expense ratios for the three months ended March 31, 2015 as compared to the same period in 2014 was primarily attributable to increased ceding commissions, coupled with the increase in earned premiums as fixed overhead costs remained constant.

## Commercial Specialty

The following table summarizes the results of operations for the Commercial Specialty segment:

(in millions)	Three Months Ended March 31,	
	2015	2014
Gross written premiums	\$ 107.0	\$ 105.9
Earned premiums	\$ 72.6	\$ 71.7
Losses and loss adjustment expenses	48.9	47.7
Underwriting, acquisition and insurance expenses	22.8	25.1
Underwriting income (loss)	0.9	(1.1)
Net investment income	4.5	4.7
Interest expense	(0.8)	(0.8)
Fee expense, net	(0.8)	(1.1)
Income before income taxes	\$ 3.8	\$ 1.7
Loss ratio	67.3%	66.6%
Expense ratio	31.4%	34.9%
Combined ratio	98.7%	101.5%

The slight increase in gross written and earned premiums was primarily attributable to increased premium writings in all programs with the exceptions of our grocery and retail programs. Gross written premiums were negatively impacted by decreasing rates and increasing competition, coupled with adverse economic conditions in the energy and mining sectors.

Included in losses and loss adjustment expense for the three months ended March 31, 2015 was \$0.5 million in catastrophe losses for winter storm activity in the United States. Included in losses and loss adjustment expenses for the three months ended March 31, 2015 was \$7.2 million of net unfavorable loss reserve development on prior accident years, primarily attributable to unfavorable development in general liability, workers compensation and short-tail lines.

Included in losses and loss adjustment expense for the three months ended March 31, 2014 was \$1.4 million in catastrophe losses for winter storm activity in the United States. Included in losses and loss adjustment expenses for the three months ended March 31, 2014 was \$1.2 million current accident year large property losses and \$2.0 million net unfavorable loss reserve development on prior accident years, primarily attributable to unfavorable development in general liability and automobile liability lines, offset in part by favorable development in workers compensation and short-tail lines.

The decline in the expense ratio was primarily attributable to a \$3.2 million decline in acquisition expense due to a decline in the accrual for premiums taxes and other assessments due to a change in accrual methodology.

The decrease in net fee expense for the three months ended March 31, 2015 as compared to 2014 was primarily attributable to the maturity of the fee based business. In 2014, we began to shift select functions from risk bearing activities to non risk-bearing activities, as we began to develop our fee-based business. As a result, the expenses associated with the fee-based operations exceeded the income received for these activities, resulting in increased net fee expense for the three months ended March 31, 2014.

### International Specialty

The following table summarizes the results of operations for the International Specialty segment:

(in millions)	Three Months Ended March 31,	
	2015	2014
Gross written premiums	\$ 69.8	\$ 83.2
Earned premiums	\$ 37.3	\$ 37.0
Losses and loss adjustment expenses	16.8	18.8
Underwriting, acquisition and insurance expenses	13.5	12.4
Underwriting income	7.0	5.8
Net investment income	2.9	1.8
Interest expense	(0.8)	(0.8)
Income before income taxes	\$ 9.1	\$ 6.8
Loss ratio	45.1%	50.8%
Expense ratio	36.4%	33.3%
Combined ratio	81.5%	84.1%

Gross written premiums declined for the three months ended March 31, 2015 as compared to the same period in 2014 due to a \$9.2 million decline in the short tail property reinsurance lines, resulting from increased competition on prices, terms and conditions. The property reinsurance market continues to be highly competitive. Additionally, gross written premiums declined \$4.5 million, primarily due to the depreciation of the Brazilian Real against the U.S. Dollar. The increase in earned premiums for the three months ended March 31, 2015 as compared to the same period in 2014 was primarily due to a reduction in our ceding percentages, coupled with a change in business mix.

Included in losses and loss adjustment expenses for each of the three months ended March 31, 2015 and 2014 was \$1.0 million in catastrophe losses for winter storm activity. Included in losses and loss adjustment expenses for the three months ended March 31, 2015 was \$2.5 million in net favorable prior accident year loss reserve development primarily driven by favorable development in our short tail property reinsurance, professional liability and casualty lines, partially offset by unfavorable development in our Brazil unit. In comparison for the three months ended March 31, 2014, the losses and loss adjustment expenses included \$0.4 million of net unfavorable development on prior accident year loss reserves primarily for our Brazil operations.

The increase in the expense ratio for the three months ended March 31, 2015 as compared to 2014 was primarily attributable to increased acquisition expenses at our Brazil operations with earned premiums remaining constant.

### Syndicate 1200

The following table summarizes the results of operations for the Syndicate 1200 segment:

(in millions)	Three Months Ended March 31,	
	2015	2014
Gross written premiums	\$ 137.6	\$ 133.6
Earned premiums	\$ 101.9	\$ 99.3
Losses and loss adjustment expenses	52.5	45.5
Underwriting, acquisition and insurance expenses	40.3	40.6
Underwriting income	9.1	13.2
Net investment income	2.2	3.7
Interest expense	(0.7)	(0.8)
Fee income (expense), net	0.4	(0.3)
Income before income taxes	\$ 11.0	\$ 15.8
Loss ratio	51.5%	45.8%
Expense ratio	39.5%	40.9%
Combined ratio	91.0%	86.7%

The increase in gross written and earned premiums was primarily attributable to increases in liability and marine divisions, as we continued to establish new products and expand profitable lines. Additionally, operations in China and Singapore contributed \$3.9 million in gross written premiums for the three months ended March 31, 2015, as these offices began writing premiums in the latter



part of 2014. Partially offsetting these increases were reductions in the liability and specialty divisions as we continued our planned reductions in these divisions. The Syndicate 1200 segment has been adversely impacted by increased competition in the latter half of 2014 which continued into the first quarter of 2015.

Losses and loss adjustment expenses are reported net of losses ceded to the trade capital providers. The Syndicate 1200 segment reported \$1.0 million in catastrophe losses for the three months ended March 31, 2015 compared to no catastrophe losses for the same period ended 2014. Partially offsetting these current accident year losses was net favorable prior year loss development of \$0.3 million driven by favorable development in the property lines, partially offset by unfavorable development in the general liability lines. Included in losses and loss adjustment expenses for the three months ended March 31, 2014 was net favorable prior year loss development of \$8.8 million driven by several lines including professional indemnity and other liability lines, property, aviation and space, and marine specialty.

The decline in the expense ratio for the three months ended March 31, 2015 as compared to the same period in 2014 was primarily attributable to a decline in fixed expenses coupled with an increase in earned premiums,

Fee (expense) income, net represents fees and profit commission derived from the management of third party capital for our underwriting syndicate at Lloyd's. The increase in net fee income for the three months ended March 31, 2015 was primarily attributable to increased profit commission due to the reduction in Argo Group's participation in the underwriting results of the syndicate for the 2015 year of account. The increased fee expense, net for the three months ended March 31, 2014 was primarily due to timing differences in expenses incurred as compared to the revenues earned.

### ***Run-off Lines***

The following table summarizes the results of operations for the Run-off Lines segment:

(in millions)	Three Months Ended March 31,	
	2015	2014
Earned premiums	\$ (0.3)	\$ 0.3
Losses and loss adjustment expenses	0.1	5.6
Underwriting, acquisition and insurance expenses	—	2.7
Underwriting loss	(0.4)	(8.0)
Net investment income	2.0	2.5
Interest expense	(0.4)	(0.4)
Income (loss) before income taxes	\$ 1.2	\$ (5.9)

Earned premiums for the three months ended March 31, 2015 and 2014 were primarily attributable to adjustments resulting from final audits, reinstatement premiums and other adjustments on policies previously underwritten.

Losses and loss adjustment expenses for the three months ended March 31, 2015 was the result of net unfavorable prior accident years loss reserve development in our run-off workers compensation and asbestos liability lines partially offset by net favorable reserve development in our run-off reinsurance lines. Losses and loss adjustment expenses for the three months ended March 31, 2014 included \$4.5 million of unfavorable development in our run-off risk management lines. The unfavorable development was the result of higher incurred medical expenses for our workers compensation policies primarily for accident years 1981 and prior and unfavorable development in asbestos liability resulting from commutations and settlements on assumed business.



The following table represents a reconciliation of total gross and net reserves for the Run-off Lines. Amounts in the net column are reduced by reinsurance recoverable.

(in millions)	Three Months Ended March 31,			
	2015		2014	
	Gross	Net	Gross	Net
<b>Asbestos and environmental:</b>				
Loss reserves, beginning of period	\$ 53.9	\$ 50.4	\$ 57.5	\$ 53.3
Incurred losses	1.0	1.0	1.0	1.0
Losses paid	(1.5)	(1.4)	(3.7)	(3.3)
Loss reserves - asbestos and environmental, end of period	53.4	50.0	54.8	51.0
Risk management reserves	254.0	166.5	266.7	176.2
Run-off reinsurance reserves	4.0	4.0	5.4	5.4
Other run-off lines	3.4	3.1	4.3	4.1
<b>Total loss reserves - Run-off Lines</b>	<b>\$ 314.8</b>	<b>\$ 223.6</b>	<b>\$ 331.2</b>	<b>\$ 236.7</b>

Underwriting, acquisition and insurance expenses for the Run-off Lines segment consists primarily of administrative expenses. The decline in underwriting expense for the three months ended March 31, 2015 as compared to the same period of 2014 was due to a \$2.2 million decline in the accrual for premiums taxes and other assessments due to a change in accrual methodology.

### Liquidity and Capital Resources

The primary sources of our cash flows are premiums, reinsurance recoveries, proceeds from sales and redemptions of investments and investment income. The primary cash outflows are claim payments, loss adjustment expenses, reinsurance costs and operating expenses. Additional cash outflow occurs through payments of underwriting and acquisition costs such as commissions, taxes, payroll and general overhead expenses. Management believes that cash receipts from premiums, proceeds from investment sales and redemptions and investment income are sufficient to cover cash outflows in the foreseeable future. Should the need for additional cash arise, we believe we have access to additional sources of liquidity.

Cash provided (used) by operating activities can fluctuate due to timing difference in the collection of premiums and reinsurance recoveries and the payment of losses and expenses. For the three months ended March 31, 2015, and 2014, net cash provided by operating activities was \$27.6 million and \$43.6 million, respectively. The decrease in cash flows from operating activities from 2015 and 2014 was primarily the result of the first quarter 2014 partial settlement of a whole account share contract covering the Syndicate 1200 segment loss reserves for the 2009 and prior year of the account. Partially offsetting the decrease in cash for the comparative period was an increase in cash related to the income tax refund received in the first quarter of 2015 and the timing of reinsurance payments primarily concentrated in the Syndicate 1200 segment.

For the three months ended March 31, 2015, net cash provided by investing activities was \$2.1 million compared to net cash used by investing activities of \$45.0 million for the three months ended March 31, 2014. The increase in cash flows from investing activities from 2015 to 2014 was mainly the result of sales and maturities of fixed maturity investments, partially offset by the outflow of cash associated with the purchases of new investments. As of March 31, 2015, \$271.5 million of the investment portfolio was invested in short-term investments. Included in purchases of fixed assets for the three months ended March 31, 2015 was \$11.2 million associated with the acquisition of real estate holdings, which were purchased on our behalf by a third-party intermediary using funds held in escrow from the fourth quarter 2014 sale of the Torrance, California real estate holdings, as previously disclosed in our December 31, 2014 Form 10-K.

For the three months ended March 31, 2015 and 2014, net cash used by financing activities was \$21.8 million and \$6.8 million, respectively. During the three months ended March 31, 2015 and 2014, we repurchased approximately 0.4 million and 0.2 million shares of our common stock for a total cost of \$18.1 million and \$7.5 million, respectively. We paid dividends to our shareholders totaling \$5.7 million and \$4.0 million during the three months ended March 31, 2015 and 2014, respectively.

On March 7, 2014, each of Argo Group, Argo Group US, Inc., Argo International Holdings Limited, and Argo Underwriting Agency Limited (the "Borrowers") entered into a \$175.0 million credit agreement ("Credit Agreement") with JPMorgan Chase Bank, N.A., as administrative agent. The Credit Agreement provides for a \$175.0 million revolving credit facility with a maturity date of March 7, 2018 unless extended in accordance with the terms of the Credit Agreement. Borrowings under the Credit Agreement may be used for general corporate purposes, including working capital and permitted acquisitions, and each of the Borrowers has agreed to be jointly and severally liable for the obligations of the other Borrowers under the Credit Agreement.

The Credit Agreement contains customary events of default. If an event of default occurs and is continuing, the Borrowers could be required to repay all amounts outstanding under the Credit Agreement. Lenders holding at least a majority of the loans and commitments under the Credit Agreement may elect to accelerate the maturity of the loans and/or terminate the commitments under the Credit Agreement upon the occurrence and during the continuation of an event of default. No defaults or events of defaults have occurred as of the date of this filing.

Included in the Credit Agreement is a provision that allows up to \$17.5 million of the revolving credit facility to be used for letters of credit (“LOCs”), subject to availability. As of March 31, 2015, there were no borrowings outstanding and \$0.2 million in LOCs against the Credit Facility.

On February 17, 2015, our Board of Directors declared a 10% stock dividend, payable on March 16, 2015, to shareholders of record at the close of business on March 2, 2015. Shareholders received cash in lieu of fractional shares. On February 17, 2015, our Board of Directors declared a quarterly cash dividend in the amount of \$0.20 on each share of common stock outstanding, on a post-stock dividend basis. On March 19, 2015, we paid \$5.7 million to our shareholders of record on March 2, 2015. On May 5, 2015, our Board of Directors declared a quarterly cash dividend in the amount of \$0.20 on each share of common stock outstanding. The dividend will be paid on June 15, 2015 to shareholders of record at the close of business on June 1, 2015.

On November 5, 2013, our Board authorized the repurchase of up to \$150.0 million of our common shares (“2013 Repurchase Authorization”). The 2013 Repurchase Authorization supersedes all the previous repurchase authorizations. These shares are being held as treasury shares in accordance with the provisions of the Bermuda Companies Act 1981. As of March 31, 2015, availability under the 2013 Repurchase Authorization for future repurchases of our common shares was \$74.7 million.

Refer to Part II, Item 7 - “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources” in Argo Group’s Annual Report on Form 10-K for the year ended December 31, 2014 that Argo Group filed with the SEC on February 27, 2015 for further discussion on Argo Group’s liquidity.

### **Recent Accounting Standards and Critical Accounting Estimates**

#### *New Accounting Standards*

The discussion of the adoption and pending adoption of recently issued accounting policies is included in Note 2, “Recently Issued Accounting Standards,” in the Notes to the Consolidated Financial Statements, included in Part I, Item 1 - “Consolidated Financial Statements (unaudited).”

#### *Critical Accounting Estimates*

Refer to “Critical Accounting Estimates” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014 that we filed with the SEC on February 27, 2015 for information on accounting policies that we consider critical in preparing our consolidated financial statements. These policies include significant estimates made by management using information available at the time the estimates were made. However, these estimates could change materially if different information or assumptions were used.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We believe that we are principally exposed to three types of market risk: interest rate risk, credit risk and foreign currency risk.

#### ***Interest Rate Risk***

Our fixed investment portfolio is exposed to interest rate risk. Fluctuations in interest rates have a direct impact on the fair valuation of these securities. As interest rates rise, the fair value of our fixed maturity portfolio generally falls, and the converse is generally also true. We manage interest rate risk through an asset liability strategy that involves the selection of investments with appropriate characteristics, such as duration, yield, currency and liquidity that are tailored to the anticipated cash outflow characteristics of our liabilities. A significant portion of the investment portfolio matures each quarter, allowing for reinvestment at current market rates.

#### ***Credit Risk***

Credit risk is a major factor of our overall enterprise risk, and we have established policies and procedures to evaluate our exposure to credit risk, particularly with respect to our investment holdings and our receivable balances. In particular, we are exposed to credit risk on losses recoverable from reinsurers and receivables from insureds. Downturns in one sector or market can adversely impact other

sectors and may result in higher credit exposure. We do not currently use credit default swaps to mitigate our credit exposure from either investments or counterparties.

We invest in the debt securities markets, which exposes us to credit risk. As a consequence of extending credit and/or carrying investment positions, we have exposure to credit risk arising from the uncertainty associated with a financial instrument obligor's ability to make timely principal and/or interest payments. We attempt to mitigate this risk by limiting credit concentrations, diversification and frequently monitoring the credit quality of issuers and counterparties.

We have exposure to credit risk primarily as a holder of fixed maturity investments, short-term investments and other investments. Our risk management strategy and investment policy is to primarily invest in debt instruments of high credit quality issuers and to limit the amount of credit exposure with respect to particular ratings categories and any one issuer. We control our credit exposure related to receivables by limiting our exposure to any one counterparty and evaluating the financial strength of our reinsurance counterparties, including generally requiring minimum credit ratings. In certain cases, we also receive collateral from our customers and reinsurance counterparties, which reduces our credit exposure in certain instances.

As shown on the accompanying table, our fixed maturities portfolio is diversified among different types of investments. The securities are principally rated by one or more Nationally Recognized Statistical Rating Organizations (i.e., Standard & Poor's, Moody's Investors Services, Inc., and Fitch Ratings, Ltd). If a security has two ratings, the lower rating is used, and if a security has three ratings, the middle rating is used in the preparation of this table. At March 31, 2015, our fixed maturities portfolio had a weighted average rating of A+, with 69.2% (\$1.9 billion fair value) rated A or better and 31.1% (\$866.8 million fair value) rated AAA. Our portfolio included 11.0% (\$307.5 million fair value) of less than investment grade (BB+ or lower) fixed maturities at March 31, 2015.

(in millions)	Fair Value					Total
	AAA	AA	A	Other		
USD denominated:						
U.S. Governments	\$ 182.2	\$ —	\$ —	\$ 0.6	\$ 182.8	
Non-U.S. Governments	30.3	13.4	6.0	31.8	81.5	
Obligations of states and political subdivisions	114.4	273.2	70.0	22.4	480.0	
Credit-Financial	6.0	49.8	277.9	151.0	484.7	
Credit-Industrial	2.4	12.0	76.5	379.0	469.9	
Credit-Utility	—	11.1	27.6	108.5	147.2	
Structured securities:						
CMO/MBS-agency	168.7	—	—	—	168.7	
CMO/MBS-non agency	—	7.9	0.9	4.6	13.4	
CMBS	109.8	38.1	8.8	29.3	186.0	
ABS	138.6	6.7	31.0	47.1	223.4	
Foreign denominated:						
Governments	83.1	32.5	3.2	22.8	141.6	
Credit	31.3	39.9	75.7	62.5	209.4	
Total fixed maturities	\$ 866.8	\$ 484.6	\$ 577.6	\$ 859.6	\$ 2,788.6	

We also hold a diversified investment portfolio of common stocks in various industries and market segments, ranging from small market capitalization stocks to large capitalization companies. Marketable equity securities are carried on our Consolidated Balance Sheets at fair value, and are subject to the risk of potential loss in fair value resulting from adverse changes in prices. At March 31, 2015, the fair value of our equity securities portfolio was \$483.4 million.

### **Foreign Currency Risk**

We have exposure to foreign currency risk in both our insurance contracts and invested assets, and to a lesser extent in a portion of our debt. Some of our insurance contracts provide that ultimate losses may be payable in various foreign currencies. Foreign currency exchange rate risk exists where we do not have cash or securities denominated in the currency for which we will ultimately pay the claims. Thus, we attempt to manage our foreign currency risk by seeking to match our liabilities under insurance and reinsurance policies that are payable in foreign currencies with cash and investments that are denominated in such currencies. In certain instances, we use foreign exchange forward to mitigate this risk. Due to the extended time frame for settling the claims plus the fluctuation in currency exchange rates, the potential exists for us to realize gains and/or losses related to foreign exchange rates. In addition, we may experience foreign currency gains or losses related to exchange rate fluctuations in operating expenses as certain operating costs are payable in currencies other than the U.S. Dollar. For the three months ended March 31, 2015, we recorded realized gains of \$9.6 million from movements in foreign currency rates on our insurance operations. In addition, we recorded realized losses of \$5.3 million from movements on foreign currency rates in our investment portfolio and realized gains of \$10.8 million from our currency forward

contracts for the three months ended March 31, 2015. We had unrealized losses at March 31, 2015 of \$45.8 million in movements on foreign currency rates in our investment portfolio, which are recorded in “Other comprehensive income, net of taxes” in our Consolidated Balance Sheets. These losses are principally related to the strengthening of the U.S. Dollar versus other foreign currencies.

#### **Item 4. Controls and Procedures**

Argo Group, under the supervision and with the participation of its management, including the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the design and operation of our “disclosure controls and procedures” (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (“Exchange Act”)) as of the end of the period covered by this report. In designing and evaluating these disclosure controls and procedures, Argo Group and its management recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating and implementing possible controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective at the reasonable assurance level to ensure that information required to be disclosed by Argo Group in the reports filed or submitted under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms.

There were no changes in the internal control over financial reporting made during the quarter ended March 31, 2015 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We review our disclosure controls and procedures, which may include internal controls over financial reporting, on an ongoing basis. From time to time, management makes changes to enhance the effectiveness of these controls and ensure that they continue to meet the needs of our business activities over time.

## **PART II. OTHER INFORMATION**

#### **Item 1. Legal Proceedings**

Our subsidiaries are parties to legal actions incidental to their business. Based on the opinion of counsel, management believes that the resolution of these matters will not materially affect our financial condition or results of operations.

#### **Item 1A. Risk Factors**

See “Risk Factors” in the Argo Group Annual Report on Form 10-K for the year ended December 31, 2014 for a detailed discussion of the additional risk factors affecting us.

#### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

##### **Issuer Purchase of Equity Securities**

On November 5, 2013, our Board authorized the repurchase of up to \$150.0 million of our common shares (“2013 Repurchase Authorization”). The 2013 Repurchase Authorization supersedes all the previous Repurchase Authorizations.

From January 1, 2015 through March 31, 2015, we have repurchased a total 353,054 shares of our common shares for a total cost of \$18.1 million. Since the inception of the repurchase authorizations through March 31, 2015, we have repurchased 8,959,543 shares of our common stock at an average price of \$35.66 for a total cost of \$319.5 million. These shares are being held as treasury shares in accordance with the provisions of the Bermuda Companies Act 1981. As of March 31, 2015, availability under the 2013 Repurchase Authorization for future repurchases of our common shares was \$74.7 million.

The following table provides information with respect to shares of our common stock that were repurchased or surrendered during the three months ended March 31, 2015:

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share (b)	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program (c)	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plan or Program (d)
January 1 through January 31, 2015	68,337	\$ 53.44	68,337	\$ 89,149,318
February 1 through February 28, 2015	113,795	\$ 53.44	113,795	\$ 83,067,707
March 1 through March 31, 2015	170,922	\$ 49.16	170,922	\$ 74,664,587
Total	353,054	\$ 51.37	353,054	

Employees are allowed to surrender shares to settle the tax liability incurred upon the vesting or exercise of shares under our various employees equity compensation plans. For the three months ended March 31, 2015, we did not received any shares of our common stock that were surrendered by employees in payment for the minimum required withholding taxes

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Mine Safety Disclosures

Not applicable.

### Item 5. Other Information

#### Submission of Matters to a Vote of Security Holders

The Company held its 2015 Annual General Meeting on May 5, 2015. At the 2015 Annual General Meeting, the Company's shareholders (1) elected the Company's three Class II director nominees to the Company's board of directors, (2) voted for the Company's executive compensation on a non-binding, advisory basis, and (3) approved Ernst & Young LLP's appointment as the Company's independent auditors for the fiscal year ending December 31, 2015.

The results of each vote, including the number of abstentions and broker non-votes, are set forth below for each matter brought to a shareholder vote at the 2015 Annual General Meeting.

<u>Director</u>	<u>For</u>	<u>Against</u>	<u>Abstentions</u>	<u>Broker Non-Votes</u>
Hector De Leon	21,515,323	270,793	12,978	1,976,470
Mural R. Josephson	21,520,909	264,773	13,412	1,976,470
Gary V. Woods	21,520,836	266,138	12,120	1,976,470

  

	<u>For</u>	<u>Against</u>	<u>Abstentions</u>	<u>Broker Non-Votes</u>
Advisory Approval of Executive Compensation	21,544,563	216,415	38,116	1,976,470

  

	<u>For</u>	<u>Against</u>	<u>Abstentions</u>	<u>Broker Non-Votes</u>
Appointment of Independent Auditors	23,597,828	165,826	11,910	—

### Item 6. Exhibits

A list of exhibits required to be filed as part of this report is set forth in the Exhibit Index of this Form 10-Q, which immediately precedes such exhibits, and is incorporated herein by reference.

## EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
10.1	Executive Employment Agreement, effective as of February 17, 2015, between Argo Group International Holdings, Ltd. and Jay S. Bullock (incorporated by reference to Exhibit 10.1 to the Current Report of Argo Group International Holdings, Ltd. on Form 8-K filed on February 23, 2015)
10.2	Form of Performance Award Agreement
12.1	Statements of Computation of Ratios of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Share Dividends
31.1	Rule 13a – 14(a)/15d – 14(a) Certification of the Chief Executive Officer
31.2	Rule 13a – 14(a)/15d – 14(a) Certification of the Chief Financial Officer
32.1+	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2+	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

- + This exhibit shall be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

## SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### **ARGO GROUP INTERNATIONAL HOLDINGS, LTD.**

May 8, 2015

By /s/ Mark E. Watson III

Mark E. Watson III

President and Chief Executive Officer

May 8, 2015

By /s/ Jay S. Bullock

Jay S. Bullock

Executive Vice President and Chief Financial Officer

**PERFORMANCE AWARD AGREEMENT**

This Performance Award Agreement is made as of the GRANT\_DATE, 'MONTH DD, YYYY' ("Date of Grant"), between ARGO GROUP INTERNATIONAL HOLDINGS, LTD. (the "Company"), and FIRST\_NAME MIDDLE\_NAME LAST\_NAME (the "Participant").

**RECITALS**

A. The Company's 2014 Long-Term Incentive Plan (the "Plan") provides for the granting of performance awards consisting of the right to receive Common Shares of the Company.

B. Pursuant to the Plan, the administration of the Plan has been delegated to the Human Resources Committee of the Board of Directors of the Company (the "Committee").

C. Pursuant to the Plan, the Committee has determined that it is in the best interest of the Company and its stockholders to make a performance restricted share unit grant to the Participant covering a defined amount of Common Shares (the "target grant" or "grant at target") of the Company and has approved the execution of this Performance Award Agreement (the "Agreement") between the Company and the Participant, contingent upon achievement of performance goals and thresholds set forth in Exhibit A hereto, as an inducement to remain in the employ of the Company and as an incentive for increased effort during such service, and has approved the execution of this Agreement between the Company and the Participant. The amount of the target grant may be adjusted upwards or downwards based on the criteria set forth in Exhibit A to determine the final amount of the award prior to vesting and issuance (the "Earned Shares").

D. All capitalized terms that are used in this Agreement and not otherwise defined herein shall have the meanings ascribed to them in the Plan.

**AGREEMENT**

NOW, THEREFORE, the parties hereto agree as follows:

1. The Company hereby makes a performance restricted share unit grant to the Participant, on the terms and conditions hereinafter set forth, in the target grant amount of TOTAL\_SHARES\_GRANTED Common Shares (the "Shares") of the Company, subject to the achievement of the performance conditions set forth in Exhibit A hereto.

2. Participant shall not be deemed vested in or to have earned the Shares and shall not have any of the rights or privileges of a stockholder of the Company in respect of the Shares until such Shares have vested (such Shares being referred to as "Vested Shares") as hereinafter provided. Until Shares become Vested Shares, the Company shall not issue certificates representing such Shares. The Earned Shares shall become Vested Shares on the [fourth] anniversary of the Date of Grant, provided that on such date the Participant remains an employee



of the Company or a subsidiary corporation (as defined in Section 424(f) of the United States Internal Revenue Code of 1986, as amended (the "Code")). Dividends declared during the vesting period with respect to the Shares can accumulate, but may only be paid to Participant at the time of issuance of the Vested Shares and shall only be paid with respect to the Vested Shares.

In the event that the Participant ceases for any reason (other than as indicated in Section 3 or Section 4 below) to be an employee of the Company or any subsidiary corporation of the Company prior to an indicated date for vesting, then all Shares which had not theretofore become Vested Shares shall automatically be forfeited and returned to the Company.

3. In the event of a Change in Control, the number of Earned Shares will be determined as set forth in Exhibit A. Notwithstanding the vesting date set forth in Section 2, all shares subject to this grant shall become immediately vested if within [twenty-four (24)] months after the occurrence of a Change in Control, Participant's employment is involuntarily terminated by the Company or any of its Subsidiaries for any reason other than Cause or Participant's death or Disability, or Participant's voluntarily termination of his or her employment with the Company and all Subsidiaries for Good Reason within sixty (60) days after the occurrence of the event giving rise to such Good Reason. As used herein, "Good Reason" shall be defined as defined in Participant's employment agreement with the Company or any of its affiliates.

4. Notwithstanding the vesting provisions set forth in Section 2 of this Agreement, in the event that the Participant's termination of employment is due to death or Disability, the number of Shares earned based on the achievement of the performance goals as set forth in Exhibit A and calculated as of the date of termination shall become Vested Shares. In addition, for purposes of said Section 2, the employment of the Participant shall be deemed to continue during any leave of absence which has been authorized by the Company, unless the Committee makes a different or contrary determination.

5. No Shares shall be issued and delivered unless and until there shall have been full compliance with all applicable requirements of the United States Securities Act of 1933, all applicable listing requirements of any national securities exchange on which shares of the same class are then listed and any other requirements of law or of any regulatory bodies having jurisdiction over such issuance and delivery.

6. In connection with the vesting of Shares in accordance with this Agreement, or at any other time that the Company is required to make withholding under applicable tax law, the Company shall have the right to require Participant or Participant's legal successor in interest to pay the Company the amount of taxes, if any, which the Company may be required to withhold with respect to such Shares. The Company shall have the right, without the Participant's prior approval or direction, to satisfy such withholding tax by withholding all or any part of the Shares that would otherwise become Vested Shares, with any Shares so withheld to be valued at the fair market value of the Common Share on the date of such withholding. Any Shares withheld to satisfy this obligation will not exceed the minimum statutory withholding requirement. The Participant, with the consent of the Company, may satisfy such withholding tax (i) in cash or

certified or cashier's check payable to the order of the Company, or (ii) by having the Company withhold Shares that would otherwise become Vested Shares, with any Shares so withheld to be valued at the fair market value of the Common Share on the date of such withholding, or any combination thereof.

7. Shares that are the subject of this grant, and the rights and privileges pertaining thereto, shall not be transferred, assigned, pledged or hypothecated in any way, whether by operation of the law or otherwise, except by will or the laws of descent and distribution; provided, that the foregoing restriction on transfer shall cease to apply as and to the extent that the Shares become Vested Shares. Upon any attempt so to transfer, assign, pledge, hypothecate or otherwise dispose of Shares contrary to the provisions hereof, this Agreement and all rights and privileges contained herein shall immediately become null and void and of no further force or effect.

8. If the outstanding common shares of the Company are increased, decreased, changed into, or exchanged for a different number or kind of shares or securities of the Company through reorganization, recapitalization, reclassification, stock dividend, stock split or reverse stock split, or other similar transaction, an appropriate and proportionate adjustment (to be conclusively determined by the Committee) shall be made in the number and kind of securities subject to this Agreement.

Upon the dissolution or liquidation of the Company, or upon a reorganization, merger or consolidation of the Company with one or more corporations as a result of which the Company is not the surviving corporation, or upon the sale of substantially all the assets or more than 80% of the then outstanding stock of the Company to another corporation, then unless express written provision is made in connection with such transaction for the assumption of this Agreement or the substitution therefore of a new restricted share unit award covering the stock of a successor employer corporation, or a parent or subsidiary thereof, with appropriate adjustments as to number and kind of securities, such adjustments to be conclusively determined by the Committee, the Participant shall receive a payment in cash or stock in lieu of and in complete satisfaction of the performance restricted stock units evidenced by this Agreement.

Adjustments under this Section 8 shall be made by the Committee, whose determination as to what adjustments shall be made, and the extent thereof shall be final, binding and conclusive. No fractional shares of stock shall be issued under the Plan on any such adjustment.

9. Neither the Participant nor any other person legally entitled to the benefits hereof shall be entitled to any of the rights or privileges of a stockholder of the Company in respect of any of the Shares unless and until a certificate or certificates representing such Shares shall have been actually issued and delivered to him.

10. Confidential Information.

a. The Company shall disclose to the Participant, or place the Participant in a position to have access to or develop, trade secrets or confidential information of the Company

or its Affiliates (as defined below); and/or shall entrust the Participant with business opportunities of the Company or its Affiliates; and/or shall place the Participant in a position to develop business good will on behalf of the Company or its Affiliates.

b. The Participant acknowledges that during his employment with the Company he occupies a position of trust and confidence and agrees that he shall treat as confidential and shall not, without prior written authorization from the Company, directly or indirectly, disclose or make known to any person or use for his own benefit or gain, the methods, process or manner of accomplishing the business undertaken by the Company or its Affiliates, or any non-public information, plans, formulas, products, trade secrets, marketing or merchandising strategies, or confidential material or information and instructions, technical or otherwise, issued or published for the sole use of the Company, or information which is disclosed to the Participant or in any acquired by him during his employment with the Company, or any information concerning the present or future business, processes, or methods of operation of the Company or its Affiliates, or concerning improvement, inventions or know how relating to the same or any part thereof, it being the intent of the Company, with which intent the Participant hereby agrees, to restrict him from disseminating or using for his own benefit any information belonging directly or indirectly to the Company which is unpublished and not readily available to the general public (collectively, "Confidential Information").

c. The confidentiality obligations set forth in (a) and (b) of this Section 10 shall apply during the Participant's employment by the Company and indefinitely thereafter.

d. All information, ideas, concepts, improvements, discoveries, and inventions, whether patentable or not, that are conceived, made, developed or acquired by the Participant, individually or in conjunction with others, during the Participant's employment with the Company (whether during business hours or otherwise and whether on the premises of the Company or an Affiliate or otherwise) that relate to the business, products or services of the Company or any Affiliate shall be disclosed to the Board and are and shall be the sole and exclusive property of the Company or such Affiliate. Moreover, all documents, drawings, memoranda, notes, records, files, correspondence, manuals, models, specifications, computer programs, e-mail, voice mail, electronic data bases, maps and all other writings and materials of any type embodying any such information, ideas, concepts, improvements, discoveries and inventions are and shall be the sole and exclusive property of the Company. Upon termination of the Participant's employment for any reason, the Participant promptly shall deliver the same, and all copies thereof, to the Company.

e. If, during the Participant's employment by the Company, the Participant creates any work of authorship fixed in any tangible medium of expression that is the subject matter of copyright (such as video tapes, written presentations, or acquisitions, computer programs, e-mail, voice mail, electronic data bases, drawings, maps, architectural renditions, models, manuals, brochures or the like) relating to the Company's business, products or services, whether such work is created solely by the Participant or jointly with others (whether during business hours or otherwise and whether on the Company's premises or otherwise), the Company shall be deemed the author of such work if the work is prepared by the Participant in the scope of the Participant's employment.

11. Non-Solicitation.

a. For the purposes of this Section, the following words have the following meanings:

i. “Affiliate” means, with respect to any individual or a corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or political subdivision thereof) or other entity of any kind (each a “person”), any other person that directly or indirectly controls or is controlled by or under common control with such person. For the purposes of this definition, “control” when used with respect to any person, means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of such person, whether through the ownership of voting securities, by contract or otherwise; and the terms of “affiliated”, “controlling” and “controlled” have meanings correlated to the foregoing.

ii. “Company Services” means any services (including but not limited to technical and product support, technical advice, underwriting and customer services) supplied by the Company or its Affiliates in the specialty property and/or casualty insurance business.

iii. “Confidential Information” has the meaning ascribed thereto in Section 10.

iv. “Customer” means any person or firm or company or other organization whatsoever to whom or which the Company supplied Company Services during the Restricted Period and with whom or which, during the Restricted Period : (x) the Participant had material personal dealings pursuant to his employment, or (y) any employee who was under the direct or indirect supervision of the Participant had material personal dealings pursuant to his or her employment.

v. “Prospective Customer” means any person or firm or company or other organization whatsoever with whom or which the Company or its Affiliates shall have had negotiations or material discussions regarding the possible distribution, sale or supply of Company Services during the Restricted Period and with whom or which during such period: (x) the Participant shall have had material personal dealings pursuant to his employment, or (y) any employee who was under the direct or indirect supervision of the Participant shall have had material personal dealings pursuant to his or her employment, or (z) the Participant was directly responsible in a client management capacity on behalf of the Company.

vi. “Restricted Employee” means any person who on the date of the Participant’s termination of employment by the Company was at the level of director, manager, underwriter or salesperson with whom the Participant had material contact or dealings in the course of his employment during the Restricted Period;

vii. “Restricted Period” means the period of twelve months ending on the last day of the Participant’s employment with the Company or, in the event that no duties were assigned to the Participant, the twelve months immediately preceding the last day on which the Participant carried out any duties for the Company.

viii. “Restricted Services” means Company Services or any services of the same or of a similar kind.

b. The Participant recognizes that, while performing his duties for the Company, he will have access to and come into contact with trade secrets and Confidential Information belonging to the Company and its Affiliates and will obtain personal knowledge of and influence over its or their customers and/or employees. The Participant therefore agrees that the restrictions set out in this Section 11 are reasonable and necessary to protect the legitimate business interests of the Company and its Affiliates both during and after the termination of his employment.

c. The Participant hereby undertakes with the Company that he shall not during his employment with the Company and for the period of twelve months after he ceases to be employed by the Company for any reason, whether the termination is by the Company, by the Participant, due to Disability, without the prior written consent of the Company, whether by himself, through his employers or employees or agents or otherwise, howsoever and whether on his own behalf or on behalf of any other person, firm, company or other organization directly or indirectly:

i.in competition with the Company, solicit business from or endeavor to entice away or canvass any Customer or Prospective Customer if such solicitation or canvassing is in respect of Restricted Services;

ii.solicit or induce or endeavor to solicit or induce any Restricted Employee to cease working for or providing services to the Company, or hire any Restricted Employee .

d. This Section 11 shall be for the benefit of the Company and each of its Affiliates and the Company reserves the right to assign the benefit of such provisions to any of its Affiliates, in addition such provisions also apply as though there were substituted for references to “the Company” references to each of its Affiliates in relation to which the Participant has in the course of his duties for the Company or by reason of rendering services to or holding office in such Affiliate: (x) acquired knowledge of its trade secrets or Confidential Information; or (y) had material personal dealings with its Customers or Prospective Customers; or (z) supervised directly or indirectly employees having material personal dealings with its Customers or Prospective Customers but so that references in this Section 11 to “the Company” shall for this purpose be deemed to be replaced by references to the relevant Affiliate. The obligations undertaken by the Participant pursuant to this Section 11 shall, with respect to each Affiliate of the Company, constitute a separate and distinct covenant and the invalidity or unenforceability of any such covenant shall not affect the validity or enforceability of the covenants in favor of any other Affiliate or the Company.

e. While the restrictions in this Section 11 (on which the Participant has had the opportunity to take independent advice, as the Participant hereby acknowledges) are considered by the parties to be reasonable in all the circumstances, it is agreed that if any such restrictions, by themselves, or taken together, shall be adjudged to go beyond what is reasonable in all the circumstances for the protection of the legitimate interests of the Company or its Affiliates but

would be adjudged reasonable if part or parts of the wording thereof were deleted, the relevant restriction or restrictions shall apply with such deletion(s) as may be necessary to make it or them valid and effective.

12. The restricted share award granted hereby is subject to, and the Company and the Participant agree to be bound by, all of the terms and conditions of the Company's 2014 Long-Term Incentive Plan, as the same shall be amended from time to time in accordance with the terms thereof, but no such amendment shall adversely affect the Participant's rights under this grant without the prior written consent of Participant. The terms of the Plan are incorporated into and form part of this Agreement.

13. Miscellaneous.

a. No Representations or Warranties. Neither the Company nor the Committee or any of their representatives or agents has made any representations or warranties to the Participant with respect to the income tax or other consequences of the transactions contemplated by this Agreement, and the Participant is in no manner relying on the Company, the Committee or any of their representatives or agents for an assessment of such tax or other consequences.

b. No Employment Guarantee. Nothing in this Agreement nor in the Plan nor in the making of the Award shall confer on the Participant any right to or guarantee of continued employment with the Company or any of its subsidiaries or in any way limit the right of the Company or any of its subsidiaries to terminate the employment of the Participant at any time.

c. Necessary Acts. The Participant and the Company hereby agree to perform any further acts and to execute and deliver any documents which may be reasonably necessary to carry out the provisions of this Agreement.

d. Section 409A. This Agreement is intended to comply with, or be exempt from, the applicable requirements of Section 409A of the Code and shall be limited, construed and interpreted in accordance with such intent. Notwithstanding any contrary provision in this Agreement, in the event that Participant is a "specified employee" (as defined under Section 409A of the Code), any payment(s) of "nonqualified deferred compensation" (within the meaning of Section 409A of the Code) that are otherwise required to be made under this Agreement as a result of Participant's separation from service (other than a payment that is not subject to Section 409A of the Code) shall be delayed for the first six (6) months following such separation from service (or, if earlier, the date of death of Participant) and shall instead be paid upon the first business day following the expiration of such delay period.

e. Entire Agreement. This Agreement contains the entire understanding, and cancels and supersedes all prior agreements, including, without limitation, any employment agreement between the Company and the Participant relating to the subject matter of this Agreement, and any agreement in principle or oral statement, letter of intent, statement of understanding or guidelines of the parties hereto with respect to the subject matter hereof.

f. Binding Effect; Applicable Law. This Agreement shall bind and inure to the benefit of the Company and its successors and assigns, and the Participant and any heir, legatee, or legal

representative of the Participant. This Agreement shall be interpreted under and governed by and constructed in accordance with the laws of Texas.

g. Administration. The authority to manage and control the operation and administration of this Agreement shall be vested in the Committee, and the Committee shall have all powers with respect to this Agreement as it has with respect to the Plan. Any interpretation of the Agreement by the Committee and any decision made by it with respect to the Agreement are final and binding.

ARGO GROUP INTERNATIONAL HOLDINGS, LTD.

By \_\_\_\_\_  
[ \_\_\_\_\_ ]

## PARTICIPANT

By \_\_\_\_\_

Print Name \_\_\_\_\_

## **Exhibit A**

The Shares underlying the performance restricted share units granted pursuant to the Agreement shall become earned over a [three-year] performance period commencing on the Date of Grant (the “Performance Period”) based on the Company’s attainment of certain [thirty-day] average closing stock price levels, as provided in the payout scale set forth in the table below.

<b>Average Stock Price <sup>1</sup></b>	<b>% of Target Shares Earned <sup>2</sup></b>

<sup>1</sup> The average stock price shall be measured over [thirty] consecutive trading days.

<sup>2</sup> There shall be no interpolation between average stock prices in the payout scale. The percentage of shares earned may exceed 100% to the extent set forth in the above table.

**Forfeiture.** Any Shares that are unearned at the end of the Performance Period shall be forfeited. If the closing stock price of a Common Share on the last day of the Performance Period (or, if such day is not a trading day, on the trading day immediately preceding such day) is less than the closing stock price of a Common Share on the Date of Grant, then any Earned Shares shall be forfeited.

**Death or Disability.** In the event of the Participant’s termination of employment during the Performance Period due to the Participant’s death or Disability, the Participant’s Earned Shares as of the date of termination, if any, shall become fully vested on the date of termination, even if the closing stock price of a Common Share on the date of termination is less than the closing stock price of a Common Share on the Date of Grant, and any unearned Shares shall be forfeited.

**Changes in Capitalization.** In the event of a change to the number or kind of shares or securities of the Company due to an event described in Section 4.2(b) of the Plan, an appropriate and proportionate adjustment (to be conclusively determined by the Committee) shall be made to the average stock price targets set forth in this Exhibit A.

**Change in Control.** In the event of a Change in Control during the Performance Period, the Performance Period shall end on the date of the Change in Control and the final determination of the number of Shares that shall become earned (over and above any Shares that have become earned prior to the date of the Change in Control) shall be based on the per share price to be paid in respect of a Common Share in connection with the Change in Control, as determined by the Committee (the “Change in Control Price”), rather than the [thirty-day] average closing stock price of a Common Share; provided, that no Shares shall become earned unless the Change in Control Price is equal to or greater than the closing stock price of a Common Share on the Date of Grant. Any Earned Shares shall be converted into time-based restricted shares and shall vest in accordance with Section 2 of the Agreement, subject to the accelerated vesting provisions set forth in Section 3 of the Agreement. Any unearned Shares as of the date of the Change in Control shall be forfeited on such date.



**ARGO GROUP INTERNATIONAL HOLDINGS, LTD.**  
**STATEMENTS OF COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES**  
**AND EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED SHARE DIVIDENDS**  
(in millions, except ratios)

	<b>Three Months Ended March 31,</b>		<b>For the Years Ended December 31,</b>				
	<b>2015</b>	<b>2014</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Earnings:</b>							
Income (loss) before provision for income taxes	\$ 62.4	\$ 42.7	\$ 216.0	\$ 179.7	\$ 66.7	\$ (61.9)	\$ 121.9
<b>Add:</b>							
Fixed charges	6.0	6.3	24.8	25.1	28.4	26.7	26.6
<b>Total earnings</b>	<b>\$ 68.4</b>	<b>\$ 49.0</b>	<b>\$ 240.8</b>	<b>\$ 204.8</b>	<b>\$ 95.1</b>	<b>\$ (35.2)</b>	<b>\$ 148.5</b>
<b>Fixed charges:</b>							
Interest expense	\$ 4.9	\$ 5.0	\$ 19.9	\$ 20.2	\$ 23.7	\$ 22.1	\$ 22.9
Rental interest factor	1.1	1.3	4.9	4.9	4.7	4.6	3.7
<b>Total fixed charges</b>	<b>\$ 6.0</b>	<b>\$ 6.3</b>	<b>\$ 24.8</b>	<b>\$ 25.1</b>	<b>\$ 28.4</b>	<b>\$ 26.7</b>	<b>\$ 26.6</b>
<b>Ratio of earnings to fixed charges</b>	<b>11.4:1</b>	<b>7.8:1</b>	<b>9.7:1</b>	<b>8.2:1</b>	<b>3.3:1</b>	<b>(a)</b>	<b>5.6:1</b>

(a) The coverage deficiency for the year ended December 31, 2011 is \$61.9 million.

**Rule 13a-14(a)/15d-14(a)**  
**Certification of the Chief Executive Officer**

I, Mark E. Watson III, President and Chief Executive Officer of Argo Group International Holdings, Ltd., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Argo Group International Holdings, Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2015

/s/ Mark E. Watson III

Mark E. Watson III

President and Chief Executive Officer

**Rule 13a-14(a)/15d-14(a)**  
**Certification of the Chief Financial Officer**

I, Jay S. Bullock, Executive Vice President and Chief Financial Officer of Argo Group International Holdings, Ltd., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Argo Group International Holdings, Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2015

/s/ Jay S. Bullock

Jay S. Bullock

Executive Vice President and Chief Financial Officer

**Certification of CEO Pursuant to  
18 U.S.C. Section 1350,  
as Adopted Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of Argo Group International Holdings, Ltd. (the “Company”) for the quarterly period ended March 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Mark E. Watson III, as President and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

\* \* \*

Certified this 8<sup>th</sup> day of May 2015.

/s/ Mark E. Watson III  
\_\_\_\_\_  
Mark E. Watson III  
President and Chief Executive Officer

**Certification of CFO Pursuant to  
18 U.S.C. Section 1350,  
as Adopted Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of Argo Group International Holdings, Ltd. (the “Company”) for the quarterly period ended March 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Jay S. Bullock, as Executive Vice President and Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002 that, to the best of his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

\* \* \*

Certified this 8<sup>th</sup> day of May 2015.

/s/ Jay S. Bullock

Jay S. Bullock

Executive Vice President and Chief Financial Officer