
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, 2017**

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

Emerging growth company ☐

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

If an emerging growth company, indicate by check mark whether the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate the number of shares outstanding (net of treasury shares) of each of the issuer's classes of common shares as of May 1, 2017.

Title
Common Shares, par value \$1.00 per share

Outstanding
30,190,006

ARGO GROUP INTERNATIONAL HOLDINGS, LTD.

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

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

	March 31, 2017	December 31, 2016 *
	(Unaudited)	
Assets		
Investments:		
Fixed maturities available-for-sale, at fair value (cost: 2017 - \$3,029.5; 2016 - \$2,938.8)	\$ 3,035.3	\$ 2,932.4
Equity securities available-for-sale, at fair value (cost: 2017 - \$329.5; 2016 - \$335.2)	447.2	447.4
Other investments (cost: 2017 - \$548.0; 2016 - \$531.6)	555.4	539.0
Short-term investments, at fair value (cost: 2017 - \$527.7; 2016 - \$405.5)	527.7	405.5
Total investments	4,565.6	4,324.3
Cash	190.7	86.0
Accrued investment income	21.8	20.7
Premiums receivable	657.7	463.8
Reinsurance recoverables	1,427.0	1,385.6
Goodwill	152.2	152.2
Intangible assets, net of accumulated amortization	107.1	67.7
Deferred acquisition costs, net	155.1	139.1
Ceded unearned premiums	438.6	302.8
Other assets	303.7	262.8
Total assets	\$ 8,019.5	\$ 7,205.0
Liabilities and Shareholders' Equity		
Reserves for losses and loss adjustment expenses	\$ 3,580.3	\$ 3,350.8
Unearned premiums	1,130.4	970.0
Accrued underwriting expenses	121.6	115.0
Ceded reinsurance payable, net	611.6	466.6
Funds held	40.5	77.1
Senior unsecured fixed rate notes	139.5	139.5
Other indebtedness	180.3	55.4
Junior subordinated debentures	256.3	172.7
Current income taxes payable, net	8.0	8.1
Deferred tax liabilities, net	43.1	24.1
Other liabilities	73.3	33.0
Total liabilities	6,184.9	5,412.3
Commitments and contingencies (Note 16)		
Shareholders' equity:		
Common shares - \$1.00 par, 500,000,000 shares authorized; 40,183,538 and 40,042,330 shares issued at March 31, 2017 and December 31, 2016, respectively	40.2	40.0
Additional paid-in capital	1,122.7	1,123.3
Treasury shares (10,028,755 shares at March 31, 2017 and December 31, 2016)	(378.2)	(378.2)
Retained earnings	988.3	959.9
Accumulated other comprehensive income, net of taxes	61.6	47.7
Total shareholders' equity	1,834.6	1,792.7
Total liabilities and shareholders' equity	\$ 8,019.5	\$ 7,205.0

* Derived from audited consolidated financial statements.

See accompanying notes.

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

	For the Three Months Ended March 31,	
	2017	2016
Premiums and other revenue:		
Earned premiums	\$ 379.4	\$ 344.9
Net investment income	30.5	21.2
Fee and other income	3.6	6.8
Net realized investment and other gains (losses)	14.6	(2.8)
Total revenue	428.1	370.1
Expenses:		
Losses and loss adjustment expenses	222.5	191.6
Underwriting, acquisition and insurance expenses	153.6	132.6
Interest expense	5.9	4.8
Fee and other expense	4.1	6.5
Foreign currency exchange (gains) losses	(0.7)	1.5
Total expenses	385.4	337.0
Income before income taxes	42.7	33.1
Provision for income taxes	6.0	5.4
Net income	\$ 36.7	\$ 27.7
Net income per common share:		
Basic	\$ 1.22	\$ 0.91
Diluted	\$ 1.19	\$ 0.89
Dividend declared per common share	\$ 0.27	\$ 0.20
Weighted average common shares:		
Basic	30,047,083	30,479,243
Diluted	30,941,409	31,132,221

	For the Three Months Ended March 31,	
	2017	2016
Net realized investment and other gains before other-than-temporary impairment losses	\$ 15.0	\$ (1.1)
Other-than-temporary impairment losses recognized in earnings:		
Other-than-temporary impairment losses on fixed maturities	—	(0.6)
Other-than-temporary impairment losses on equity securities	(0.4)	(1.1)
Impairment losses recognized in earnings	(0.4)	(1.7)
Net realized investment and other gains (losses)	\$ 14.6	\$ (2.8)

See accompanying notes.

ARGO GROUP INTERNATIONAL HOLDINGS, LTD.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions)
(Unaudited)

	For the Three Months Ended March 31,	
	2017	2016
Net income	\$ 36.7	\$ 27.7
Other comprehensive income:		
Foreign currency translation adjustments	0.6	1.5
Unrealized gains on securities:		
Gains arising during the year	34.1	38.8
Reclassification adjustment for gains included in net income	(16.2)	(7.8)
Other comprehensive income before tax	18.5	32.5
Income tax provision related to other comprehensive loss:		
Unrealized gains on securities:		
Gains arising during the year	9.8	7.8
Reclassification adjustment for gains included in net income	(5.2)	(4.1)
Income tax provision related to other comprehensive loss	4.6	3.7
Other comprehensive income, net of tax	13.9	28.8
Comprehensive income	\$ 50.6	\$ 56.5

See accompanying notes.

ARGO GROUP INTERNATIONAL HOLDINGS, LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)
(Unaudited)

	For the Three Months Ended March 31,	
	2017	2016
Cash flows from operating activities:		
Net income	\$ 36.7	\$ 27.7
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization and depreciation	8.3	10.0
Share-based payments expense	4.9	3.0
Deferred income tax provision, net	6.0	3.9
Net realized investment and other (gains) losses	(14.6)	2.8
Undistributed earnings from alternative investment portfolio	(8.3)	1.6
Loss on disposals of fixed assets, net	1.8	0.1
Amortization of debt issuance costs	—	0.1
Change in:		
Accrued investment income	(0.9)	0.3
Receivables	22.8	(71.5)
Deferred acquisition costs	(6.1)	(3.9)
Ceded unearned premiums	(43.1)	(56.7)
Reserves for losses and loss adjustment expenses	23.3	14.6
Unearned premiums	7.3	19.7
Ceded reinsurance payable and funds held	(36.6)	107.5
Income taxes	0.5	2.4
Accrued underwriting expenses	(19.2)	(8.8)
Other, net	(19.7)	(1.4)
Cash (used in) provided by operating activities	(36.9)	51.4
Cash flows from investing activities:		
Sales of fixed maturity investments	383.6	304.1
Maturities and mandatory calls of fixed maturity investments	182.1	133.2
Sales of equity securities	53.4	74.6
Sales of other investments	17.0	2.0
Purchases of fixed maturity investments	(601.6)	(389.5)
Purchases of equity securities	(33.5)	(35.8)
Purchases of other investments	(9.3)	(33.3)
Change in foreign regulatory deposits and voluntary pools	(5.2)	(1.1)
Change in short-term investments	125.5	(54.8)
Settlements of foreign currency exchange forward contracts	(2.8)	(3.9)
Acquisition of subsidiaries, net of cash acquired	(83.1)	—
Purchases of fixed assets	(4.9)	(6.8)
Other, net	3.6	(14.2)
Cash provided by (used in) investing activities	24.8	(25.5)
Cash flows from financing activities:		
Additional long-term borrowings	125.0	—
Activity under stock incentive plans	0.2	0.3
Repurchase of Company's common shares	—	(19.0)
Payment of cash dividends to common shareholders	(8.3)	(6.2)
Cash provided by (used in) financing activities	116.9	(24.9)
Effect of exchange rate changes on cash	(0.1)	0.2
Change in cash	104.7	1.2
Cash, beginning of year	86.0	121.7
Cash, end of period	\$ 190.7	\$ 122.9

See accompanying notes.

ARGO GROUP INTERNATIONAL HOLDINGS, LTD.
NOTES TO CONDENSED 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 U.S. generally accepted accounting principles (“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, 2016, filed with the Securities and Exchange Commission on February 24, 2017.

Effective February 6, 2017, we completed the acquisition of Maybrooke Holdings, S.A. (“Maybrooke”) and its direct subsidiaries, including Ariel Re. We have accounted for the acquisition in accordance with Accounting Standards Codification (“ASC”) 805, “Business Combinations,” and the purchase price has been preliminarily allocated to the assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. See Note 3, “Acquisition of Maybrooke,” for additional discussion regarding the acquisition and the related financial disclosures. The Consolidated Financial Statements as of and for the three months ended March 31, 2017 and the Notes to the Consolidated Financial Statements reflect the consolidated results of Argo Group and Maybrooke commencing on the date of acquisition.

The interim financial information as of, and for the three months ended, March 31, 2017 and 2016 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.

During the first quarter of 2017, we evaluated and modified the presentation of our reportable segments to better reflect our new operating framework and management structure. Under this model, Argo Group’s chief operating decision maker – Mark E. Watson III, President and Chief Executive Officer – evaluates performance and allocates resources based on the review of the U.S. Operations and the International Operations. The U.S. Operations includes the former Excess & Surplus and Commercial Specialty reportable segments. The International Operations includes the former Syndicate 1200, International Specialty reportable segments, and the recently acquired Ariel Re business. (See Note 3, “Acquisition of Maybrooke” for details regarding Ariel Re.) The business unit that produces the risk and not the location of the underlying exposure is the primary characteristic in distinguishing operating and reportable segments. For example, a U.S. property exposure underwritten through our Syndicate platform would be included in International Operations. Consistent with prior periods, the Run-off Lines and Corporate segments include all other activity of Argo Group and are included in our consolidated financial results. Segment results for the three months ended March 31, 2016 have been reclassified to conform to the current presentation.

2. Recently Issued Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2017-01, “Business Combination” (Topic 805). ASU 2017-01 clarifies the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The guidance specifies the minimum inputs and processes required to meet the definition of a business. The guidance is effective for annual periods beginning after December 15, 2017, and interim periods within those periods, with early adoption permitted. We do not anticipate that this ASU will have a material impact on our financial results or disclosures.

In January 2017, the FASB issued ASU 2017-04, “Intangibles – Goodwill and Other” (Topic 350). ASU 2017-04 eliminates the requirement to calculate the implied fair value of goodwill that is done in Step 2 of the current goodwill impairment test to measure a goodwill impairment loss. Instead, entities will record an impairment loss based on the excess of a reporting unit’s carrying amount over its fair value. The guidance will be applied prospectively and is effective for annual and interim impairment tests performed in periods beginning after December 15, 2019. Early adoption is permitted for annual and interim goodwill impairment testing dates after January 1, 2017. We do not anticipate that this ASU will have a material impact on our financial results or disclosures.

In August 2016, the FASB issued ASU 2016-15, “Classification of Certain Cash Receipts and Cash Payments (Topic 230). ASU 2016-15 will reduce diversity in practice on how eight specific cash receipts and payments are classified on the statement of cash flows. The ASU will be effective for fiscal years beginning after December 15, 2017, including interim periods within those years. This ASU will have an impact on how we present the distributions received from equity method investees in our statement of cash flows. We have elected to adopt the cumulative earnings approach to classify distributions received from equity method investees, which we will adopt retrospectively. We anticipate that this ASU will have no net effect on our consolidated statements of cash flows, but will likely have an immaterial impact on the reclassification of specific cash receipts and payments within the statement.

In June 2016, the FASB issued ASU 2016-13, “Measurement of Credit Losses on Financial Instruments” (Topic 326). ASU 2016-13 requires organizations to estimate credit losses on certain types of financial instruments, including receivables and available-for-sale debt securities, by introducing an approach based on expected losses. The expected loss approach will require entities to incorporate considerations of historical information, current information and reasonable and supportable forecasts. The guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The guidance requires a modified retrospective transition method and early adoption is permitted. We are currently evaluating the impact that the adoption of the ASU will have on our financial results and disclosures, but do not anticipate that any such potential impact would be material.

In March 2016, the FASB issued ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting” (Topic 718). ASU 2016-09 simplifies the accounting for share-based payment award transactions including income tax consequences, classification of awards as either equity or liabilities, classification on the statement of cash flows, and accounting for forfeitures. The ASU is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. We have adopted this ASU as of January 1, 2017, and for presentation purposes, the incremental tax windfall or shortfall associated with these events will be classified as a cash inflow from operating activity as compared with a financing activity, as previously required. The impact to our financial statements was not material. Additionally, we have selected to continue estimating forfeitures based on historical patterns and will true-up the expenses upon vesting.

In February 2016, the FASB issued ASU 2016-02, “Leases” (Topic 842). ASU 2016-02 requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Additionally, the ASU modifies current guidance for lessors’ accounting. The ASU is effective for interim and annual reporting periods beginning on or after January 1, 2019, with early adoption permitted. We do not anticipate that this ASU will have a material impact on our results of operations, but we anticipate an increase to the value of our assets and liabilities related to leases, with no material impact to equity.

In January 2016, the FASB issued ASU 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities” (Subtopic 825-10). ASU 2016-01 will require equity investments that are not consolidated or accounted for under the equity method of accounting to be measured at fair value with changes in fair value recognized in net income. This ASU will also require us to assess the ability to realize our deferred tax assets (“DTAs”) related to an available-for-sale debt security in combination with our other DTAs. The ASU will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. While we continue to evaluate the impact of this ASU, we anticipate the standard will increase the volatility of our consolidated statements of income, resulting from the remeasurement of our equity investments.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers” (Topic 606), which replaces most existing U.S. GAAP revenue recognition guidance and permits the use of either the retrospective or cumulative effect transition method. In August 2015, “Deferral of the Effective Date” (Topic 606), deferred the effective date of this guidance to interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted for fiscal years, and interim reporting periods within those years, beginning after December 15, 2016. Subsequently, in 2016, the FASB issued implementation guidance related to ASU 2014-09, including:

- ASU 2016-08, “Principal versus Agent considerations (Reporting Revenue Gross versus Net)” (Topic 606), which is intended to provide further clarification on the application of the principal versus agent implementations;
- ASU 2016-10, “Identifying Performance Obligations and Licensing” (Topic 606), which is intended to clarify the guidance for identifying promised goods or service in a contract with a customer;

- ASU 2016-11, “Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting” (Topic 605) & 815);
- ASU 2016-12, “Narrow-Scope Improvements and Practical Expedients” (Topic 606), provides additional guidance for quantitative and qualitative disclosures in certain cases, and make 12 additional technical corrections and improvements to the new revenue standard.

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 continue to evaluate what impact this ASU will have on our financial results and disclosures and which adoption method to apply, but do not anticipate such impact being material based on the limited revenue streams subject to the ASU.

3. Acquisition of Maybrooke

Effective February 6, 2017, we completed the acquisition of Maybrooke whereby we acquired all of the issued and outstanding capital stock of Maybrooke. The initial purchase price of \$235.3 million was paid in cash from funds on hand and available under our credit facility (see Note 7, “Other Indebtedness”). The initial purchase price is subject to post-closing adjustments based on a final calculation of the purchase price, to be delivered to the seller within 90 days of closing.

Through the acquisition of Maybrooke, we acquired Ariel Re, a global underwriter of specialty insurance and reinsurance business written primarily through its Lloyd’s Syndicate 1910. Ariel Re provides Argo Group with a number of strategic advantages, including enhanced scale in its London- and Bermuda-based platforms.

The acquisition is being accounted for in accordance with ASC 805, “Business Combinations.” Purchase accounting, as defined by ASC 805, requires that the assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. We are in the process of finalizing our determination of fair values, including an independent appraisal of certain assets and liabilities, including intangible assets. Therefore, a preliminary allocation of the purchase price to the acquired assets, liabilities, and intangible assets is presented in the table below:

(in millions)		
Assets:		
Investments	\$	318.6
Cash		152.2
Accrued investment income		0.2
Premiums receivable		175.0
Reinsurance recoverables		80.3
Current income taxes receivable		0.2
Deferred acquisition costs, net		9.8
Ceded unearned premiums		92.6
Other assets		10.6
Total assets		839.5
Liabilities:		
Reserves for losses and loss adjustment expenses		197.0
Unearned premiums		152.5
Accrued underwriting expenses		24.4
Ceded reinsurance payable, net		145.0
Junior subordinated debentures		83.6
Deferred tax liabilities		8.6
Other liabilities		33.5
Total liabilities		644.6
Net assets acquired		194.9
Initial purchase price		235.3
Intangible assets	\$	40.4

The fair value measurement period will continue into the second quarter of 2017, during which time we expect to finalize the valuation analyses. The excess of the purchase price over the fair value of the net assets acquired has been preliminarily allocated to intangible assets, which will be specifically identified and quantified during the second quarter of 2017. We did not record amortization expense related to the \$40.4 million intangible assets during the first quarter of 2017 due to the intangible assets having not yet been specifically identified. We anticipate recording both amortizable and non-amortizable identifiable intangible assets and goodwill upon the completion of the valuation analyses, including intangible assets relating to the Lloyd's Syndicate 1910 stamp capacity (non-amortizable), distribution networks (amortizable), and the Ariel Re tradename (amortizable). Goodwill is calculated as the excess of the purchase price over the fair value of the net assets recognized, including identifiable intangible assets.

We recognized approximately \$2.5 million of transaction costs in the first quarter of 2017 related to the acquisition in our Consolidated Statements of Income, of which \$2.2 million were reported in "Underwriting, acquisition and insurance expenses" and \$0.3 million in "Interest expense" related to the borrowings under our credit facility to help fund the acquisition.

Maybrooke's Contribution to Argo Group's Revenue and Income

The following selected financial information summarizes the results of Maybrooke from the date of acquisition that have been included in our Consolidated Statement of Income:

(in millions)	
Revenues	\$ 23.3
Net income	\$ 6.6

Unaudited Pro forma Results of Operations

The following unaudited pro forma financial information has been provided to present a summary of the combined results of Argo Group's operations with Maybrooke's as if the acquisition had occurred on January 1, 2016. The unaudited pro forma financial information is for informational purposes only and is not necessarily indicative of what the results would have been had the acquisition been completed at the date indicated above, as it may not include all necessary adjustments. Future changes to Maybrooke's business, such as, but not limited to, the impact from underwriting decisions, changes in risk selection, or retention rates, could result in a material favorable or unfavorable impact on Argo Group's future results of operations and financial position. The unaudited pro forma results for three months ended March 31, 2017 include favorable development from prior accident years of \$6.7 million, including \$6.2 million relating to one specific claim in January 2017. In addition, the \$2.5 million of nonrecurring transaction costs directly attributable to the acquisition, as disclosed above, have also been removed from the unaudited pro forma results for the three months ended March 31, 2017 in the table below. The unaudited pro forma results for the three months ended March 31, 2016 include the benefits of higher net retention resulting in increased earned premiums and profitability for prior Lloyd's years of account, partially offset by unfavorable development on claims from prior accident years.

(in millions, except per share data)	For the Three Months Ended March 31,			
	2017		2016	
Pro forma revenues	\$	443.7	\$	439.2
Pro forma net income		47.0		43.4
Pro forma net income per share - basic		1.56		1.42
Pro forma net income per share - diluted		1.52		1.39

4. Investments

Composition of Invested Assets

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

March 31, 2017

(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturities				
U.S. Governments	\$ 312.8	\$ 0.6	\$ 3.8	\$ 309.6
Foreign Governments	239.6	1.8	5.8	235.6
Obligations of states and political subdivisions	345.2	10.1	1.4	353.9
Corporate bonds	1,402.7	22.4	15.6	1,409.5
Commercial mortgage-backed securities	146.8	0.5	1.8	145.5
Residential mortgage-backed securities	191.8	3.2	1.9	193.1
Asset-backed securities	128.8	0.2	1.7	127.3
Collateralized loan obligations	261.8	4.2	5.2	260.8
Total fixed maturities	3,029.5	43.0	37.2	3,035.3
Equity securities	329.5	122.9	5.2	447.2
Other investments	548.0	7.5	0.1	555.4
Short-term investments	527.7	—	—	527.7
Total investments	<u>\$ 4,434.7</u>	<u>\$ 173.4</u>	<u>\$ 42.5</u>	<u>\$ 4,565.6</u>

December 31, 2016

(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturities				
U.S. Governments	\$ 275.1	\$ 0.6	\$ 4.5	\$ 271.2
Foreign Governments	244.2	1.1	8.0	237.3
Obligations of states and political subdivisions	375.7	8.9	1.8	382.8
Corporate bonds	1,316.9	23.3	19.5	1,320.7
Commercial mortgage-backed securities	154.9	0.4	1.6	153.7
Residential mortgage-backed securities	174.8	3.7	1.7	176.8
Asset-backed securities	127.6	0.1	2.1	125.6
Collateralized loan obligations	269.6	3.8	9.1	264.3
Total fixed maturities	2,938.8	41.9	48.3	2,932.4
Equity securities	335.2	117.9	5.7	447.4
Other investments	531.6	7.5	0.1	539.0
Short-term investments	405.5	—	—	405.5
Total investments	<u>\$ 4,211.1</u>	<u>\$ 167.3</u>	<u>\$ 54.1</u>	<u>\$ 4,324.3</u>

Included in “Total investments” in our Consolidated Balance Sheets at March 31, 2017 and December 31, 2016 is \$154.0 million and \$131.9 million, respectively, of assets managed on behalf of the trade capital providers, who are third-party participants that provide underwriting capital to the operations of Syndicate 1200.

Contractual Maturity

The amortized cost and fair values of fixed maturity investments as of March 31, 2017, by contractual maturity, were as follows:

(in millions)	Amortized Cost	Fair Value
Due in one year or less	\$ 239.3	\$ 235.3
Due after one year through five years	1,297.8	1,303.3
Due after five years through ten years	612.4	616.6
Thereafter	150.8	153.4
Structured securities	729.2	726.7
Total	<u>\$ 3,029.5</u>	<u>\$ 3,035.3</u>

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, 2017 and December 31, 2016 were as follows:

March 31, 2017

(in millions)	Carrying Value	Unfunded Commitments
Investment Type		
Hedge funds	\$ 177.4	\$ —
Private equity	178.6	95.5
Long only funds	191.7	—
Other investments	7.7	—
Total other invested assets	<u>\$ 555.4</u>	<u>\$ 95.5</u>

December 31, 2016

(in millions)	Carrying Value	Unfunded Commitments
Investment Type		
Hedge funds	\$ 180.9	\$ —
Private equity	179.0	93.4
Long only funds	170.7	—
Other investments	8.4	—
Total other invested assets	<u>\$ 539.0</u>	<u>\$ 93.4</u>

The following describes each investment type:

- **Hedge funds:** Hedge funds include funds that primarily buy and sell stocks, including short sales, multi-strategy credit, relative value credit and distressed credit.
- **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:** Our long only funds include a fund that primarily owns international stocks and funds that primarily own investment-grade corporate and sovereign fixed income securities.
- **Other investments:** Other investments include participation in investment pools, foreign exchange currency forward contracts to manage our foreign currency exposure and a portfolio of foreign exchange currency forward contracts that are actively traded by an external currency manager for a total return strategy.

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, 2017

(in millions)	Less Than One Year		One Year or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed maturities						
U.S. Governments	\$ 193.0	\$ 3.8	\$ —	\$ —	\$ 193.0	\$ 3.8
Foreign Governments	144.8	5.8	—	—	144.8	5.8
Obligations of states and political subdivisions	50.1	1.3	1.6	0.1	51.7	1.4
Corporate bonds	446.6	13.8	40.8	1.8	487.4	15.6
Commercial mortgage-backed securities	88.2	1.7	5.4	0.1	93.6	1.8
Residential mortgage-backed securities (2)	101.2	1.9	8.5	—	109.7	1.9
Asset-backed securities	75.1	1.0	4.7	0.7	79.8	1.7
Collateralized loan obligations	92.4	5.0	3.9	0.2	96.3	5.2
Total fixed maturities	1,191.4	34.3	64.9	2.9	1,256.3	37.2
Equity securities	62.4	5.2	—	—	62.4	5.2
Other investments	0.3	0.1	—	—	0.3	0.1
Short-term investments (1)	25.0	—	—	—	25.0	—
Total	\$ 1,279.1	\$ 39.6	\$ 64.9	\$ 2.9	\$ 1,344.0	\$ 42.5

(1) Unrealized losses less than one year are less than \$0.1 million.

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

December 31, 2016

(in millions)	Less Than One Year		One Year or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed maturities						
U.S. Governments (2)	\$ 183.4	\$ 4.5	\$ —	\$ —	\$ 183.4	\$ 4.5
Foreign Governments	201.2	8.0	—	—	201.2	8.0
Obligations of states and political subdivisions (1)	72.6	1.7	1.8	0.1	74.4	1.8
Corporate bonds	490.5	17.7	50.6	1.8	541.1	19.5
Commercial mortgage-backed securities	70.6	1.5	7.1	0.1	77.7	1.6
Residential mortgage-backed securities (2)	87.5	1.7	4.4	—	91.9	1.7
Asset-backed securities	69.7	1.4	8.2	0.7	77.9	2.1
Collateralized loan obligations	122.5	8.6	16.9	0.5	139.4	9.1
Total fixed maturities	1,298.0	45.1	89.0	3.2	1,387.0	48.3
Equity securities	62.1	5.7	—	—	62.1	5.7
Other investments	0.3	0.1	—	—	0.3	0.1
Short-term investments	4.8	—	—	—	4.8	—
Total	\$ 1,365.2	\$ 50.9	\$ 89.0	\$ 3.2	\$ 1,454.2	\$ 54.1

(1) Unrealized losses less than one year are less than \$0.1 million.

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

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 7,909 securities, of which 2,035 were in an unrealized loss position for less than one year and 149 were in an unrealized loss position for a period one year or greater as of March 31, 2017. 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, 2017.

We recognized other-than-temporary losses on our fixed maturities and equity portfolio as follows:

(in millions)	For the Three Months Ended March 31,	
	2017	2016
Other-than-temporary impairment:		
Corporate bonds	\$ —	\$ (1.1)
Equity securities	(0.4)	(0.6)
Other-than-temporary impairment losses	<u>\$ (0.4)</u>	<u>\$ (1.7)</u>

Realized Gains and Losses

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

(in millions)	For the Three Months Ended March 31,	
	2017	2016
Realized gains		
Fixed maturities	\$ 7.1	\$ 6.4
Equity securities	15.7	19.3
Other investments	6.0	10.2
Short-term investments	<u>0.2</u>	<u>0.2</u>
Gross realized investment and other gains	29.0	36.1
Realized losses		
Fixed maturities	(6.2)	(8.4)
Equity securities	(0.7)	(6.1)
Other investments	(7.0)	(22.6)
Short-term investments	<u>(0.1)</u>	<u>(0.1)</u>
Other-than-temporary impairment losses on fixed maturities	—	(0.6)
Other-than-temporary impairment losses on equity securities	<u>(0.4)</u>	<u>(1.1)</u>
Gross realized investment and other losses	<u>(14.4)</u>	<u>(38.9)</u>
Net realized investment and other gains (losses) before income taxes	14.6	(2.8)
Income tax expense	<u>(4.3)</u>	<u>(1.2)</u>
Net realized investment and other gains (losses), net of income taxes	<u>\$ 10.3</u>	<u>\$ (4.0)</u>

The cost of securities sold is based on the specific identification method.

Changes in unrealized appreciation (depreciation) related to investments are summarized as follows:

(in millions)	For the Three Months Ended March 31,	
	2017	2016
Change in unrealized gains (losses)		
Fixed maturities	\$ 12.6	\$ 38.9
Equity securities	5.3	(9.0)
Other investments	—	0.6
Short-term investments	<u>—</u>	<u>0.5</u>
Net unrealized investment and other gains before income taxes	17.9	31.0
Income tax expense	<u>(4.6)</u>	<u>(3.7)</u>
Net unrealized investment and other gains, net of income taxes	<u>\$ 13.3</u>	<u>\$ 27.3</u>

Foreign Currency Exchange Forward Contracts

We entered into foreign currency exchange forward contracts to manage currency exposure on our Canadian dollar (“CAD”) investment portfolio, minimize negative impacts to our investment portfolio returns, manage currency exposure on certain Euro (“EUR”) denominated investments and gain exposure to a total return strategy which invests in multiple currencies. These 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 (losses) gains” in our Consolidated Statements of Income.

The fair value of our foreign currency exchange forward contracts as of March 31, 2017 and December 31, 2016 was as follows:

(in millions)	March 31, 2017	December 31, 2016
Operational currency exposure	\$ 2.5	\$ —
Asset manager investment exposure	(0.7)	0.7
Total return strategy	1.2	3.3
	<u>\$ 3.0</u>	<u>\$ 4.0</u>

The following table represents our gross investment realized gains and losses on our foreign currency exchange forward contracts:

(in millions)	For the Three Months Ended March 31,	
	2017	2016
Realized gains		
Operational currency exposure	\$ 2.0	\$ 2.8
Asset manager investment exposure	0.5	—
Total return strategy	3.1	6.7
Gross realized investment gains	5.6	9.5
Realized losses		
Operational currency exposure	(2.2)	(8.5)
Asset manager investment exposure	(1.4)	(3.6)
Total return strategy	(1.9)	(9.2)
Gross realized investment losses	(5.5)	(21.3)
Net realized investment gains on foreign currency exchange forward contracts	<u>\$ 0.1</u>	<u>\$ (11.8)</u>

Regulatory Deposits, Pledged Securities and Letters of Credit

(in millions)	March 31, 2017	December 31, 2016
Securities on deposit for regulatory and other purposes	\$ 183.9	\$ 168.7
Securities pledged as collateral for letters of credit	37.6	35.9
Securities and cash on deposit supporting Lloyd’s business	396.8	161.8
Total restricted investments	<u>\$ 618.3</u>	<u>\$ 366.4</u>

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, 2017. 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 government and credit 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.
- Asset and mortgage-backed securities and collateralized loan obligations 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.

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

- We own a \$2.0 million term loan that is valued using unobservable inputs.

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 a mutual fund that is reported at fair value using Level 2 inputs. The valuation is based on the fund's net asset value per share, at the end of each month. The underlying assets in the fund 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, 2017.

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, 2017	Fair Value Measurements at Reporting Date Using		
		Level 1 (a)	Level 2 (b)	Level 3 (c)
Fixed maturities				
U.S. Governments	\$ 309.6	\$ 279.0	\$ 30.6	\$ —
Foreign Governments	235.6	—	235.6	—
Obligations of states and political subdivisions	353.9	—	353.9	—
Corporate bonds	1,409.5	—	1,407.5	2.0
Commercial mortgage-backed securities	145.5	—	145.5	—
Residential mortgage-backed securities	193.1	—	193.1	—
Asset-backed securities	127.3	—	127.3	—
Collateralized loan obligations	260.8	—	260.8	—
Total fixed maturities	3,035.3	279.0	2,754.3	2.0
Equity securities	447.2	444.7	2.1	0.4
Other investments	111.2	—	111.2	—
Short-term investments	527.7	511.6	16.1	—
	<u>\$ 4,121.4</u>	<u>\$ 1,235.3</u>	<u>\$ 2,883.7</u>	<u>\$ 2.4</u>

(a) Quoted prices in active markets for identical assets

(b) Significant other observable inputs

(c) Significant unobservable inputs

(in millions)	December 31, 2016	Fair Value Measurements at Reporting Date Using		
		Level 1 (a)	Level 2 (b)	Level 3 (c)
Fixed maturities				
U.S. Governments	\$ 271.2	\$ 228.0	\$ 43.2	\$ —
Foreign Governments	237.3	—	237.3	—
Obligations of states and political subdivisions	382.8	—	382.8	—
Corporate bonds	1,320.7	—	1,318.7	2.0
Commercial mortgage-backed securities	153.7	—	153.7	—
Residential mortgage-backed securities	176.8	—	176.8	—
Asset-backed securities	125.6	—	125.6	—
Collateralized loan obligations	264.3	—	264.3	—
Total fixed maturities	2,932.4	228.0	2,702.4	2.0
Equity securities	447.4	444.9	2.1	0.4
Other investments	95.5	—	95.5	—
Short-term investments	405.5	375.1	30.4	—
	<u>\$ 3,880.8</u>	<u>\$ 1,048.0</u>	<u>\$ 2,830.4</u>	<u>\$ 2.4</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)	Corporate Bonds	Equity Securities	Total
Beginning balance, January 1, 2017	\$ 2.0	\$ 0.4	\$ 2.4
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	—	—	—
Settlements	—	—	—
Ending balance, March 31, 2017	<u>\$ 2.0</u>	<u>\$ 0.4</u>	<u>\$ 2.4</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, 2017	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

(in millions)	Corporate Bonds	Equity Securities	Total
Beginning balance, January 1, 2016	\$ —	\$ 0.7	\$ 0.7
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	2.0	—	2.0
Issuances	—	—	—
Sales	—	(0.3)	(0.3)
Settlements	—	—	—
Ending balance, December 31, 2016	<u>\$ 2.0</u>	<u>\$ 0.4</u>	<u>\$ 2.4</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, 2016	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

At March 31, 2017 and December 31, 2016, 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.

5. 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,	
	2017	2016
Net reserves beginning of the year	\$ 2,180.2	\$ 2,133.3
Net Maybrooke reserves acquired	132.6	—
Add:		
Losses and LAE incurred during current calendar year, net of reinsurance:		
Current accident year	215.7	194.8
Prior accident years	6.8	(3.2)
Losses and LAE incurred during calendar year, net of reinsurance	222.5	191.6
Deduct:		
Losses and LAE payments made during current calendar year, net of reinsurance:		
Current accident year	27.4	24.8
Prior accident years	155.3	144.7
Losses and LAE payments made during current calendar year, net of reinsurance:	182.7	169.5
Change in participation interest ⁽¹⁾	(23.2)	(42.3)
Foreign exchange adjustments	3.6	(3.6)
Net reserves - end of period	2,333.0	2,109.5
Add:		
Reinsurance recoverables on unpaid losses and LAE, end of year	1,247.3	1,032.0
Gross reserves - end of period	\$ 3,580.3	\$ 3,141.5

⁽¹⁾ Amount represents decreases 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.

The impact from the unfavorable (favorable) development of prior accident years’ loss and LAE reserves on each reporting segment is presented below:

(in millions)	For the Three Months Ended March 31,	
	2017	2016
U.S. Operations	\$ (5.2)	\$ (2.9)
International Operations	9.6	(1.7)
Run-off Lines	2.4	1.4
Total unfavorable (favorable) prior-year development	\$ 6.8	\$ (3.2)

The following describes the primary factors behind each segment's prior accident year reserve development for the three months ended March 31, 2017 and 2016:

Three months ended March 31, 2017:

- *U.S. Operations:* Favorable development for workers compensation, commercial auto and commercial multi-peril lines, partially offset by unfavorable development in professional liability lines.
- *International Operations:* Unfavorable development in the liabilities lines primarily attributable to the impact of the change in discount rate used to calculate awards for personal injury claims ("U.K. Ogden rate"), and to the late reporting of Hurricane Matthew claims within property lines.
- *Run-off Lines:* Unfavorable development in risk management lines and other run-off lines.

Three months ended March 31, 2016:

- *U.S. Operations:* Favorable development within property and commercial automobile lines of business, partially offset by unfavorable development in the general and products liability lines.
- *International Operations:* Favorable development within the property lines.
- *Run-off Lines:* Unfavorable development in run-off workers compensation and other run-off lines, partially offset by favorable development in the run-off reinsurance lines.

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 favorable or unfavorable loss development, which may be material, will not occur.

6. Junior Subordinated Debentures

Trust Preferred Debentures

Through a series of trusts, that are wholly-owned subsidiaries (non-consolidated), we issued debt. The debentures are variable with the rate being reset quarterly and subject to certain interest rate ceilings. Interest payments are payable quarterly. The debentures are all unsecured and are subordinated to other indebtedness. At March 31, 2017 and December 31, 2016, all debentures were eligible for redemption subject to certain terms and conditions at a price equal to 100% of the principal plus accrued and unpaid interest.

A summary of our outstanding junior subordinated debentures is presented below:

(in millions)

Issue Date	Trust Preferred Pools	Maturity	Rate Structure	Interest Rate at March 31, 2017	Amount
Argo Group					
05/15/2003	PXRE Capital Statutory Trust II	05/15/2033	3M LIBOR + 4.10%	5.14%	\$ 18.1
11/06/2003	PXRE Capital Trust VI	09/30/2033	3M LIBOR + 3.90%	5.05%	10.3
Argo Group US					
05/15/2003	Argonaut Group Statutory Trust I	05/15/2033	3M LIBOR + 4.10%	5.14%	15.5
12/16/2003	Argonaut Group Statutory Trust III	01/08/2034	3M LIBOR + 4.10%	5.12%	12.3
04/29/2004	Argonaut Group Statutory Trust IV	04/29/2034	3M LIBOR + 3.85%	4.89%	13.4
05/26/2004	Argonaut Group Statutory Trust V	05/24/2034	3M LIBOR + 3.85%	4.90%	12.3
05/12/2004	Argonaut Group Statutory Trust VI	05/12/2034	3M LIBOR + 3.80%	4.95%	13.4
09/17/2004	Argonaut Group Statutory Trust VII	12/15/2034	3M LIBOR + 3.60%	4.73%	15.5
09/22/2004	Argonaut Group Statutory Trust VIII	09/22/2034	3M LIBOR + 3.55%	4.71%	15.5
10/22/2004	Argonaut Group Statutory Trust IX	12/15/2034	3M LIBOR + 3.60%	4.73%	15.5
09/15/2005	Argonaut Group Statutory Trust X	09/15/2035	3M LIBOR + 3.40%	4.53%	30.9
Total Outstanding					<u>\$ 172.7</u>

(in millions)

Issue Date	Trust Preferred Pools	Maturity	Rate Structure	Interest Rate at December 31, 2016	Amount
Argo Group					
05/15/2003	PXRE Capital Statutory Trust II	05/15/2033	3M LIBOR + 4.10%	5.00%	\$ 18.1
11/06/2003	PXRE Capital Trust VI	09/30/2033	3M LIBOR + 3.90%	4.90%	10.3
Argo Group US					
05/15/2003	Argonaut Group Statutory Trust I	05/15/2033	3M LIBOR + 4.10%	5.00%	15.5
12/16/2003	Argonaut Group Statutory Trust III	01/08/2034	3M LIBOR + 4.10%	4.98%	12.3
04/29/2004	Argonaut Group Statutory Trust IV	04/29/2034	3M LIBOR + 3.85%	4.76%	13.4
05/26/2004	Argonaut Group Statutory Trust V	05/24/2034	3M LIBOR + 3.85%	4.77%	12.3
05/12/2004	Argonaut Group Statutory Trust VI	05/12/2034	3M LIBOR + 3.80%	4.79%	13.4
09/17/2004	Argonaut Group Statutory Trust VII	12/15/2034	3M LIBOR + 3.60%	4.56%	15.5
09/22/2004	Argonaut Group Statutory Trust VIII	09/22/2034	3M LIBOR + 3.55%	4.55%	15.5
10/22/2004	Argonaut Group Statutory Trust IX	12/15/2034	3M LIBOR + 3.60%	4.56%	15.5
09/15/2005	Argonaut Group Statutory Trust X	09/15/2035	3M LIBOR + 3.40%	4.36%	30.9
Total Outstanding					<u>\$ 172.7</u>

Maybrooke Junior Subordinated Debentures

Unsecured junior subordinated debentures with a principal balance of \$91.8 million were assumed through the acquisition of Maybrooke (“the Maybrooke debt”). The Maybrooke debt is carried on our consolidated balance sheet at \$83.6 million, which represents our initial estimate of the debt’s fair value, as required by accounting for business combinations under ASC 805 (see Note 3, “Acquisition of Maybrooke”). This fair value is subject to change based on finalizing the valuation of Maybrooke’s opening balance sheet during the second quarter of 2017. At March 31, 2017, the Maybrooke debt was eligible for redemption at par. Interest accrues on the Maybrooke debt based on a variable rate, which is reset quarterly. Interest payments are payable quarterly. A summary of the terms of the Maybrooke debt outstanding at March 31, 2017 is presented below:

(in millions)

Issue Date	Maturity	Rate Structure	Interest Rate at March 31, 2017	Principal at March 31, 2017	Fair Value at March 31, 2017
9/15/2007	9/15/2037	3 month LIBOR + 3.15%	4.28%	\$ 91.8	\$ 83.6

7. Other Indebtedness

Our Consolidated Balance Sheets includes various long-term debt instruments under the caption “Other indebtedness,” as detailed in the table below. Information regarding the terms and principal amounts of each of these debt instruments is also provided.

(in millions)

Debt Type	March 31, 2017	December 31, 2016
Floating rate loan stock	\$ 54.7	\$ 54.8
Term loan	125.0	—
Other debt	0.6	0.6
Total other indebtedness	<u>\$ 180.3</u>	<u>\$ 55.4</u>

Floating Rate Loan Stock

This debt was assumed through the acquisition of Lloyd's Syndicate 1200. These notes are unsecured. At March 31, 2017 and December 31, 2016, all notes were eligible for redemption subject to certain terms and conditions at a price equal to 100% of the principal plus accrued and unpaid interest. Interest on the U.S. Dollar and Euro notes is due semiannually and quarterly, respectively. A summary of the notes outstanding at March 31, 2017 and December 31, 2016 is presented below:

(in millions)

Issue Date	Currency	Maturity	Rate Structure	Interest Rate at March 31, 2017	Amount
12/08/2004	U.S. Dollar	11/15/2034	6 month LIBOR + 4.2%	5.18%	\$ 6.5
09/06/2005	Euro	08/22/2035	3 month LIBOR + 4.0%	3.70%	12.7
10/31/2006	U.S. Dollar	01/15/2036	6 month LIBOR + 4.0%	4.98%	10.0
10/31/2006	Euro	11/22/2036	3 month LIBOR + 4.0%	3.70%	11.2
06/08/2007	Euro	09/15/2037	3 month LIBOR + 3.9%	3.58%	14.3
					<u>\$ 54.7</u>

(in millions)

Issue Date	Currency	Maturity	Rate Structure	Interest Rate at December 31, 2016	Amount
12/08/2004	U.S. Dollar	11/15/2034	6 month LIBOR + 4.2%	5.18%	\$ 6.5
09/06/2005	Euro	08/22/2035	3 month LIBOR + 4.0%	3.70%	12.8
10/31/2006	U.S. Dollar	01/15/2036	6 month LIBOR + 4.0%	4.98%	10.0
10/31/2006	Euro	11/22/2036	3 month LIBOR + 4.0%	3.70%	11.2
06/08/2007	Euro	09/15/2037	3 month LIBOR + 3.9%	3.58%	14.3
					<u>\$ 54.8</u>

No principal payments have been made since the acquisition of Lloyd's Syndicate 1200. The floating rate loan stock denominated in Euros fluctuates due to foreign currency translation. The outstanding balance on these loans was \$ 38.2 million and \$38.3 million as of March 31, 2017 and December 31, 2016, respectively. The foreign currency translation adjustment is recorded in our Consolidated Statements of Income.

Borrowing Under Credit Facility

On March 3, 2017, each of Argo Group, Argo Group US, Inc., Argo International Holdings Limited and Argo Underwriting Agency Limited (the "Borrowers") entered into a \$325.0 million Credit Agreement ("New Credit Agreement") with JPMorgan Chase Bank, N.A., as administrative agent. The New Credit Agreement replaced and terminated the previous \$175.0 million Credit Agreement ("Prior Agreement").

The New Credit Agreement provides for a \$200.0 million revolving credit facility with a maturity date of March 3, 2022 unless extended in accordance with the terms of the New Credit Agreement. In addition, the New Credit Agreement includes a \$125.0 million term loan borrowing, which Argo Group used to pay off in its entirety the \$125.0 million borrowing drawn on January 31, 2017 under the Prior Agreement to help fund the acquisition of Maybrooke. Interest accrues based on a variable rate, which resets and is payable based on reset options selected by Argo Group pursuant to the terms of the New Credit Agreement. A summary of the terms of the outstanding balance at March 31, 2017 is presented below:

(in millions)

Issue Date	Maturity	Rate Structure	Interest Rate at March 31, 2017	Amount
3/3/2017	3/3/2019	2 month LIBOR + 1.5%	2.40%	\$ 125.0

Borrowings under the New Credit Agreement may be used for general corporate purposes, including working capital, permitted acquisitions and letters of credit, and each of the Borrowers has agreed to be jointly and severally liable for the obligations of the other Borrowers under the New Credit Agreement.

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

Included in the New Credit Agreement is a provision that allows up to \$200.0 million of the revolving credit facility to be used for LOCs, subject to availability. On March 3, 2017, the \$0.2 million LOC outstanding under the Prior Credit Agreement was transferred to the New Credit Agreement. At March 31, 2017 and December 31, 2016, there were no borrowings outstanding under the revolving portions of the credit facilities, and \$0.2 million in LOCs against the New Credit Agreement and Prior Credit Agreement, respectively.

Other Debt

As part of the ARIS Title Insurance Corporation (“ARIS”) acquisition, at March 31, 2017 and December 31, 2016, we had a note payable for \$0.6 million. The note had a variable interest rate of 2.00% above 30-day LIBOR, with the variable interest rate being reset quarterly and subject to certain interest rate ceilings. Interest payments are payable quarterly. The note payable matures on April 1, 2019.

8. Disclosures about Fair Value of Financial Instruments

Cash. The carrying amount approximates fair value.

Investment securities and short-term investments. See Note 4, “Investments,” for additional information.

Premiums receivable and reinsurance recoverables on paid losses. The carrying value of current receivables approximates fair value. At March 31, 2017 and December 31, 2016, the carrying values of premiums receivable over 90 days were \$17.3 million and \$14.3 million, respectively. Included in “Reinsurance recoverables” in our Consolidated Balance Sheets at March 31, 2017 and December 31, 2016, are amounts that are due from trade capital providers associated with the operations of Syndicate 1200. Upon settlement, the receivable is offset against the liability which is included in “Ceded reinsurance payable, net” in our accompanying Consolidated Balance Sheets. At March 31, 2017 and December 31, 2016, the payable was in excess of the receivable. Of our reinsurance recoverables on paid losses, excluding amounts attributable to Syndicate 1200’s trade capital providers, at March 31, 2017 and December 31, 2016, the carrying values over 90 days were \$9.8 million and \$11.2 million, respectively. Our methodology for establishing our allowances for doubtful accounts includes specifically identifying all potential uncollectible balances regardless of aging. At March 31, 2017 and December 31, 2016, the allowance for doubtful accounts for premiums receivable was \$3.1 million and \$2.7 million, respectively, and the allowance for doubtful accounts for reinsurance recoverables on paid losses was \$2.1 million and \$2.1 million, respectively. Premiums receivable over 90 days were secured by collateral in the amount of \$0.2 million and \$0.1 million at March 31, 2017 and December 31, 2016, respectively. Reinsurance recoverables on paid losses over 90 days were secured by collateral in the amount of \$0.3 million and \$0.6 at March 31, 2017 and December 31, 2016, respectively.

Debt. At March 31, 2017 and December 31, 2016, 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, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Junior subordinated debentures	\$ 172.7	\$ 166.5	\$ 172.7	\$ 162.4
Senior unsecured fixed rate notes	139.5	141.7	139.5	139.3
Other indebtedness:				
Floating rate loan stock	54.7	52.7	54.8	51.5
Note payable	0.6	0.6	0.6	0.6

9. Shareholders’ Equity

On February 21, 2017, our Board of directors declared a quarterly cash dividend in the amount of \$0.27 on each share of common stock outstanding. On March 15, 2017, we paid \$8.3 million to our shareholders of record on March 3, 2017.

On February 16, 2016, our Board of Directors declared a quarterly cash dividend in the amount of \$0.22 on each share of common stock outstanding. On March 15, 2016, we paid \$6.2 million to our shareholders of record on March 1, 2016.

On May 3, 2016, our Board of Directors authorized the repurchase of up to \$150.0 million of our common shares (“2016 Repurchase Authorization”). The 2016 Repurchase Authorization supersedes all the previous Repurchase Authorizations. As of March 31, 2017, availability under the 2016 Repurchase Authorization for future repurchases of our common shares was \$130.3 million.

We did not repurchase any common shares for the three months ended March 31, 2017.

10. 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, 2017 and 2016 is presented below:

(in millions)	Foreign Currency Translation Adjustments	Unrealized Holding Gains on Securities	Defined Benefit Pension Plans	Total
Balance, January 1, 2017	\$ (17.6)	\$ 72.4	\$ (7.1)	\$ 47.7
Other comprehensive income (loss) before reclassifications	0.6	24.3	—	24.9
Amounts reclassified from accumulated other comprehensive income (loss)	—	(11.0)	—	(11.0)
Net current-period other comprehensive income (loss)	0.6	13.3	—	13.9
Balance at March 31, 2017	<u>\$ (17.0)</u>	<u>\$ 85.7</u>	<u>\$ (7.1)</u>	<u>\$ 61.6</u>

(in millions)	Foreign Currency Translation Adjustments	Unrealized Holding Gains on Securities	Defined Benefit Pension Plans	Total
Balance, January 1, 2016	\$ (21.6)	\$ 40.0	\$ (6.9)	\$ 11.5
Other comprehensive income (loss) before reclassifications	1.5	31.0	—	32.5
Amounts reclassified from accumulated other comprehensive income (loss)	—	(3.7)	—	(3.7)
Net current-period other comprehensive income (loss)	1.5	27.3	—	28.8
Balance at March 31, 2016	<u>\$ (20.1)</u>	<u>\$ 67.3</u>	<u>\$ (6.9)</u>	<u>\$ 40.3</u>

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

(in millions)	Three Months Ended March 31,	
	2017	2016
Unrealized gains and losses on securities:		
Net realized investment gains	\$ (16.2)	\$ (7.8)
Provision for income taxes	5.2	4.1
Net of taxes	<u>\$ (11.0)</u>	<u>\$ (3.7)</u>

11. Net Income Per Common Share

The following table presents the calculation of net income per common share on a basic and diluted basis:

(in millions, except number of shares and per share amounts)	For the Three Months Ended March 31,	
	2017	2016
Net income	\$ 36.7	\$ 27.7
Weighted average common shares outstanding - basic	30,047,083	30,479,243
Effect of dilutive securities:		
Equity compensation awards	894,326	652,978
Weighted average common shares outstanding - diluted	<u>30,941,409</u>	<u>31,132,221</u>
Net income per common share:		
Basic	<u>\$ 1.22</u>	<u>\$ 0.91</u>
Diluted	<u>\$ 1.19</u>	<u>\$ 0.89</u>

Excluded from the weighted average common shares outstanding calculation at March 31, 2017 and 2016 are 10,028,755 shares and 9,525,296 shares, respectively, which are held as treasury shares. The shares are excluded as of their repurchase date.

12. Supplemental Cash Flow Information

Income taxes paid. During the three months ended March 31, 2017, no income taxes were paid. We paid income taxes of \$0.3 million during the three months ended March 31, 2016.

Income taxes recovered. We recovered income taxes of \$2.2 million and \$0.3 million during the three months ended March 31, 2017 and 2016, respectively.

Interest paid was as follows:

(in millions)	For the Three Months Ended March 31,	
	2017	2016
Senior unsecured fixed rate notes	\$ 2.3	\$ 2.3
Junior subordinated debentures	2.9	1.8
Other indebtedness	0.8	0.8
Revolving credit facility	0.3	—
Total interest paid	<u>\$ 6.3</u>	<u>\$ 4.9</u>

13. Share-based Compensation

The fair value method of accounting is used for share-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 risk-free rate of return assumption is based on the five-year U.S. Treasury constant maturity rate on the measurement date. The expected dividend yield is based on our history and expected dividend payouts. The expected award life is based upon the average holding period over the history of the incentive plan. The expected volatility assumption is based on the historical change in our stock price over the previous five years preceding the measurement date.

The following table summarizes the assumptions we used for the three months ended March 31, 2017 and 2016:

	For the Three Months Ended March 31,	
	2017	2016
Risk-free rate of return	1.93%	1.37%
Expected dividend yields	1.63	1.62%
Expected award life (years)	4.49	4.61
Expected volatility	18.70%	19.64%

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, 1.46 million 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 unit 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 repri cing the options. The term of the share options cannot exceed seven years from the grant date.

Restricted Shares

A summary of restricted share activity as of March 31, 2017 and changes during the three months then ended is as follows:

	Shares	Weighted-Average Grant Date Fair Value
Outstanding at January 1, 2017	702,030	\$ 42.69
Granted	162,361	\$ 64.35
Vested and issued	(123,163)	\$ 42.15
Expired or forfeited	(20,080)	\$ 48.72
Outstanding at March 31, 2017	721,148	\$ 47.49

The restricted shares vest over two to four years. Expense recognized under this plan for the restricted shares was \$2.8 million and \$1.7 million for the three months ended March 31, 2017 and 2016, respectively. Compensation expense for all share-based compensation awards is included in “Underwriting, acquisition and insurance expenses” in the accompanying Consolidated Statements of Income. As of March 31, 2017, there was \$26.0 million of total unrecognized compensation cost related to restricted share compensation arrangements granted by Argo Group.

Stock-Settled SARs

In January 2016, we modified certain unvested cash-settled SARs, converting the awards into stock-settled SARs. We evaluated this modification under the terms of ASU 718 “Share Based Payments,” and determined that no additional expense resulted from the conversion. The expense for the stock-settled SARs will be amortized over the remaining vesting period.

A summary of stock-settled SARs activity as of March 31, 2017 and changes during the three months then ended is as follows:

	Shares	Weighted-Average Exercise Price
Outstanding at January 1, 2017	1,982,695	\$ 34.80
Exercised	(244,429)	\$ 32.14
Expired or forfeited	(37,773)	\$ 39.77
Outstanding at March 31, 2017	1,700,493	\$ 35.07

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 \$0.7 million and \$1.4 million for the three months ended March 31, 2017 and 2016, respectively. As of March 31, 2017, there was \$6.5 million of total unrecognized compensation cost related to stock-settled SARs outstanding.

Cash-Settled SARs

A summary of cash-settled SARs activity as of March 31, 2017 and changes during the three months then ended is as follows:

	Shares	Weighted-Average Exercise Price
Outstanding at January 1, 2017	500,486	\$ 32.08
Exercised	(123,488)	\$ 32.86
Expired or forfeited	(9,314)	\$ 23.90
Outstanding at March 31, 2017	367,684	\$ 32.03

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 \$ 1.4 million for the three months ended March 31, 2017. For the three months ended March 31, 2016, we recouped \$0.3 million of expense, primarily related to the conversion of certain cash-settled SARs. As of March 31, 2017, there was no unrecognized compensation cost related to cash-settled SARs outstanding.

14. Underwriting, Acquisition and Insurance Expenses

Underwriting, acquisition and insurance expenses were as follows:

(in millions)	For the Three Months Ended March 31,	
	2017	2016
Commissions	\$ 61.2	\$ 57.1
General expenses	88.7	70.6
Premium taxes, boards and bureaus	7.4	6.6
	157.3	134.3
Net deferral of policy acquisition costs	(3.7)	(1.7)
Total underwriting, acquisition and insurance expenses	\$ 153.6	\$ 132.6

The \$18.1 million increase in general expenses for the three months ended March 31, 2017 as compared to the three months ended March 31, 2016 includes the following items:

- \$4.4 million from Maybrooke's operating expenses incurred from the date of acquisition through March 31, 2017;
- \$2.5 million of transaction costs related to the acquisition of Maybrooke incurred during the first quarter of 2017;
- \$4.0 million of restructuring and start-up costs incurred during the three months ended March 31, 2017 associated with the transition of certain infrastructure and application information technology functions to third party managed service providers as part of ongoing operating efficiency initiatives; and
- A \$1.9 million increase in expense for equity-related compensation, which was \$4.9 million for the three months ended March 31, 2017, as compared to \$3.0 million for the three months ended March 31, 2016.

The remaining increase was primarily attributable to higher personnel and other fixed costs incurred in our U.S. Operations segment to support the top line growth within the segment.

15. 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. Eight 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. 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, Ireland, and Luxembourg, 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,	
	2017	2016
Current tax provision	\$ —	\$ 1.5
Deferred tax provision related to:		
Future tax deductions	6.1	2.9
Valuation allowance change	(0.1)	1.0
Income tax provision	<u>\$ 6.0</u>	<u>\$ 5.4</u>

For the three months ended March 31, 2017 and 2016, 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,			
	2017		2016	
	Pre-Tax Income (Loss)	Effective Tax Rate	Pre-Tax Income (Loss)	Effective Tax Rate
Bermuda	\$ 26.5	0.0%	\$ 22.0	0.0%
United States	24.0	26.9%	23.3	23.7%
United Kingdom	(6.9)	6.7%	(12.3)	1.5%
Belgium	— (1)	0.0%	— (1)	0.0%
Brazil	(0.8)	0.0%	(0.1)	0.0%
United Arab Emirates	— (1)	0.0%	— (1)	0.0%
Ireland	— (1)	0.0%	— (1)	0.0%
Malta	0.6	0.0%	0.2	0.0%
Luxembourg	(0.7)	0.0%	—	0.0%
Switzerland	— (1)	21.0%	— (1)	19.8%
Total	<u>\$ 42.7</u>	<u>14.1%</u>	<u>\$ 33.1</u>	<u>16.2%</u>

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

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. 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,	
	2017	2016
Income tax provision at expected rate	\$ 7.2	\$ 5.8
Tax effect of:		
Tax-exempt interest	(0.8)	(0.9)
Dividends received deduction	(0.5)	(0.5)
Valuation allowance change	(0.1)	1.0
Other permanent adjustments, net	0.1	0.2
Adjustment for prior period	(0.7)	(1.5)
Adjustment for annualized rate	(0.7)	—
Other foreign adjustments	0.8	—
Deferred tax rate reduction	—	(0.3)
Foreign exchange adjustments	0.6	1.5
Foreign withholding taxes	0.1	0.1
Income tax provision	<u>\$ 6.0</u>	<u>\$ 5.4</u>
Income tax provision - Foreign	\$ (0.5)	\$ (0.2)
Income tax provision - United States, Federal	6.4	5.5
Income tax (benefit) provision - United States, State	—	—
Foreign withholding tax - United States	0.1	0.1
Income tax provision	<u>\$ 6.0</u>	<u>\$ 5.4</u>

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, generally two years for net operating losses and three years for capital losses for our United States operations. At March 31, 2017, we had a total net deferred tax liability of \$17.0 million prior to a valuation allowance.

Management has determined that a valuation allowance is required for a portion of the tax-effected net operating loss carryforward included as part of the United States consolidated group of \$15.6 million generated from PXRE Corporation and for the tax-effected net operating loss carryforward of \$1.0 million from ARIS. 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.

Furthermore, 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 \$26.1 million is required as of March 31, 2017 of which \$13.7 million relates to the PXRE Corporation and ARIS loss carryforwards, \$8.6 million relates to Brazil operations, \$2.7 million relates to Maybrooke, and \$1.1 million relates to Malta operations. For the three months ended March 31, 2017, the valuation allowance was reduced by \$0.2 million pertaining to PXRE Corporation and ARIS loss carryforwards, increased by \$2.7 million pertaining to our Maybrooke acquisition and the related net operating loss carryforward, increased by \$0.3 pertaining to our Brazil operations, and decreased by \$0.2 million pertaining to our Malta operations.

Of the PXRE Corporation net operating loss carryforwards, \$14.1 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.

For any uncertain tax positions not meeting the "more-likely-than-not" recognition threshold, accounting standards require recognition, measurement and disclosure in a company's financial statements. We had no material unrecognized tax benefits as of March 31, 2017 and 2016. Our United States subsidiaries are no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2013. Our United Kingdom subsidiaries are no longer subject to United Kingdom income tax examinations by Her Majesty's Revenue and Customs for years before 2014.

16. 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 \$95.5 million related to our limited partnership investments at March 31, 2017. These commitments will be funded as required by the partnership agreements which can be called to be fulfilled at any time, not to exceed thirteen years.

17. Segment Information

We are primarily engaged in underwriting property and casualty insurance and reinsurance. We have two ongoing reporting segments: U.S. Operations and International Operations. Additionally, we have a Run-off Lines segment for certain products that we no longer underwrite. See Note 1, "Basis of Presentation," for information on the changes to our reporting segments that were effective beginning in the first quarter of 2017.

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,	
	2017	2016
Revenue:		
Earned premiums		
U.S. Operations	\$ 221.2	\$ 206.6
International Operations	158.2	138.3
Run-off Lines	—	—
Total earned premiums	379.4	344.9
Net investment income (loss)		
U.S. Operations	19.9	13.8
International Operations	6.6	6.1
Run-off Lines	2.1	2.2
Corporate and Other	1.9	(0.9)
Total net investment income	30.5	21.2
Fee and other income	3.6	6.8
Net realized investment and other gains (losses)	14.6	(2.8)
Total revenue	\$ 428.1	\$ 370.1

(in millions)	For the Three Months Ended March 31,	
	2017	2016
Income (loss) before income taxes		
U.S. Operations	\$ 37.2	\$ 34.9
International Operations	8.3	17.7
Run-off Lines	(2.5)	(1.4)
Total segment income before taxes	43.0	51.2
Corporate and Other	(14.9)	(15.3)
Net realized investment and other gains (losses)	14.6	(2.8)
Total income before income taxes	\$ 42.7	\$ 33.1

The table below presents earned premiums by geographic location for the three months ended March 31, 2017 and 2016. 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,	
	2017	2016
Bermuda	\$ 25.6	\$ 28.1
Brazil	12.8	9.2
Malta	1.0	0.5
United Kingdom	118.8	100.5
United States	221.2	206.6
Total earned premiums	\$ 379.4	\$ 344.9

The following table represents identifiable assets:

(in millions)	March 31, 2017	December 31, 2016
U.S. Operations	\$ 4,057.1	\$ 3,961.2
International Operations	3,076.7	2,356.9
Run-off Lines	412.8	537.0
Corporate and Other	472.9	349.9
Total	\$ 8,019.5	\$ 7,205.0

Included in total assets at March 31, 2017 and December 31, 2016 are \$ 633.4 million and \$630.4 million, respectively, in assets associated with trade capital providers.

18. Senior Unsecured Fixed Rate Notes

In September 2012, Argo Group (the “Parent Guarantor”), through its subsidiary Argo Group US (the “Subsidiary Issuer”), issued \$143,750,000 aggregate principal amount of the Subsidiary Issuer’s 6.5% Senior Notes due September 15, 2042 (the “Notes”). The Notes are unsecured and unsubordinated obligations of the Subsidiary Issuer and rank equally in right of payment with all of the Subsidiary Issuer’s other unsecured and unsubordinated debt. The Notes are guaranteed on a full and unconditional senior unsecured basis by the Parent Guarantor. The Notes may be redeemed, for cash, in whole or in part, on or after September 15, 2017, at the Subsidiary Issuer’s option, at any time and from time to time, prior to maturity at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued but unpaid interest on the principal amount being redeemed to, but not including, the redemption date.

In accordance with ASU 2015-03, “Simplifying the Presentation of Debt Issuance Costs” (Topic 835), we present the unamortized debt issuance costs in the balance sheet as a direct deduction from the carrying value of the debt liability. At March 31, 2017 and December 31, 2016, the Notes consisted of the following:

(in millions)	March 31, 2017	December 31, 2016
Senior unsecured fixed rate notes		
Principal	\$ 143.8	\$ 143.8
Less: unamortized debt issuance costs	(4.3)	(4.3)
Senior unsecured fixed rate notes, less unamortized debt issuance costs	\$ 139.5	\$ 139.5

In accordance with Article 10 of SEC Regulation S-X, we have elected to present condensed consolidating financial information in lieu of separate financial statements for the Subsidiary Issuer. The following tables present condensed consolidating financial information at March 31, 2017 and December 31, 2016 and for the three months ended March 31, 2017 and 2016, of the Parent Guarantor and the Subsidiary Issuer. The Subsidiary Issuer is an indirect wholly-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, 2017

(in millions)

(Unaudited)

	Argo Group International Holdings, Ltd (Parent Guarantor)	Argo Group US, Inc. and Subsidiaries (Subsidiary Issuer)	Other Subsidiaries and Eliminations (1)	Consolidating Adjustments (2)	Total
Assets					
Investments	\$ 4.5	\$ 2,882.3	\$ 1,678.8	\$ —	\$ 4,565.6
Cash	—	41.1	149.6	—	190.7
Accrued investment income	—	16.5	5.3	—	21.8
Premiums receivable	—	196.4	461.3	—	657.7
Reinsurance recoverables	—	1,374.0	53.0	—	1,427.0
Goodwill and other intangible assets, net	40.4	126.6	92.3	—	259.3
Deferred acquisition costs, net	—	66.0	89.1	—	155.1
Ceded unearned premiums	—	185.6	253.0	—	438.6
Other assets	10.1	173.7	119.9	—	303.7
Intercompany note receivable	—	50.7	69.3	(120.0)	—
Investments in subsidiaries	2,090.8	—	—	(2,090.8)	—
Total assets	\$ 2,145.8	\$ 5,112.9	\$ 2,971.6	\$ (2,210.8)	\$ 8,019.5
Liabilities and Shareholders' Equity					
Reserves for losses and loss adjustment expenses	\$ —	\$ 2,340.2	\$ 1,240.1	\$ —	\$ 3,580.3
Unearned premiums	—	591.5	538.9	—	1,130.4
Funds held and ceded reinsurance payable, net	—	752.8	(100.7)	—	652.1
Long-term debt	153.4	284.4	138.3	—	576.1
Current income taxes payable, net	—	6.3	1.7	—	8.0
Deferred tax liabilities, net	—	30.1	13.0	—	43.1
Accrued underwriting expenses and other liabilities	12.7	95.6	86.6	—	194.9
Due to affiliates	25.1	(2.8)	2.8	(25.1)	—
Intercompany note payable	120.0	10.0	(10.0)	(120.0)	—
Total liabilities	311.2	4,108.1	1,910.7	(145.1)	6,184.9
Total shareholders' equity	1,834.6	1,004.8	1,060.9	(2,065.7)	1,834.6
Total liabilities and shareholders' equity	\$ 2,145.8	\$ 5,112.9	\$ 2,971.6	\$ (2,210.8)	\$ 8,019.5

(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 BALANCE SHEET

December 31, 2016

(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
Assets					
Investments	\$ 2.2	\$ 2,834.2	\$ 1,487.9	\$ —	\$ 4,324.3
Cash	—	53.7	32.3	—	86.0
Accrued investment income	—	16.0	4.7	—	20.7
Premiums receivable	—	204.9	258.9	—	463.8
Reinsurance recoverables	—	1,348.4	37.2	—	1,385.6
Goodwill and other intangible assets, net	—	127.1	92.8	—	219.9
Deferred acquisition costs, net	—	63.5	75.6	—	139.1
Ceded unearned premiums	—	168.9	133.9	—	302.8
Other assets	8.7	168.0	86.1	—	262.8
Intercompany note receivable	—	50.2	(50.2)	—	—
Investments in subsidiaries	1,834.4	—	—	(1,834.4)	—
Total assets	\$ 1,845.3	\$ 5,034.9	\$ 2,159.2	\$ (1,834.4)	\$ 7,205.0
Liabilities and Shareholders' Equity					
Reserves for losses and loss adjustment expenses	\$ —	\$ 2,322.4	\$ 1,028.4	\$ —	\$ 3,350.8
Unearned premiums	—	580.0	390.0	—	970.0
Funds held and ceded reinsurance payable, net	—	750.2	(206.5)	—	543.7
Long-term debt	28.4	284.4	54.8	—	367.6
Current income taxes payable, net	—	8.5	(0.4)	—	8.1
Deferred tax liabilities, net	—	17.6	6.5	—	24.1
Accrued underwriting expenses and other liabilities	13.7	92.0	42.3	—	148.0
Due to affiliates	10.5	1.8	(1.8)	(10.5)	—
Total liabilities	52.6	4,056.9	1,313.3	(10.5)	5,412.3
Total shareholders' equity	1,792.7	978.0	845.9	(1,823.9)	1,792.7
Total liabilities and shareholders' equity	\$ 1,845.3	\$ 5,034.9	\$ 2,159.2	\$ (1,834.4)	\$ 7,205.0

(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, 2017

(in millions)
(Unaudited)

	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	\$ —	\$ 130.9	\$ 248.5	\$ —	\$ 379.4
Net investment (expense) income	(1.7)	18.9	13.3	—	30.5
Fee and other income	—	2.8	0.8	—	3.6
Net realized investment and other gains	0.5	13.8	0.3	—	14.6
Total revenue	(1.2)	166.4	262.9	—	428.1
Expenses:					
Losses and loss adjustment expenses	—	76.1	146.4	—	222.5
Underwriting, acquisition and insurance expenses	8.4	58.2	87.0	—	153.6
Interest expense	0.3	4.3	1.3	—	5.9
Fee and other expense	—	3.4	0.7	—	4.1
Foreign currency exchange loss (gains)	—	0.1	(0.8)	—	(0.7)
Total expenses	8.7	142.1	234.6	—	385.4
(Loss) Income before income taxes	(9.9)	24.3	28.3	—	42.7
Provision for income taxes	—	6.4	(0.4)	—	6.0
Net (loss) income before equity in earnings of subsidiaries	(9.9)	17.9	28.7	—	36.7
Equity in undistributed earnings of subsidiaries	46.6	—	—	(46.6)	—
Net income	\$ 36.7	\$ 17.9	\$ 28.7	\$ (46.6)	\$ 36.7

(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, 2016

(in millions)
(Unaudited)

	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	\$ —	\$ 119.9	\$ 225.0	\$ —	\$ 344.9
Net investment (expense) income	(0.6)	12.6	9.2	—	21.2
Fee and other income	—	5.2	1.6	—	6.8
Net realized investment and other gains (losses)	—	11.2	(14.0)	—	(2.8)
Total revenue	(0.6)	148.9	221.8	—	370.1
Expenses:					
Losses and loss adjustment expenses	—	68.3	123.3	—	191.6
Underwriting, acquisition and insurance expenses	5.2	47.6	79.8	—	132.6
Interest expense	0.3	3.9	0.6	—	4.8
Fee and other expense	—	6.2	0.3	—	6.5
Foreign currency exchange loss	—	—	1.5	—	1.5
Total expenses	5.5	126.0	205.5	—	337.0
(Loss) Income before income taxes	(6.1)	22.9	16.3	—	33.1
Provision for income taxes	—	5.4	—	—	5.4
Net (loss) income before equity in earnings of subsidiaries	(6.1)	17.5	16.3	—	27.7
Equity in undistributed earnings of subsidiaries	33.8	—	—	(33.8)	—
Net income	\$ 27.7	\$ 17.5	\$ 16.3	\$ (33.8)	\$ 27.7

(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, 2017

(in millions)
(Unaudited)

	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 used in operating activities	\$ (2.0)	\$ (14.7)	\$ (20.2)	\$ —	\$ (36.9)
Cash flows from investing activities:					
Proceeds from sales of investments	—	228.9	225.1	—	454.0
Maturities and mandatory calls of fixed maturity investments	—	135.5	46.6	—	182.1
Purchases of investments	—	(446.5)	(197.9)	—	(644.4)
Change in short-term investments and foreign regulatory deposits	0.5	65.5	54.3	—	120.3
Settlements of foreign currency exchange forward contracts	—	—	(2.8)	—	(2.8)
Acquisition of subsidiaries, net of cash and cash equivalents acquired	(235.3)	—	152.2	—	(83.1)
Issuance of intercompany note, net	—	—	(120.0)	120.0	—
Purchases of fixed assets and other, net	(0.1)	18.7	(19.9)	—	(1.3)
Cash (used in) provided by investing activities	(234.9)	2.1	137.6	120.0	24.8
Cash flows from financing activities:					
Additional long-term borrowings	125.0	—	—	—	125.0
Borrowing under intercompany note, net	120.0	—	—	(120.0)	—
Activity under stock incentive plans	0.2	—	—	—	0.2
Payment of cash dividend to common shareholders	(8.3)	—	—	—	(8.3)
Cash provided by (used in) financing activities	236.9	—	—	(120.0)	116.9
Effect of exchange rate changes on cash	—	—	(0.1)	—	(0.1)
Change in cash	—	(12.6)	117.3	—	104.7
Cash, beginning of year	—	53.7	32.3	—	86.0
Cash, end of period	\$ —	\$ 41.1	\$ 149.6	\$ —	\$ 190.7

(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, 2016

(in millions)
(Unaudited)

	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	\$ 5.6	\$ 23.3	\$ 22.5	\$ —	\$ 51.4
Cash flows from investing activities:					
Proceeds from sales of investments	—	306.0	74.7	—	380.7
Maturities and mandatory calls of fixed maturity investments	—	84.8	48.4	—	133.2
Purchases of investments	—	(364.1)	(94.5)	—	(458.6)
Change in short-term investments and foreign regulatory deposits	0.3	(34.6)	(21.6)	—	(55.9)
Settlements of foreign currency exchange forward contracts	—	—	(3.9)	—	(3.9)
Purchases of fixed assets and other, net	—	(10.9)	(10.1)	—	(21.0)
Cash provided by (used in) investing activities	0.3	(18.8)	(7.0)	\$ —	(25.5)
Cash flows from financing activities:					
Activity under stock incentive plans	0.3	—	—	—	0.3
Repurchase of Company's common shares	—	(19.0)	—	—	(19.0)
Payment of cash dividend to common shareholders	(6.2)	—	—	—	(6.2)
Cash used in financing activities	(5.9)	(19.0)	—	\$ —	(24.9)
Effect of exchange rate changes on cash	—	—	0.2	—	0.2
Change in cash	—	(14.5)	15.7	—	1.2
Cash, beginning of year	—	88.8	32.9	—	121.7
Cash, end of period	\$ —	\$ 74.3	\$ 48.6	\$ —	\$ 122.9

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

(2) Includes all Argo Group parent company eliminations.

19. Subsequent Event

Material Sale of Invested Asset

On April 28, 2017, Markel Corporation (“Markel”) announced that they had completed the acquisition of SureTec Financial Corp. (“SureTec”). At March 31, 2017, we held 20% of the outstanding shares of SureTec which are included in “Other investments” in our Consolidated Balance Sheets with a fair value of \$27.2 million at March 31, 2017. Subsequent to the balance sheet date and prior to the filing of this report on Form 10-Q, we have surrendered our capital holdings in SureTec and in the second quarter of 2017 will recognize a pre-tax gain on sale of approximately \$16 million.

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 three months ended March 31, 2017 compared with the three months ended March 31, 2016, and also a discussion of our financial condition as of March 31, 2017. This discussion and analysis should be read in conjunction with the attached unaudited interim Condensed Consolidated Financial Statements and notes thereto and Argo Group's Annual Report on Form 10-K for the year ended December 31, 2016 filed with the Securities and Exchange Commission ("SEC") on February 24, 2017, 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 catastrophe 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, 2017, we reported net income of \$36.7 million, or \$1.19 per diluted share. Effective February 6, 2017, we completed the acquisition of Maybrooke Holdings, S.A., and its subsidiaries, including Ariel Reinsurance, Ltd (collectively "Ariel Re"). Included in our consolidated results of operations for the three months ended March 31, 2017 is activity specifically attributable to Ariel Re from the date of acquisition. For the three months ended March 31, 2016, we reported net income of \$27.7 million, or \$0.89 per diluted share.

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

(in millions)	For the Three Months Ended March 31,	
	2017	2016
Gross written premiums	\$ 598.6	\$ 519.8
Earned premiums	\$ 379.4	\$ 344.9
Net investment income	30.5	21.2
Fee and other income	3.6	6.8
Net realized investment and other gains (losses)	14.6	(2.8)
Total revenue	\$ 428.1	\$ 370.1
Income before income taxes	\$ 42.7	\$ 33.1
Provision for income taxes	6.0	5.4
Net income	\$ 36.7	\$ 27.7
Loss ratio	58.6%	55.5%
Expense ratio	40.5%	38.5%
Combined ratio	99.1%	94.0%

Consolidated gross written and earned premiums by our four primary insurance lines were as follows:

(in millions)	For the Three Months Ended March 31,			
	2017		2016	
	Gross Written	Net Earned	Gross Written	Net Earned
Property	\$ 148.7	\$ 89.6	\$ 140.7	\$ 85.2
Liability	250.0	164.4	230.2	162.1
Professional	69.3	50.1	61.2	41.1
Specialty	130.6	75.3	87.7	56.5
Total	\$ 598.6	\$ 379.4	\$ 519.8	\$ 344.9

The increase in consolidated gross written and earned premiums for the three months ended March 31, 2017 as compared to the same period ended 2016 was attributable to growth across all product lines as we continue to focus on introducing new products and increasing renewals. Additionally, Ariel Re contributed \$30.5 million of gross written premiums and \$23.2 million of earned premiums from the date of acquisition through March 31, 2017. During 2017 all product lines have experienced increased competition and pressure on rates due to the current market conditions. Consolidated earned premiums increased for the three months ended March 31, 2017 as compared to the same period in 2016 due to increased gross written premiums in the second half of 2016. Partially offsetting these increases was the reduction in our participation percentage for the Syndicate 1200 operations.

The increase in consolidated net investment income for the three months ended March 31, 2017 as compared to the same period ended 2016 was primarily attributable to a \$9.8 million increase in the return on our alternative investment portfolio, from a \$1.5 million loss for the three months ended March 31, 2016 to an \$8.3 million gain for the same period ended 2017. Additionally, net investment income from our fixed maturity portfolio increased \$2.7 million from \$20.6 million for the three months ended March 31, 2016 to \$23.3 million for the same period ended 2017. Partially offsetting these increases was a \$1.2 million decline in net investment income from our equity portfolio, from \$4.7 million for the three months ended March 31, 2016 to \$3.5 million for the same period ended 2017. Investment related expenses increased \$1.6 million for the three months ended March 31, 2017 as compared to the same period ended 2016. Net investment income attributable to Ariel Re was negligible from the date of acquisition through March 31, 2017.

Consolidated net realized investment and other gains for the three months ended March 31, 2017 consisted of \$19.8 million in realized gains from the sale of equity and fixed maturity securities. Partially offsetting these realized gains was \$4.8 million of realized foreign currency exchange losses, primarily from our fixed maturity portfolio. Additionally, for the three months ended March 31, 2017, we recognized a \$0.4 million other-than-temporary impairment loss within our equity portfolio. Consolidated net realized investment and other losses for the three months ended March 31, 2016 were negatively impacted by foreign currency exchange rates during the quarter. Included in net realized losses was a \$17.1 million realized loss generated by the foreign currency changes, including \$11.8 million realized loss on our foreign currency forward contracts and \$5.1 million on our fixed maturity portfolio. For the three months ended March 31, 2016, we recognized \$1.7 million of other-than-temporary impairment losses from the write down of certain investment securities. Partially offsetting these realized losses was \$16.0 million in realized gains from the sales of certain equity and fixed maturity holdings.

Consolidated losses and loss adjustment expenses were \$222.5 million and \$191.6 million for the three months ended March 31, 2017 and 2016, respectively. The increase in the consolidated loss ratio for the three months ended March 31, 2017 as compared to the same period ended 2016 was primarily attributable to net unfavorable development on prior accident years reserves, partially offset by reduced catastrophe losses. Losses and loss adjustment expenses include \$10.8 million for Ariel Re from the date of acquisition through March 31, 2017. Included in losses and loss adjustment expenses for the three months ended March 31, 2017 and 2016 was \$1.8 million and \$3.3 million, respectively, in catastrophe losses attributable to storm activity. Included in losses and loss adjustment expenses for the three months ended March 31, 2017 and 2016 was \$6.8 million of net unfavorable loss reserve development on prior accident years compared to \$3.2 million of net favorable loss reserve development on prior accident years for the same period ending 2016. Included in the net unfavorable development for the three months ended March 31, 2017 was \$4.5 million in unfavorable development due to the impact of the change in discount rate used to calculate awards for personal injury claims ("Ogden rate") and \$4.9 million due to late reported claims for Hurricane Matthew in the U.K.

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, 2017.

(in millions)	2016 Net Reserves	Net Reserve Development (Favorable)/ Unfavorable	Percent of 2016 Net Reserves
General and professional liability	\$ 1,028.9	\$ 7.5	0.7%
Workers compensation	312.9	(3.7)	-1.2%
Syndicate 1200 liability	198.1	4.2	2.1%
Commercial multi-peril	156.6	(3.4)	-2.2%
Commercial auto liability	113.6	(2.6)	-2.3%
Syndicate 1200 property	72.8	6.2	8.5%
All other lines	297.3	(1.4)	-0.3%
Total	<u>\$ 2,180.2</u>	<u>\$ 6.8</u>	<u>0.3%</u>

In determining appropriate reserve levels for the three months ended March 31, 2017, 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 loss 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 also will develop favorably; pricing, reinsurance costs, legal environment, general economic conditions including changes in inflation and many other factors impact our 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. 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, 2017, 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.

Consolidated gross reserves for losses and loss adjustment expenses were \$3,580.3 million (including \$188.7 million of reserves attributable to the Syndicate 1200 trade capital providers) and \$3,141.5 million (including \$131.0 million of reserves attributable to the Syndicate 1200 trade capital providers) as of March 31, 2017 and 2016, 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 favorable or unfavorable loss development, which may be material, will not occur.

Consolidated underwriting, insurance and acquisition expenses were \$153.6 million and \$132.6 million for the three months ended March 31, 2017 and 2016, respectively. The increase in the expense ratio for the three months ended March 31, 2017 as compared to the same period ended 2016 was primarily attributable to an increase in the non-acquisition expense. From the date of acquisition through March 31, 2017, Ariel Re contributed \$4.6 million in underwriting expenses. Included in non-acquisition expenses for the three months ended March 31, 2017 were \$2.5 million in transaction costs related to the Ariel Re acquisition, \$4.0 million in restructuring and start-up costs resulting from the restructuring of our information technology department, as well as increased depreciation and occupancy expenses.

Consolidated interest expense was \$ 5.9 million and \$ 4.8 million for the three months ended March 31, 2017 and 2016, respectively. Included in consolidated interest expense was \$0.7 million from the operations of Ariel Re from the date of acquisition through March 31, 2017. The remaining increase was primarily attributable to interest expense on a \$125.0 million term loan entered into to fund a portion of the acquisition price of Ariel Re.

Consolidated foreign currency exchange gains were \$0.7 million for the three months ended March 31, 2017 compared to a foreign currency exchange loss of \$1.5 million for the same period ended 2016. The changes in the foreign currency exchange gains/losses were due to fluctuations of the United States Dollar, on a weighted average basis, against such currencies in which we transact our business. For the three months ended March 31, 2017, the United States Dollar was essentially flat against such major currencies. For the three months ended March 31, 2016, the United States Dollar weakened against such major currencies, excluding the British Pound.

The consolidated 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 consolidated provision for income taxes was \$6.0 million for the three months ended March 31, 2017 compared to \$5.4 million for the same period ended 2016. The effective tax rate declined to 14.1% for the three months ended March 31, 2017 from 16.2% for the same period ended 2016. The decline in the effective tax rate was primarily attributable to an increase in the income tax benefit for our U.K. operations, coupled with a decline in taxable income and tax provision of our U.S. operations. Partially offsetting this reduction to tax expense was \$1.2 million of tax expense for Ariel Re for the period since acquisition.

Segment Results

As discussed in Note 1 “Basis of Presentation” and Note 17 “Segment Information”, during the first quarter of 2017, we evaluated and modified the presentation of our reportable segments to reflect our new operating framework and management structure. As a result, we have organized our business into two ongoing reporting segments: U.S. Operations and the International Operations. The U.S. Operations includes the former Excess & Surplus and Commercial Specialty reportable segments. The International Operations includes the former Syndicate 1200, International Specialty reportable segments, and the recently acquired Ariel Re business. Consistent with prior periods, the Run-off Lines and Corporate segments include all other activity of Argo Group and are included in our consolidated financial results. It is the business unit that produces the risk and not the location of the underlying exposure that is the primary characteristic in distinguishing U.S. Operations from International Operations. For example, a U.S. property exposure underwritten through our Syndicate platform would be included in our International Operations.

Our reportable segments will include four primary insurance and reinsurance services and offerings as follows:

- Property – includes both property insurance and reinsurance solutions. Insurance products cover commercial properties primarily in North America with some residential and international covers. Reinsurance covers underlying exposures that are located throughout the world, including the United States. These offerings include coverages for man-made and natural disasters.
- Liability – includes a broad range of primary and excess casualty for risks on both an admitted and non-admitted basis in the United States. Internationally, Argo Group writes worldwide casualty risks primarily exposed in the UK, Canada, and Australia.
- Professional – includes various professional lines products including errors and omissions, management liability (including Directors and Officers) and cyber coverages.
- Specialty – includes niche insurance coverages including marine & energy, accident & health, and surety product offerings.

The results of operations for prior periods have been reclassified to conform to the current presentation.

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.

U.S. Operations

The following table summarizes the results of operations for the U.S. Operations segment:

(in millions)	For the Three Months Ended March 31,	
	2017	2016
Gross written premiums	\$ 335.0	\$ 287.6
Earned premiums	\$ 221.2	\$ 206.6
Losses and loss adjustment expenses	123.0	115.5
Underwriting, acquisition and insurance expenses	77.4	66.9
Underwriting income	20.8	24.2
Net investment income	19.9	13.8
Interest expense	(2.7)	(2.2)
Fee and other income	2.0	4.5
Fee and other expense	(2.8)	(5.4)
Income before income taxes	\$ 37.2	\$ 34.9
Loss ratio	55.6%	55.9%
Expense ratio	35.0%	32.4%
Combined ratio	90.6%	88.3%

Gross written and earned premiums by our four primary insurance lines were as follows:

(in millions)	For the Three Months Ended March 31,			
	2017		2016	
	Gross Written	Net Earned	Gross Written	Net Earned
Property	\$ 55.9	\$ 29.0	\$ 43.7	\$ 33.5
Liability	218.0	145.8	193.9	140.8
Professional	33.1	26.2	29.5	17.6
Specialty	28.0	20.2	20.5	14.7
Total	\$ 335.0	\$ 221.2	\$ 287.6	\$ 206.6

The increase in gross written premiums for property was primarily attributable to an increase in premiums from our fronting programs, which do not impact earned premiums, but result in a ceding commissions received. The decline in earned premiums for property was primarily attributable to reduced gross written premiums for the non-fronting programs which was primarily driven by increased competition and pressure on rates. The increase in gross written and earned premiums for liability was primarily attributable to growth in the general casualty and other lines due to introduction of new products, growth in our coal lines due to the upturn in the coal market and within our public entity lines due to new business. The increase in gross written and earned premiums within professional was primarily attributable to new business within our management liability and errors & omissions lines. The increase in gross written and earned premiums for specialty was driven by the introduction of new products within our programs division coupled with growth from new business in our surety lines.

The loss ratio for the three months ended March 31, 2017 was basically flat as compared to the same period in 2016 was primarily attributable to increased net favorable loss reserve development on prior accident years and reduced catastrophe losses, partially offset by higher current accident year losses. Included in losses and loss adjustment expenses for the three months ended March 31, 2017 was \$5.2 million of net favorable loss reserve development on prior accident years primarily attributable to \$13.5 million in net favorable development for the workers compensation, commercial auto and commercial multi-peril lines. Partially offsetting this net favorable development was \$8.3 million in net unfavorable development primarily attributable to the professional liability lines. Included in losses and loss adjustment expenses for the three months ended March 31, 2016 was \$2.9 million of net favorable loss reserve development on prior accident years primarily within the property and commercial automobile lines of business, partially offset by unfavorable development in general and products liability lines of business. Catastrophe losses from storm activity in the United States declined to \$0.8 million for the three months ended March 31, 2017 from \$2.3 million for the same period ended 2016. Current accident year losses for the three months ended March 31, 2017 increased as compared to the same period ended 2016 due to property losses.

The increase in the expense ratio for the three months ended March 31, 2017 as compared to the same period ended 2016 was primarily attributable to increased non-acquisition costs. The increase in the non-acquisition costs for the three months ended March 31, 2017 was primarily attributable to increased compensation related expenses and occupancy expenses due to increased staffing for new growth areas. Non-acquisition expenses for the three months ended March 31, 2016 were favorably impacted by the proceeds from the sale of select business lines. The acquisition expense ratios were comparable for the period presented.

Fee and other income, and the associated fee and other expense, declined for the three months March 31, 2017 as compared to the same period in 2016 due to the exiting of certain brokerage programs in 2016.

International Operations

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

(in millions)	For the Three Months Ended March 31,	
	2017	2016
Gross written premiums	\$ 263.6	\$ 232.2
Earned premiums	\$ 158.2	\$ 138.3
Losses and loss adjustment expenses	97.1	74.7
Underwriting, acquisition and insurance expenses	57.5	51.8
Underwriting income	3.6	11.8
Net investment income	6.6	6.1
Interest expense	(2.0)	(1.3)
Fee and other income	0.8	1.6
Fee and other expense	(0.7)	(0.5)
Income before income taxes	\$ 8.3	\$ 17.7
Loss ratio	61.3%	54.0%
Expense ratio	36.4%	37.5%
Combined ratio	97.7%	91.5%

Gross written and earned premiums by our four primary insurance lines were as follows:

(in millions)	For the Three Months Ended March 31,			
	2017		2016	
	Gross Written	Net Earned	Gross Written	Net Earned
Property	\$ 92.8	\$ 60.6	\$ 97.0	\$ 51.7
Liability	32.0	18.6	36.3	21.3
Professional	36.2	23.9	31.7	23.5
Specialty	102.6	55.1	67.2	41.8
Total	\$ 263.6	\$ 158.2	\$ 232.2	\$ 138.3

The decline in gross written premiums for property was primarily attributable to a \$14.6 million reduction at Syndicate 1200 due to timing differences on renewals coupled with reductions due to increased competition. Partially offsetting these reductions were \$4.5 million in increased premiums for our Argo Re and Brazil operations. Additionally, Ariel Re contributed \$5.9 million in gross written premiums from the date of acquisition through March 31, 2017. Earned premiums for property were favorably impacted by Ariel Re contributing \$14.3 million in earned premiums from the date of acquisition through March 31, 2017. The decline in gross written and earned premiums for liability was primarily due to reductions for Syndicate 1200 and Bermuda casualty due to timing differences in account renewals. The increase in gross written and earned premiums for professional was primarily attributable to growth in the Bermuda and European professional lines, directors & officers and cyber lines, partially offset by a decline in professional indemnity. The increase in gross written and earned premiums for specialty was primarily attributable to Ariel Re contributing \$24.7 million of gross written premiums and \$8.9 million of earned premiums for the date of acquisition through March 31, 2017. Additionally, gross written premiums were favorably impacted by increases within the marine and energy, surety, political risk and livestock lines. Partially offsetting these increases were reductions in the aerospace division due to planned reductions to these exposures.

The increase in the loss ratio for the three months ended March 31, 2017 as compared to the same period in 2016 was attributable to net unfavorable loss reserve development on prior accident years for the three months ended March 31, 2017 versus net favorable loss reserve development for the three months ended March 31, 2016. Included in losses and loss adjustment expenses was \$ 10.8 million for Ariel Re from the date of acquisition through March 31, 2017. Included in losses and loss adjustment expenses for the three months ended March 31, 2017 was \$ 9.6 million of net unfavorable loss reserve development on prior accident years. The net unfavorable development was primarily driven by \$4.2 million in the liabilities lines primarily attributable to the \$4.5 million impact of the change in the Ogden rate, coupled with \$6.2 million in the property lines primarily attributable to the \$4.9 million due to late reporting of Hurricane Matthew claims in the U.K. Included in losses and loss adjustment expenses for the three months ended March 31, 2016 was \$1.7 million of net favorable loss reserve development on prior accident years primarily within the property lines. Catastrophe losses were comparable at \$1.0 million for each of the periods ended March 31, 2017 and 2016.

The decline in the expense ratio for the three months ended March 31, 2017 as compared to the same period ended 2016 was primarily attributable to the favorable impact of earned premium relative to the expenses contributed by Ariel Re from the date of acquisition through March 31, 2017. Ariel Re contributed \$4.6 million in underwriting expenses. Excluding the results of operations for Ariel Re, the expense ratio was 39.2%. The increase in the adjusted expense ratio was due to increased commission and contingent commission expenses.

Fee income and other income represent fees and profit commission derived from the management of third party capital for our underwriting syndicate at Lloyd's. The decline in fee and other income for the three months ended March 31, 2017 as compared to the same periods in 2016 was primarily due to timing differences. Fee and other expenses were comparable for the periods presented.

Run-off Lines

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

(in millions)	For the Three Months Ended March 31,	
	2017	2016
Earned premiums	\$ —	\$ —
Losses and loss adjustment expenses	2.4	1.4
Underwriting, acquisition and insurance expenses	1.9	1.8
Underwriting loss	(4.3)	(3.2)
Net investment income	2.1	2.2
Interest expense	(0.3)	(0.4)
Loss before income taxes	<u>\$ (2.5)</u>	<u>\$ (1.4)</u>

Losses and loss adjustment expenses for the three months ended March 31, 2017 was the result of net unfavorable loss reserve development on prior accident years of \$1.4 million in our risk management lines and \$1.0 million in our other run-off lines. Loss expense for the Run-off Lines segment for the three months ended March 31, 2016 was due to unfavorable development in the run-off workers compensation and other run-off lines, partially offset by favorable development in the run-off reinsurance lines.

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)	For the Three Months Ended March 31,			
	2017		2016	
	Gross	Net	Gross	Net
Asbestos and environmental:				
Loss reserves, beginning of the year	\$ 48.4	\$ 40.6	\$ 46.4	\$ 43.5
Incurred losses	0.3	0.3	0.4	0.4
Losses paid	(3.6)	(3.3)	(1.8)	(1.7)
Loss reserves - asbestos and environmental, end of year	45.1	37.6	45.0	42.2
Risk management reserves	236.5	148.2	248.3	153.8
Run-off reinsurance reserves	1.9	1.9	2.4	2.4
Other run-off lines	3.7	3.7	4.5	4.2
Total loss reserves - Run-off Lines	<u>\$ 287.2</u>	<u>\$ 191.4</u>	<u>\$ 300.2</u>	<u>\$ 202.6</u>

Underwriting, acquisition and insurance expenses for the Run-off Lines segment consists primarily of administrative expenses. The expenses are comparable between periods.

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 by operating activities can fluctuate due to a timing difference in the collection of premiums and reinsurance recoveries and the payment of losses and expenses. For the three months ended March 31, 2017, net cash used in operating activities was \$36.9 million, as compared to net cash provided by operating activities of \$51.3 million for the three months ended March 31, 2016. The decrease in cash flows from operating activities in 2017 from 2016 is attributable to various fluctuations within our operating activities, primarily driven by the timing of reinsurance premium payments, reinsurance recoveries and premium cash receipts in the respective periods.

Net cash provided by investing activities was \$24.8 million for the three months ended March 31, 2017, as compared to net cash used in investing activities of \$25.5 million for the three months ended March 31, 2016. Included in the \$50.3 million net increase in cash provided by investing activities was the \$235.3 million cash outflow related to the purchase of Maybrooke, net of \$152.2 million of cash acquired. In order to generate funds to help finance the Maybrooke acquisition, we positioned our portfolio to capitalize on liquidity events that occur during the normal course of managing our portfolio. These actions resulted in additional proceeds from sales, maturities, and calls of fixed maturity, equity, and other investments of \$122.2 million over the same period in 2016. The remaining increase in cash provided by investing activities relates to the timing of reinvesting portions of the cash proceeds from the sales and maturity of investments before the end of the period.

For the three months ended March 31, 2017, net cash provided by financing activities was \$116.9 million, as compared to net cash used in financing activities of \$24.8 million for the three months ended March 31, 2016. During the three months ended March 31, 2017, we borrowed \$125.0 million as a term loan under our credit facility to help fund the acquisition of Maybrooke. During the three months ended March 31, 2016, we repurchased 343,652 shares of our common stock for a total cost of \$19.0 million. We did not repurchase any common shares during the three months ended March 31, 2017. We paid cash dividends to our shareholders totaling \$8.3 million and \$6.2 million during the three months ended March 31, 2017 and 2016, respectively.

Effective February 6, 2017, we completed the acquisition of Maybrooke Holdings, S.A. for \$235.3 million. We drew \$125.0 million under our Credit Agreement in order to help fund the acquisition and paid the remaining \$110.3 million with available cash on hand. In addition to the cash needs related to this acquisition, we will have continuing cash needs for administrative expenses, the payment of principal and interest on borrowings, shareholder dividends and taxes. Funds to meet these obligations will come primarily from parent company cash, dividends and other payments from our insurance company subsidiaries and from our line of credit.

On March 3, 2017, each of Argo Group, Argo Group US, Inc., Argo International Holdings Limited, and Argo Underwriting Agency Limited (the “Borrowers”) entered into a \$325 million credit agreement (“Credit Agreement”) with JPMorgan Chase Bank, N.A., as administrative agent. The Credit Agreement replaced and terminated the original \$175 credit agreement. The Credit Agreement provides for a \$200.0 million revolving credit facility with a maturity date of March 3, 2022 unless extended in accordance with the terms of the Credit Agreement. In addition, the Credit Agreement includes a \$125 million term loan borrowing, which Argo Group used to pay off in its entirety the \$125.0 million borrowing drawn on January 31, 2017 under the prior credit agreement to help fund the acquisition of Maybrooke. At March 31, 2017, the \$125.0 million drawn on this term loan remained outstanding, with a maturity date of March 3, 2019. The term loan bears interest based on a variable rate, which resets and is payable based on reset options we select pursuant to the terms of the Credit Agreement. As of March 31, 2017, the interest rate on this debt was equal to the two-month LIBOR (0.90% at March 31, 2017) plus 150 basis points, or 2.40%.

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 could 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 \$ 200.0 million of the revolving credit facility to be used for letters of credit (“LOCs”), subject to availability. As of March 31, 2017, there were no borrowings outstanding and \$0.2 million in LOCs against the revolving credit facility.

On May 3, 2016, our Board authorized the repurchase of up to \$150.0 million of our common shares (“2016 Repurchase Authorization”). The 2016 Repurchase Authorization supersedes all the previous repurchase authorizations. Shares purchased are being held as treasury shares in accordance with the provisions of the Bermuda Companies Act 1981. As of March 31, 2017, availability under the 2016 Repurchase Authorization for future repurchases of our common shares was \$130.3 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, 2016 that Argo Group filed with the SEC on February 24, 2017 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, 2016 that we filed with the SEC on February 24, 2017 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 four types of market risk: interest rate risk, credit risk, equity price risk and foreign currency risk.

Interest Rate Risk

Our primary market risk exposure is the exposure of our fixed maturity investment portfolio to interest rate risk and the changes in interest rates. 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 falls, and the converse is also true. We manage interest rate risk through an active portfolio management 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 our investment portfolio matures each year, allowing for reinvestment at current market rates. The model duration of the assets comprising our fixed maturity investment portfolio was 2.48 years and 2.58 years at December 31, 2016 and 2015, respectively.

Credit Risk

We have exposure to credit risk on losses recoverable from reinsurers and receivables from insureds. Our controls to mitigate this risk include limiting our exposure to any one counterparty, evaluating the financial strength of our reinsurers, generally requiring minimum credit ratings and in certain cases receiving collateral from our reinsurers and insureds.

We have also have exposure to credit risk in our investment holdings. Our risk management strategy and investment policy attempts to mitigate this risk by primarily investing in debt instruments of high credit quality issuers, limiting credit concentration, monitoring the credit quality of issuers and counterparties and diversifying issuers. The weighted average rating of our fixed maturity investments was A+ with 87.0% and 87.1% rated investment grade or better (BBB- or higher) at March 31, 2017 and December 31, 2016, respectively.

Our portfolio also includes alternative investments with a carrying value at March 31, 2017 and December 31, 2016 of \$555.4 million and \$539.0 million (12.2% and 12.5% of total invested assets) respectively. We may invest in both long and short equities, corporate debt securities, currencies, real estate, commodities and derivatives. We attempt to mitigate our risk by selecting managers with extensive experience, proven track records and robust controls and processes. We also mitigate our risk by diversifying through multiple managers and different types of assets and asset classes.

Equity Price Risk

We hold a diversified portfolio of equity securities with a fair value of \$447.2 million and \$447.4 million (9.8% and 10.3% of total invested assets) at March 31, 2017 and December 31, 2016, respectively. Our equity securities are exposed to equity price risk which is defined as the potential for loss in fair value due to a decline in equity prices. We believe the diversification of our equity securities among various industries, market segments and issuers mitigates our exposure to equity price risk.

Foreign Currency Risk

We have exposure to foreign currency risk in our insurance contracts, invested assets and to a lesser extent, a portion of our debt. We attempt to manage our foreign currency risk by seeking to match our liabilities under insurance and reinsurance contracts that are payable in currencies other than the U.S. Dollar with cash and investments that are denominated in such currencies. We also use foreign exchange forward contracts to mitigate this risk. We recognized \$4.1 million and \$6.9 million in losses from movements in foreign currency rates for the three months ended March 31, 2017 and 2016, respectively. We recognized \$0.1 million in gains and \$11.8 million in losses on our foreign currency forward contracts for the three months ended March 31, 2017 and 2016, respectively.

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, 2017 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, 2016 for a detailed discussion of the additional risk factors affecting us.

Risks Related to Maybrooke Acquisition

We recently acquired Maybrooke, including its subsidiary Ariel Reinsurance Ltd. (Syndicate 1910), and there can be no assurance that we will fully realize the expected benefits of the Maybrooke acquisition. Additionally, as a result of this acquisition we are subject to the actions of various Bermuda and United Kingdom regulatory bodies and our mandatory compliance with future regulations may have an adverse effect on our business and/or operations. Presented below are the risk factors as originally reported in the Argo Group Annual Report on Form 10-K for the year ended December 31, 2016 updated to the impact of the Maybrooke acquisition.

In order to realize the benefits of the Maybrooke acquisition, our and Maybrooke's management will be required to devote considerable effort to projects such as upgrading and integrating financial, actuarial, underwriting, and other systems and preparing financial reports on a timely basis. No assurances can be given as to the impact these efforts may have on our operations. In addition, no assurances can be given as to whether Lloyd's will approve the Syndicate 1910 business plan for 2018 and subsequent years, which could impact the amount of business we can write nor as to the viability and cost of the capital structure we may use as a substitute for the external capital and reinsurance used by Maybrooke in 2017 and prior underwriting years. We have recorded intangible assets related to the acquisition of Maybrooke based on assumptions of anticipated benefits. These intangible assets may become impaired if anticipated benefits are not achieved, resulting in a corresponding impact on our income.

Further, we depend on our ability to retain underwriting talent, other skilled employees and key executives with Ariel Re who are knowledgeable about our business. If we are unable to retain these key Ariel Re personnel, we may be unable to maintain our current competitive position in the specialized markets in which we operate and be unable to expand our operations into new markets, which could adversely affect our results.

Operational Risk

Operational risk refers to the risk of loss arising from inadequate or failed internal processes, people, systems or the operational impact of external events. This risk encompasses all exposures faced by functions and services rendered in the course of conducting business including, but not limited to, underwriting, accounting and financial reporting, business continuity, claims management, information technology and data processing, legal and regulatory compliance, outsourcing and reinsurance purchasing.

United Kingdom's vote to leave the European Union

On June 23, 2016, the United Kingdom held a referendum in which voters approved an exit from the European Union ("E.U."), commonly referred to as "Brexit." As a result of the referendum, the British government is evaluating the terms of the United Kingdom's future relationship with the E.U. Although it is unknown what those terms will be, it may create, in the short-term, regulatory and foreign exchange rate uncertainty with respect to ArgoGlobal Syndicate 1200 and Ariel Re's Syndicate 1910.

Our insurance and reinsurance subsidiaries are subject to risk-based capital and solvency requirements in their respective regulatory domiciles.

A risk-based capital system is designed to measure whether the amount of available capital is adequate to support the inherent specific risks of each insurer. Risk-based regulatory capital is calculated at least annually. Authorities use the risk-based capital formula to identify insurance companies that may be undercapitalized and thus may require further regulatory attention. The formulas prescribe a series of risk measurements to determine a minimum capital amount for an insurance company, based on the profile of the individual company. The ratio of a company's actual policyholder surplus to its minimum capital requirements will determine whether any regulatory action is required based on the respective local thresholds.

Whereas the majority of our operations operate on the basis of 'standard formula' risk-based capital systems, Syndicate 1200 and Syndicate 1910 have secured approval from Lloyd's for the use of customized Economic Capital Models, known as the Internal Models. These models are used to calculate regulatory capital requirements based on each Syndicate's unique risk profile. The Internal Models have been subject to extensive internal and external scrutiny including independent validation activities. The use of any complex mathematical model however exposes the organization to the risk that these models are not built correctly, contain coding or formulaic errors or rely on unreliable or inadequate data.

As a result of these and other requirements, we may have future capital requirements that may not be available to us on commercially favorable terms. Regulatory capital and solvency requirements for our future capital requirements depend on many factors, including our ability to underwrite new business, risk propensity and ability to establish premium rates and accurately set reserves at levels adequate to cover expected losses. To the extent that the funds generated by insurance premiums received and sale proceeds and income from our investment portfolio are insufficient to fund future operating requirements and cover incurred losses and loss expenses, we may need to raise additional funds through financings or curtail our growth and reduce in size. The prolonged effects of the most recent financial market crisis created uncertainty in the equity and fixed maturity securities markets and could have affected our ability, and the ability of others within our industry, to raise additional capital in the public or private markets. Any future financing, if available at all, may be on terms that are not favorable to us and our shareholders. In the case of equity financing, dilution to current shareholdings could result, and the securities issued may have rights, preferences and privileges that are senior or otherwise superior to those of our common shares.

United Kingdom

Syndicates 1200 and 1910 within the Argo Managing Agency are subject to the risk-based capital requirements administered by the Prudential Regulation Authority (“PRA”), and are subject to S II risk-based capital requirements, as discussed above. Lloyd’s has introduced its own implementation plan and requirements for S II with which Syndicates 1200 and 1910 have to date complied with and in the future will be expected to comply.

Bermuda

Argo Group, Argo Re and Ariel Reinsurance Ltd.

As discussed in the summary of regulatory provisions above relating to Argo Group, Argo Re and Ariel Reinsurance Ltd. in Bermuda, Argo Re and Ariel Reinsurance Ltd are both subject to the Bermuda Solvency Capital Requirement (“BSCR”), a risk-based capital system mandated by the Bermuda Insurance (Prudential Standards) (Class 4 and Class 3B Solvency Requirement) Rules, as amended from time to time. Similarly, Argo Group is subject to the Insurance (Prudential Standards) (Insurance Group Solvency Requirement) Rules 2011 as amended from time to time. The application and methods of calculating the BSCR required by the Bermuda Monetary Authority (“BMA”) are subject to change, and the ultimate impact on our solvency position from any future material changes cannot be determined at this time.

Minimum Solvency Margin

Argo Re and Ariel Reinsurance Ltd each must ensure that the value of its general business assets exceeds the amount of its general business liabilities by an amount greater than the prescribed minimum solvency margin (“MSM”) pertaining to its general business. As a Class 4 insurer, Argo Re is required, with respect to its general business, to maintain a minimum solvency margin equal to the greatest of (A) \$100 million, (B) 50% of net premiums written (being gross premiums written less any premiums ceded by Argo Re, but Argo Re may not deduct more than 25% of gross premiums when computing net premiums written) and (C) 15% of net discounted aggregate losses and loss expense provisions and other insurance reserves. As a Class 3B insurer, Ariel Reinsurance Ltd is required to maintain a minimum capital and surplus of \$1 million. Argo Group is supervised by the BMA as an Insurance Group, and must ensure that the value of the Insurance Group’s assets exceeds the Insurance Group’s liabilities by the aggregate MSM of each qualifying member of the Insurance Group.

Enhanced Capital Requirement

Argo Group, as a BMA supervised Insurance Group, and Argo Re, as a Class 4 insurer, and Ariel Reinsurance Ltd, as a Class 3B insurer, are required to maintain available statutory capital and surplus pertaining to its general business at a level equal to or in excess of its enhanced capital requirement (“ECR”). The ECR is established by reference to either the BSCR model or an approved internal capital model, but must be equal to or exceed the MSM for the insurer. The BSCR is a risk-based capital model which provides a method for determining an insurer’s capital requirements (statutory capital and surplus) by taking into account the risk characteristics of different aspects of the insurer’s business. The BMA may, subject to compliance with the relevant provisions of the Insurance Act, make such adjustments to an insurer’s ECR and available statutory capital and surplus requirements as it considers appropriate.

Target Capital Level

Although not a metric specifically defined in the Insurance Act, the BMA has the authority to establish a target capital level (“TCL”) for each Class 4 insurer. The BMA has defined the TCL as equal to 120% of an insurer’s ECR. The purpose of the TCL is to serve as an early warning tool for the BMA. Failure to maintain statutory capital at or above the TCL will likely result in increased regulatory oversight.

Eligible Capital

Under the respective systems applied to Argo Re as a re(insurer) and Argo Group as an Insurance Group supervised by the BMA, all capital instruments at Argo Group, Argo Re and Ariel Reinsurance Ltd. will be classified as either basic or ancillary capital, which in turn will be classified into one of three tiers based on their “loss absorbency” characteristics. Highest quality capital will be classified Tier 1 Capital; lesser quality capital will be classified as either Tier 2 Capital or Tier 3 Capital. Under this regime, not less than 80% of Tier 1 Capital and up to 20% of Tier 2 Capital may be used to support the company’s minimum solvency margin for the filing entity’s general business. Thereafter, a minimum of 60% of Tier 1 Capital and a maximum of 15% of Tier 3 Capital may be used to satisfy the filing entity’s ECR. Any combination of Tier 1, 2 or 3 Capital may be used to meet the TCL. With respect to Argo Group, the Insurance (Prudential Standards) (Insurance Group Solvency Requirement) Amendment Rules 2012 provide for a phase-in over a period of six years, starting at 50% of the amount determined and increasing in 10% increments. Where the BMA has previously approved the use of certain instruments for capital purposes, the BMA’s consent must be obtained if such instruments are to remain eligible for use in satisfying the minimum margin of solvency pertaining to the filing entity general business and its ECR.

Minimum Liquidity Ratio

Argo Re and Ariel Reinsurance Ltd are required to maintain a minimum liquidity ratio for general business equal to the value of its relevant assets at not less than 75% of the amount of its relevant liabilities. Relevant assets include cash and time deposits, quoted investments, unquoted bonds and debentures, first liens on real estate, investment income due and accrued, accounts and premiums receivable and reinsurance balances receivable. The relevant liabilities are total general business insurance reserves and total other liabilities less deferred income tax and sundry liabilities (by interpretation, those not specifically defined).

Restrictions on Dividends and Distributions

Argo Re and Ariel Reinsurance Ltd are each prohibited from declaring or paying any dividends during any financial year if it is in breach of its ECR, general business solvency margin or minimum liquidity ratio or if the declaration or payment of such dividends would cause such a breach. If it has failed to meet its minimum margin of solvency or minimum liquidity ratio on the last day of any financial year, Argo Re or Ariel Reinsurance Ltd will each be prohibited, without the approval of the BMA, from declaring or paying any dividends during the next financial year. In addition, Argo Re and Ariel Reinsurance Ltd are prohibited from declaring or paying in any financial year dividends of more than 25% of its total statutory capital and surplus (as shown on its previous financial year's statutory balance sheet) unless it files (at least 7 days before payment of such dividends) with the BMA an affidavit stating that they will continue to meet the required margins.

Our merger and acquisition strategy may not succeed.

Our strategy for growth may include mergers and acquisitions. It is inherent in this strategy that potential risks may present themselves that could have a material adverse effect on our business and financial performance, including: (i) the diversion of management's attention, (ii) our ability to execute a transaction effectively, including the integration of operations and the retention of employees and (iii) the contingent and latent risks associated with the past operations of and other unanticipated problems arising from a transaction partner. We cannot predict whether we will be able to identify and complete a future transaction on terms favorable to us. Further, we cannot know if and when we will realize the anticipated benefits of a completed transaction or if there will be substantial unanticipated costs associated with such a transaction.

A future merger or acquisition may result in tax consequences at either or both the shareholder and Argo Group level, potentially dilutive issuances of our equity securities, the incurrence of additional debt and the recognition of potential impairment of goodwill and other intangible assets. Each of these factors could adversely affect our financial position.

On February 6, 2017, Argo Group acquired Maybrooke for \$235.3 million paid in cash. Through the acquisition of Maybrooke, we acquired Ariel Re, a global underwriter of specialty insurance and reinsurance business written primarily through its Lloyd's Syndicate 1910. Having recognized the risks associated in integration of operations, Argo Group has established and continues to maintain an integration program with appropriate resources, governance and plans. However, despite best efforts, there is no assurance that we will be able to effectively implement our integration plan, which may have an adverse effect on our results of operations and financial position.

Argo Re's inability to provide the necessary collateral could affect Argo Re's ability to offer reinsurance in certain markets.

Argo Re, the Bermuda Class 4 risk bearing entity, is not licensed or admitted as an insurer in any jurisdiction other than Bermuda. Because many jurisdictions do not permit insurance companies to take credit for reinsurance obtained from unlicensed or non-admitted insurers in statutory financial statements unless appropriate security is in place, Argo Re anticipates that its reinsurance clients will typically require it to post a letter of credit or other collateral for incurred losses. If Argo Re is unable to arrange for security on commercially reasonable terms, Argo Re could be limited in its ability to underwrite business for certain of its clients.

Reputational Risk

Reputational Risk is the risk of potential loss through a deterioration of our reputation or standing due to a negative perception of our image among customers, counterparties, shareholders or supervisory authorities, and includes risk of adverse publicity regarding our business practices and associations. While we assess the reputational impact of all reasonably foreseeable material risks within our risk management processes we also recognize a number of specific reputational risks.

Regulatory constraints may restrict our ability to operate our business.

Regulation of Subsidiaries

General

Our insurance and reinsurance subsidiaries and insurance-related services subsidiaries may not be able to obtain or maintain necessary licenses, permits or authorizations, or may be able to do so only at significant cost. In addition, we may not be able to comply with, or obtain appropriate exemptions from the wide variety of laws and regulations applicable to insurance or reinsurance companies or insurance-related services companies or holding companies. Failure to comply with or to obtain appropriate authorizations and/or exemptions under any applicable laws could result in restrictions on our ability to do business or certain activities that are regulated in one or more of the jurisdictions and could subject us to fines and other sanctions, which could have a material adverse effect on our business.

Argo Group's Bermuda Subsidiary

Argo Re is registered as a Class 4 Bermuda insurance company and is subject to regulation and supervision in Bermuda by the BMA. Similarly Ariel Reinsurance Ltd. is a Class 3B insurance company and subject to the same regulation and supervision. Changes in Bermuda insurance statutes, regulations and policies could result in restrictions on Argo Re's and Ariel Reinsurance Ltd's ability to pursue its business plans, issue reinsurance policies, distribute funds and execute its investment strategy.

U.K. Financial Services Authority, Prudential Regulation Authority and Financial Conduct Authority Regulations

Since 2014 regulatory supervision over Syndicates 1200 and 1910 has been conducted by the PRA and FCA. The operations of Syndicates 1200 and 1910 each continue to be supervised by Lloyd's. The PRA, FCA and Lloyd's have common objectives in ensuring that the Lloyd's market is appropriately regulated. To minimize duplication, there are arrangements with Lloyd's for co-operation on supervision and enforcement. Both the PRA and FCA have substantial powers of intervention in relation to the Lloyd's Managing Agents (such as Argo Managing Agency Limited) that they regulate, including the power to remove their authorization to manage Lloyd's Syndicates. In addition, each year the PRA requires Lloyd's to satisfy an annual solvency test that measures whether Lloyd's has sufficient assets in the aggregate to meet all outstanding liabilities of its members, both current and run-off. If Lloyd's fails this test, the PRA may require Lloyd's to cease trading and/or its members to cease or reduce underwriting. Future regulatory changes or rulings by the PRA and/or FCA could interfere with the business strategy or financial assumptions of the Syndicates, possibly resulting in an adverse effect on the financial condition and operating results of the Syndicates.

Lloyd's Regulations and Requirements

The operations of Syndicates 1200 and 1910 are supervised by Lloyd's. The Lloyd's Franchise Board requires annual approval of the Syndicates 1200 and 1910 business plans, including maximum underwriting capacity, and may require changes to any business plan presented to it or additional capital to be provided to support underwriting. Lloyd's also imposes various charges and assessments on its member companies. If Lloyd's were to require material changes in the Syndicate business plans, or if charges and assessments payable by Syndicate 1200 or 1910 to Lloyd's were to increase significantly, these events could have an adverse effect on the operations and financial results of the Syndicates. In addition, no assurances can be given as to how much business Lloyd's will permit the Syndicates to underwrite in 2017 and subsequent years nor the viability and cost of the capital structure we may use as a substitute for the external capital and reinsurance used by the Syndicate in 2016 and prior underwriting years.

The financial security of the Lloyd's market is regularly assessed by three independent rating agencies (A.M. Best, S&P and Fitch Ratings). A satisfactory credit rating issued by an accredited rating agency is necessary for Lloyd's Syndicates to be able to trade in certain classes of business or certain jurisdictions at current levels. Syndicates 1200 and 1910 would be adversely affected if Lloyd's current ratings were downgraded.

Other Applicable Laws

Lloyd's worldwide insurance and reinsurance business is subject to various regulations, laws, treaties and other applicable policies of the EU, as well as each nation, state and locality in which it operates. Material changes in governmental requirements and laws could have an adverse effect on Lloyd's and its member companies, including Syndicates 1200 and 1910.

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

Issuer Purchase of Equity Securities

On May 3, 2016, our Board authorized the repurchase of up to \$150.0 million of our common shares ("2016 Repurchase Authorization"). The 2016 Repurchase Authorization supersedes all the previous Repurchase Authorizations.

From January 1, 2017 through March 31, 2017, we did not repurchase any of our common stock. Since the inception of the repurchase authorizations through March 31, 2017, we have repurchased 10,028,755 shares of our common stock at an average price of \$37.71 for a total cost of \$378.2 million. These shares are being held as treasury shares in accordance with the provisions of the Bermuda Companies Act 1981. As of March 31, 2017, availability under the 2016 Repurchase Authorization for future repurchases of our common shares was \$130.3 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, 2017:

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, 2017	—	\$ —	—	\$ 130,233,425
February 1 through February 28, 2017	7,462	\$ 67.29	—	\$ 130,233,425
March 1 through March 31, 2017	54,845	\$ 67.91	—	\$ 130,233,425
Total	62,307		—	

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, 2017, we received 62,307 shares of our common stock, with an average price paid per share of \$67.84 that were surrendered by employees in payment for the minimum required withholding taxes. In the above table, these shares are included in columns (a) and (b), but excluded from columns (c) and (d). These shares do not reduce the number of shares that may yet be purchased under the repurchase plan.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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

Exhibit Number	Description
10.1	<u>Executive Employment Agreement, dated October 1, 2016, between Argo Group International Holdings, Ltd. and Jose Hernandez.</u>
10.2	\$325,000,000 Credit Agreement, dated as of March 3, 2017, among Argo Group International Holdings, Ltd., Argo Group US, Inc., Argo International Holdings Limited and Argo Underwriting Agency Limited, the Lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent, Wells Fargo Bank, N.A., as syndication agent, and the other parties thereto (incorporated by reference to Exhibit 10.1 to Argo Group's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 9, 2017).
12.1	<u>Statements of Computation of Ratios of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Share Dividends</u>
31.1	<u>Rule 13a – 14(a)/15d – 14(a) Certification of the Chief Executive Officer</u>
31.2	<u>Rule 13a – 14(a)/15d – 14(a) Certification of the Chief Financial Officer</u>
32.1	<u>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</u>
32.2	<u>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</u>
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

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 5, 2017

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

May 5, 2017

By /s/ Jay S. Bullock
Jay S. Bullock
Executive Vice President and Chief Financial Officer

EXECUTIVE EMPLOYMENT AGREEMENT

This Executive Employment Agreement (“Agreement”) is effective as of October 1, 2016 and is by and between Argo Group International Holdings, Ltd. (“Company”) and Jose Hernandez (“Executive”).

WHEREAS, Argo Group International Holdings, Ltd. (“Argo Group” or the “Company”) is an international underwriter of specialty insurance and reinsurance products in areas of the property and casualty market; and

WHEREAS, Executive desires to be employed by Company; and

WHEREAS, through the Company and its other subsidiaries, Argo Group offers a comprehensive line of products and services designed to meet the unique coverage and claims-handling needs of its clients (“Argo Group” shall mean, individually and collectively, the Company and each of Argo Group’s subsidiaries); and

WHEREAS, Executive acknowledges and agrees that, in addition to providing services to Company, Executive shall have dealings with and provide services to Argo Group;

NOW THEREFORE, in consideration of the promises and mutual agreements herein set forth, intending to be legally bound, the parties hereby agree as follows:

1. Employment Period. The Company hereby employs the Executive as an employee, and the Executive agrees to be employed by the Company, upon the terms and conditions set forth herein. This Agreement is effective as of October 1, 2016 (the “Effective Date”) and shall continue for a fixed period expiring October 1, 2020 unless earlier terminated in accordance with Section 6 hereof (the “Initial Term”). Prior to the expiration of the Initial Term, the Company and the Executive agree to negotiate in good faith an extension of the Initial Term based on the terms and conditions of this Agreement, unless either the Company or the Executive gives the other party written notice of its or his election not to extend the Initial Term at least six (6) months prior to the end of the Initial Term. Company and Executive may agree to one or more extensions of the Employment Period but any such agreement must be in writing signed by both parties and must contain a set expiration date (each, a “Renewal Term”; the Initial Term and each Renewal Term, if any, collectively, the “Employment Period”).
 2. Duties. The Executive agrees to serve the Company in the position of Head of International reporting to the Company’s Chief Executive Officer and to perform diligently and to the best of his abilities the duties and services of that office. During the Employment Period, Executive shall perform the duties and services that the Company assigns or delegates to him from time to time. Executive acknowledges and agrees that Executive owes a fiduciary duty of loyalty, fidelity and allegiance to act at all times in the best interests of Argo Group and further agrees not to engage or participate in any act that will or is reasonably likely to injure the business, interests, or reputation of Argo Group. Unless otherwise agreed to by the Company and the Executive, the Executive’s principal place of business with the Company shall be in Bermuda. Executive shall travel to such extent as may be required in connection with the performance of his duties.
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3. Compensation.

- (a) Base Salary. Company shall pay Executive an annual salary of U.S. Six Hundred Thousand and 00/100 Dollars (\$600,000) ("Base Salary"), less all applicable legal deductions and/or withholding. Base Salary shall be payable in accordance with Company's policies or practices in effect from time to time, but in any event no less frequently than monthly. Base Salary shall be reviewed annually by the Company for any potential increases (but not decreases), provided that the parties agree that Executive's Base Salary shall not be reduced. If the Base Salary is increased by the Company, such Base Salary then constitutes the Base Salary for all purposes of this Agreement.
- (b) Profit Sharing Awards and Long-Term Incentive Awards. In addition to Base Salary, during the Employment Period, the Executive may, in the sole discretion of the Company from time to time, be eligible to earn profit sharing awards and long-term incentive awards contingent upon the achievement of specific objectives as established by the Company. Executive will be eligible to receive profit sharing and long-term incentive awards beginning in the year 2017. Executive's profit sharing awards have a target of Nine Hundred Thousand and 00/100 Dollars (\$900,000). Executive's long-term incentive awards have a target of Nine Hundred Thousand and 00/100 Dollars (\$900,000). Any profit sharing award and/or long-term incentive award shall be paid at the time the Company normally pays such bonuses or awards, and Executive is only entitled to receive any such profit sharing and/or long term incentive award if Executive is employed by Company at the payment date.
- (c) Benefits. As additional compensation for Executive, Company shall provide or maintain for Executive medical, welfare and health insurance benefit plans on the same terms and conditions as are made available to all similarly situated executives of the Company generally, subject to the terms and conditions of such plans as in effect from time to time.

4. Vacation. Executive shall be entitled to Paid Time Off ("PTO") during Executive's employment under this Agreement, subject to Company's paid time off policy as may be in effect from time to time.

5. Reimbursement For Expenses. Company shall reimburse Executive for all reasonable and necessary business expenses incurred by Executive in the performance of Executive's duties during the Employment Period, provided that requests for reimbursement are submitted in accordance with Company's policies and procedures as in effect from time to time. In no event shall expenses eligible for reimbursement be reimbursed later than December 31 of the year following the calendar year in which the Executive incurred the related expense. Any reimbursement in one calendar year may not affect the amount that may be reimbursed in any other calendar year and a right to reimbursement may not be exchanged or liquidated for another benefit or payment.

6. Termination of Employment.

- (a) Death. This Agreement shall automatically terminate upon the death of the Executive.
- (b) Disability. Subject to the requirements of the Americans with Disabilities Act and any similar state law that may apply, Company may terminate Executive's employment and this Agreement if Company determines that Executive is physically or mentally impaired and unable to perform the essential functions of Executive's job, with or without reasonable accommodation, during any "Disability Period," defined as sixty (60) consecutive days or ninety (90) days in any twelve (12)-month period.
- (c) Termination by Company for Cause. Company may immediately terminate this Agreement and Executive's employment with the Company upon written notice to Executive at any time for Cause. For purposes of this Agreement, "Cause" will exist if:
 - (i) Company determines Executive has committed any dishonest or disloyal act, or has engaged in misconduct or gross negligence in connection with Executive's employment;
 - (ii) Executive is convicted of, or pleads guilty or *nolo contendere* to, or enters into an agreement for deferred adjudication, deferred prosecution, or other form of delayed disposition for any felony or a crime of moral turpitude;
 - (iii) Company determines Executive has engaged in conduct that violates Argo Group's policies or is detrimental to the reputation, character or standing of, or otherwise is injurious to, Argo Group, monetarily or otherwise;
 - (iv) without limiting the generality of Section 6(c)(i), the breach or threatened breach of any of the provisions of Section 8;
 - (v) Executive fails to obtain, apply for, or maintain all registrations and/or licenses required to perform Executive's duties (as contemplated by this Agreement) by any applicable statute or regulation or by the rules of any applicable governing or regulatory entity, including the suspension, cancellation, revocation, termination or restriction of any such registration or license; or
 - (vi) any ruling or finding in any state or federal court or by an arbitration tribunal that Executive has breached, or cannot perform a material part of his obligations hereunder due to, Executive's obligations under any confidentiality, non-disclosure, non-solicitation, non-competition, non-recruitment, or any other type of restrictive covenant.

- (d) Termination by Company Without Cause. Company may terminate Executive's employment at any time, regardless of any reason, by providing at least six (6) months written notice to the Executive.
- (e) Termination by Executive. Provided that the Executive is not in breach of this Agreement, Executive may terminate Executive's employment at any time, regardless of reason, by providing at least six (6) months written notice to Company.
- (f) Non-Renewal by the Company. The Company may terminate this Agreement by electing not to renew the Employment Period pursuant to the applicable notice requirements under Section 1.
- (g) Non-Renewal by the Executive. The Executive may terminate this Agreement by electing not to renew the Employment Period pursuant to the applicable notice requirements under Section 1.

7. Effect of Termination. The termination of this Agreement shall not affect any rights of Executive that shall have accrued prior to the date of such termination.

- (a) Upon Death or Disability of the Executive.
 - (i) During the Employment Period, if the Executive's employment is terminated pursuant to Section 6(a) due to death, the Executive's estate shall be entitled to receive the Base Salary set forth in Section 3 accrued through the date of death and any profit sharing award Fully-Earned through the date of such termination; provided, that, such profit sharing award shall be paid on the first day of the month coincident with or first following the thirtieth (30th) day following the date Executive's employment is terminated. For purposes of this Agreement, "Fully-Earned" shall mean that for purposes of determining whether the Executive shall be entitled to a profit sharing award, that such Executive shall be treated as if he had been employed through the last date of the regular period for determining whether or not a profit sharing award is payable in the standard manner that all such executives are evaluated even though Executive is no longer employed by the Company, and his eligibility for a profit sharing award, if any, shall be determined accordingly.
 - (ii) During the Employment Period, if the Executive's employment is terminated pursuant to Section 6(b) due to Disability, the Executive shall be entitled to receive the Base Salary set forth in Section 3 accrued through the first day that the Executive is substantially unable to perform the duties hereunder in accordance with Section 6(b) above and any profit sharing award Fully-Earned through the date of such termination;

provided, that, such profit sharing award shall be paid on the first day of the month coincident with or first following the thirtieth (30th) day following the date Executive's employment is terminated.

- (iii) In the case of the Executive's death or termination due to Disability, a surviving spouse of the Executive or the Executive, as applicable, shall be eligible for continuation of family health benefits pursuant to Section 3(c) subject to compliance with plan provisions at the rate currently paid by the Executive at the time of termination for a one-year period after the date of the Executive's death or termination due to Disability, as applicable ("Extended Health Benefits"); provided, however, that (A) such benefit continuation coverage shall be considered part of the benefit continuation coverage which the surviving spouse or Executive, as applicable, is entitled to receive under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"), and (B) the surviving spouse or the Executive, as applicable, timely elects COBRA coverage.
- (iv) In the event that Executive's employment is terminated pursuant to Section 6(a) or (b), Executive or the surviving spouse, as applicable, shall not be entitled to any Fully Earned profit sharing award pursuant to Sections 7(a)(i) or (ii) or Extended Health Benefits pursuant to Section 7(a)(iii) unless and until Executive or the executor, personal representative or administrator of the Executive's estate, as applicable, executes a full and complete release of Argo Group in the form attached as Exhibit A (the "Release") and any and all applicable revocation periods expire. Additionally, in the event that Executive's employment is terminated pursuant to Section 6(b) due to Disability, it shall be a condition precedent of receipt of Extended Health Benefits that the Executive remains in full compliance with Section 8. For clarity, if Executive or the executor, personal representative or administrator of the Executive's estate, as applicable, revokes the Release at any time or the Executive breaches any of his obligations under Section 8, Company, in addition to all other remedies set forth in this Agreement, will have no further obligation to provide the Extended Health Benefits.

(b) By the Company Without Cause .

If the Company terminates Executive's employment with the Company under Section 6(d) and the termination constitutes a "separation from service" (within the meaning of Section 409A of the Code and any related regulations or other guidance promulgated thereunder ("Section 409A")):

- (i) The Executive shall be entitled to receive his Base Salary set forth in Section 3(a) accrued through the date of such termination.

- (ii) If a Change of Control (x) has *not* then occurred, the Company shall pay Executive an amount equal to his Base Salary less applicable withholdings and deductions, or (y) *has* then occurred (or is reasonably expected to occur), the Company shall pay Executive an amount equal to two times his Base Salary, less applicable withholdings and deductions, such amount to be paid in installments over the period of six (6) months in accordance with the Company's regular payroll practices ("Severance Pay"); provided, however, that the first such severance payment shall be paid on the first day of the month coincident with or first following the sixtieth (60th) day following the date of termination in an amount equal to the severance payments that would have otherwise been paid during that sixty (60) day period; and provided, further, that if the Executive is a "specified employee" (within the meaning of Section 409A of the Code) and any such installment payments are scheduled to be paid after March 15 of the year following termination of employment, the payment of severance may be further delayed as described in and subject to Section 7(d); and provided, further, that any Severance Pay under this Section 7(b) shall be reduced by any payments required pursuant to the WARN Act.
- (iii) The Executive shall be entitled to receive any profit sharing award Fully Earned for the year in which Executive's employment is terminated; provided, that, such annual incentive award shall be paid on the first day of the month coincident with or first following the sixtieth (60th) day following the date of termination; provided, further, that if the Executive is a "specified employee" (within the meaning of Section 409A of the Code), payment of such annual incentive award may be subject to delay in accordance with Section 7(d).
- (iv) The Executive shall be eligible for continuation of health benefits pursuant to Section 3(c) (subject to compliance with the applicable plan provisions) at the rate currently paid by the Executive at the time of termination until the Executive obtains reasonably equivalent coverage or for eighteen (18) months from the date of termination, whichever is earlier ("Severance Benefits"); provided, however, that (A) such benefit continuation coverage shall be considered part of the benefit continuation coverage which the Executive is entitled to receive under COBRA, and (B) the Executive timely elects COBRA coverage.
- (v) Executive shall remain bound by the restrictive covenants and obligations contained in Sections 8(d) and 8(e).
- (vi) Executive is not entitled to any Fully Earned profit sharing award, Severance Pay or Severance Benefits pursuant to this Section 7(b) unless and until Executive executes a full and complete release of Argo Group in the form attached as Exhibit A (the "Release") and any and all applicable revocation periods expire. Additionally, it shall be a condition precedent

of receipt of Severance Pay or Severance Benefits pursuant to this Section 7(b) that the Executive remains in full compliance with Section 8. For clarity, if Executive revokes the Release at any time or breaches any of his obligations under Section 8, Company, in addition to all other remedies set forth in this Agreement, will have no further obligation to pay Severance Pay or Severance Benefits.

- (vii) Except as provided for in this Section 7(b), the Executive shall not have any rights that have not previously accrued upon termination of this Agreement.

(c) By Company for Cause.

If Executive's employment is terminated pursuant to Section 6(c):

- (i) Executive shall be entitled to receive the Base Salary and any benefits set forth in Section 3 accrued but unpaid through the date of termination, and Executive shall not be entitled to any other benefits (unless otherwise required by law).
- (ii) Executive shall remain bound by the restrictive covenants and obligations contained in Sections 8(d) and 8(e).

(d) By Executive.

If Executive's employment is terminated pursuant to Section 6(e):

- (iii) Executive shall be entitled to receive the Base Salary and any benefits set forth in Section 3 accrued but unpaid through the date of termination.
- (iv) Executive shall remain bound by the restrictive covenants and obligations contained in Sections 8(d) and 8(e).
- (v) The Company shall pay the Executive one-half of his Base Salary less applicable withholdings and deductions in installments over the period of six (6) months subject to the conditions set forth in Section 7(b)(vi).
- (vi) The Executive shall be eligible for continuation of health benefits pursuant to Section 3(c) (subject to compliance with the applicable plan provisions) at the rate currently paid by the Executive at the time of termination until the Executive obtains reasonably equivalent coverage or for six (6) months from the date of termination, whichever is earlier; provided, however, that (A) such benefit continuation coverage shall be considered part of the benefit continuation coverage which the Executive is entitled to receive under COBRA, and (B) the Executive timely elects COBRA coverage.

- (e) Non-Renewal by the Company; Non-Renewal by the Executive.

If Executive's employment is terminated pursuant to Section 6(f) or 6(g):

- (i) Executive shall be entitled to receive the Base Salary and any benefits set forth in Section 3 accrued but unpaid through the date of termination.
 - (ii) Executive shall no longer be bound by the restrictive covenants and obligations contained in Sections 8(d) and 8(e).
- (f) Six-Month Delay. Notwithstanding any provisions of this Agreement to the contrary, if the Executive is a "specified executive" (within the meaning of Section 409A of the Code) at the time of the Executive's "separation from service" (within the meaning of Section 409A of the Code) and if any portion of the payments or benefits to be received by the Executive upon the Executive's separation from service would be considered deferred compensation under Section 409A of the Code, then each portion of such payments and benefits that would otherwise be payable or provided shall instead be paid or made available on the date following the six month anniversary of the Executive's separation from service or, if earlier, the date of his death.
- (g) Excise Taxes

Notwithstanding any other provision of this Agreement, if any portion of the payments and benefits provided under Section 7 of this Agreement, either alone or together with other payments and benefits which the Executive receives or is then entitled to receive from the Company, or any successor (in the aggregate, "Total Payments"), would be subject to the excise tax imposed by section 4999 of the Code, or any interest or penalties with respect to such excise tax (such excise tax, together with any interest or penalties thereon, is herein referred to as the "Excise Tax"), then, except as otherwise provided in the next sentence, such Total Payments shall be reduced to the extent the Independent Tax Counsel shall determine is necessary (but not below zero) so that no portion thereof shall be subject to the Excise Tax. If Independent Tax Counsel determines that the Executive would receive in the aggregate greater payments and benefits on an after tax basis if the Total Payments were not reduced pursuant to this Section 7(d), then no such reduction shall be made. For purposes of determining the after tax benefit to the Executive, the Executive's estimated actual blended marginal rate of federal, state and local income taxation in the calendar year in which the Termination Date occurs shall be utilized. Such marginal rate shall be determined by taking into account (A) the estimated actual net effect on the marginal rate attributable to the deduction of state and local income taxes, (B) the phase out, if any, of itemized deductions, (C) the estimated actual net tax rate attributable to employment taxes, and (D) any other tax provision that in the judgment of the Independent Tax Counsel will actually affect the Executive's estimated actual blended marginal tax rate. The determination of which payments or benefits shall

be reduced to avoid the Excise Tax shall be made by the Independent Tax Counsel, provided that the Independent Tax Counsel shall reduce or eliminate, as the case may be, payments or benefits in the order that it determines will produce the required deduction in Total Payments with the least reduction in the after-tax economic value to the Executive of such payments. If the after-tax economic value of any payments is equivalent, such payments shall be reduced in the inverse order of when the payments would have been made to the Executive until the reduction specified herein is achieved. The Independent Tax Counsel shall provide its determination, together with detailed supporting calculations and documentation to the Company and the Executive within ten (10) days of the Termination Date. The determination of the Independent Tax Counsel under this Section 7(d) shall be final and binding on all parties hereto. For purposes of this Section 7(d), "Independent Tax Counsel" shall mean a lawyer, a certified public accountant with a nationally recognized accounting firm, or a compensation consultant with a nationally recognized actuarial and benefits consulting firm with expertise in the area of executive compensation tax law, who shall be selected by the Company and shall be acceptable to the Executive (the Executive's acceptance not to be unreasonably withheld), and whose fees and disbursements shall be paid by the Company.

8. Confidentiality and Covenants.

(a) Definitions. For the purposes of this Section 8, the following words have the following meanings:

- (i) "Company Group" means, individually and collectively, (A) the Company; (B) any entity within Argo Group for which the Executive performs duties pursuant to this Agreement; and (C) any entity within Argo Group in relation to which the Executive has, in the course of his employment, (1) acquired knowledge of Argo Group's trade secrets or Confidential Information (defined below), (2) had material dealings with Argo Group's Customers or Prospective Customers, or (3) supervised directly or indirectly any employee having material dealings with Argo Group's Customers or Prospective Customers.
- (ii) "Company Services" means any services (including but not limited to technical and product support, technical advice, underwriting and customer services) supplied by Company Group.
- (iii) "Customer" means any Person to whom or which Company Group supplied Company Services and with whom or which: (A) Executive had dealings pursuant to his employment, or (B) any employee who was under the direct or indirect supervision of the Executive had dealings pursuant to his or her employment, or (C) Executive was responsible in a client management capacity on behalf of the Company.

- (iv) “Person” means any individual, firm, company, corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company or other entity of any kind.
 - (v) “Prospective Customer” means any Person with whom or which Company Group shall have had negotiations or material discussions regarding the possible distribution, sale or supply of Company Services and with whom or which: (A) Executive shall have had dealings pursuant to his employment, or (B) any employee who was under the direct or indirect supervision of Executive shall have had dealings pursuant to his or her employment, or (C) Executive was responsible in a client management capacity on behalf of the Company.
 - (vi) “Restricted Area” means any geographic area in which Company Group provides Restricted Services and in which Executive participates, directly or indirectly, in the course of performing his duties for Argo Group during the 12 months preceding the date of Executive’s termination of employment.
 - (vii) “Restricted Employee” means any Person who, on the date of the termination of Executive’s employment with the Company, was employed by Argo Group at the level of director, manager, underwriter or salesperson and with whom the Executive had material contact or dealings in the course of his employment;
 - (viii) “Restricted Services” means Company Services or any services of the same or of a similar kind.
- (b) Acknowledgement.
- (i) The Executive acknowledges that, during his employment, Argo Group will disclose to Executive, or place Executive in a position to access or develop trade secrets or Confidential Information (defined in Section 8(c)) belonging to Argo Group; and/or will entrust the Executive with business opportunities of Argo Group; and/or will place the Executive in a position to develop good will on behalf of Argo Group. The Executive acknowledges that the Confidential Information, business opportunities and good will of Argo Group are of competitive value and could be used to the competitive and financial detriment of Argo Group if misused or disclosed by the Executive. Argo Group will permit Executive to have access to Confidential Information, business opportunities and goodwill only in return for the Executive’s promises in Section 8 of this Agreement. The Executive therefore agrees that the obligations and restrictions set out in Section 8 are reasonable and necessary to protect the legitimate business interests of Argo Group, both during and after the termination of his employment.

- (ii) If, during the Executive's employment, the Executive 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 Company Group's business, products or services, whether such work is created solely by the Executive or jointly with others (whether during business hours or otherwise and whether on Argo Group's premises or otherwise), Company Group shall be deemed the author of such work if the work is prepared by the Executive in the scope of the Executive's employment.

(c) Confidential Information.

- (i) Executive understands and agrees that all records, whether original, duplicated, computerized, memorized, handwritten, or in any other form, and all information contained therein, relating to the past, current or prospective business of Argo Group, and/or relating to Customers and/or Prospective Customers, that provide Argo Group with a competitive advantage and that are not known to the general public are proprietary, confidential and constitute trade secrets, regardless of whether such records or information were generated and/or obtained by Executive, Argo Group, and/or a third party, including without limitation: (a) Customer and Prospective Customer information such as contact information, account or policy information, purchasing information, insurance and/or reinsurance needs, underwriting, financial and pricing information; (b) any plans, formulas, products, trade secrets, sales, marketing, merchandising or underwriting information or strategies, product information, or confidential material or information and instructions, technical or otherwise, issued or published for the use of Argo Group; and (c) any information concerning the present or future business, processes, or methods or manner of operation of Argo Group, accomplishing the business undertaken by Argo Group, or concerning improvement, inventions or know how relating to the same or any part thereof (collectively, "Confidential Information").
- (ii) Executive acknowledges that, during his employment, Executive will occupy a position of trust and confidence as regards Company Group and therefore agrees that he shall treat as confidential and, except as expressly required in the performance of Executive's duties under this Agreement, shall not use for Executive's own benefit or disclose (or permit or cause the disclosure of) to any Person, directly or indirectly, any Confidential Information unless such use or disclosure has been specifically authorized in writing by Company Group in advance. It is the intent of Company Group, with which intent Executive hereby agrees, to restrict Executive from disseminating or using for Executive's own benefit any information

belonging directly or indirectly to Argo Group that is unpublished, not readily available to the general public and that could be detrimental to Argo Group if so used or disclosed.

- (iii) Executive understands that Confidential Information is entrusted to Executive solely due to Executive's affiliation with Argo Group. Confidential Information is extremely valuable to Argo Group and Executive acknowledges, understands and agrees Argo Group takes reasonable measures to maintain its confidentiality and to guard its secrecy. This information is developed and acquired by expenditures of time, effort and money and provides Argo Group with a competitive advantage. Executive agrees that Confidential Information is the property of Argo Group and is deserving of trade secret status and protection.
- (iv) Upon termination of Executive's employment for any reason, Executive (or Executive's heirs or personal representatives) shall immediately deliver to the Company: (i) all documents and materials containing Confidential Information (including without limitation any copies, summaries or computerized or electronic versions thereof); (ii) all documents and materials which otherwise contain information relating to the business and affairs of Argo Group (whether or not confidential); and (iii) all other documents, materials and other property belonging to Argo Group that are in the possession or under the control of Executive. Executive shall permit Argo Group to inspect, prior to removal, any and all materials to be taken from Argo Group's offices and shall surrender and provide to Argo Group any Argo Group-owned electronic device (including but not limited to any computer, handheld device, mobile telephone or similar device) used to conduct business while employed by Company for the purpose of inspecting such device and removing all Confidential Information.
- (v) In the event that Executive becomes legally compelled to disclose any Confidential Information, Executive shall provide the Company prompt notice before such Confidential Information is disclosed so that the Company may seek a protective order or other appropriate remedy and/or waive compliance with the provisions of this Agreement. Executive will exercise Executive's best efforts to assist the Company in obtaining such a protective order or other appropriate remedy. In the event that such protective order or other remedy is not obtained, Executive will furnish only that portion of the Confidential Information which Executive is advised by written reasonable opinion of counsel is legally required.
- (vi) All information, ideas, concepts, improvements, discoveries, and inventions, whether patentable or not, that are conceived, made, developed or acquired by Executive, individually or in conjunction with others, during Executive's employment with the Company (whether during

business hours or otherwise and whether on the premises of Argo Group or otherwise) that relate to the business, products or services of Company Group shall be disclosed to the Board and are and shall be the sole and exclusive property of Company Group. 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 Company Group. Upon termination of Executive's employment for any reason, Executive promptly shall deliver the same, and all copies thereof, to Company Group.

- (d) Restrictive Covenant. Other than for or on behalf of Argo Group, Executive agrees that Executive shall not (whether by Executive, through Executive's employers or employees or agents or otherwise, and whether on Executive's own behalf or on behalf of any other person, firm, company or other organization) during Executive's employment with the Company and for the period of 12 months after Executive ceases to be employed by the Company, directly or indirectly:
- (i) contact or solicit any Customer or Prospective Customer with respect to Restricted Services, or endeavor to entice away from Company Group any Customer or Prospective Customer;
 - (ii) accept orders or facilitate the acceptance of any orders, or have any business dealings for, Restricted Services from any Customer or Prospective Customer;
 - (iii) contact, solicit or induce, or endeavor to solicit or induce any Restricted Employee to cease working for or providing services to Argo Group, or hire any Restricted Employee;
 - (iv) employ or otherwise engage for the purpose of researching into, developing, distributing, selling, supplying or otherwise dealing with Restricted Services, any Person who is or was employed or engaged by Company Group and who, by reason of such employment or engagement, is reasonably likely to be in possession of any Argo Group trade secrets or Confidential Information.
- (e) Non-Competition Requirement(s). Executive agrees that, during Executive's employment with the Company, other than for or on behalf of Argo Group, Executive shall not (whether by himself, through his employers or employees or agents or otherwise, and whether on his own behalf or on behalf of any other Person), directly or indirectly, own, manage, operate, control, make loans or advances to, be employed by, act as an officer, director, agent or consultant for, or

be in any other way connected with or provide services to or for, any Person: (a) engaged in the proper ty and/or casualty insurance and/or reinsurance business; and/or (b) that offers products or services competitive with the products or services offered by Argo Group, or that otherwise competes with Argo Group (“Non-Competition Requirement”).

Executive further agrees that he shall not (whether by himself, through his employers or employees or agents or otherwise, and whether on his own behalf or on behalf of any other Person), directly or indirectly, for a period of 6 months after Executive ceases to be employed by the Company, own, manage, operate, control, make loans or advances to, be employed by, act as an officer, director, agent or consultant for, or be in any other way connected with or provide services to or for, any Person in the business of researching, developing, underwriting, distributing, selling, supplying, or otherwise dealing with Restricted Services in the Restricted Area (“Post-Employment Non-Competition Requirement”). Notwithstanding the foregoing, the parties agree it shall not be a violation of this Section 8(e) in the event that Executive holds less than 2% of the outstanding voting shares of any publicly held company.

- (f) Executive agrees that during the 12 months following the date of termination of his employment, Executive shall inform the Company, prior to the acceptance of any job or any work as an independent contractor, of the identity of any new employer or other entity to which Executive plans to provide consulting or other services, along with Executive’s starting date, title, job description and any other information which the Company may reasonably request to confirm Executive’s compliance with the terms of this Agreement.
- (g) This Section 8 shall be for the benefit of Argo Group and the Company reserves the right to assign the benefit of such provisions to any entity within Argo Group. The obligations undertaken by the Executive pursuant to this Section 8 shall, with respect to each entity within Company Group, constitute separate and distinct obligations and covenants and the invalidity or unenforceability of any such obligation or covenant shall not affect the validity or enforceability of the obligations or covenants in favor of any other entity within Company Group.
- (h) Section 8 shall survive the termination of the Executive’s employment with the Company and the termination or expiration of this Agreement for any reason.
- (i) While the restrictions and obligations in Section 8 (on which the Executive has had the opportunity to take independent advice, as the Executive hereby acknowledges) are considered by the parties to be reasonable in all circumstances, if any portion(s) of Section 8 shall be adjudged to be illegal, void, unenforceable, overly broad (including as to time, scope or geography) or otherwise beyond what is reasonable in all the circumstances for the protection of the legitimate interests of Argo Group, any such portion(s) of Section 8 shall be reformed to ensure the enforceability of Section 8 to the fullest extent possible or if reformation of such

portion(s) is deemed impossible then such portions of Section 8 shall be severed from this Agreement, but the remainder of Section 8 of this Agreement shall remain in full force and effect.

9. Remedies for Breach. In addition to the rights and remedies otherwise provided in this Agreement, and without waiving the same, if Executive breaches, or threatens to breach, any of the provisions of Section 8, Executive agrees that the Company shall have the following rights and remedies, in addition to any others, each of which shall be independent of the other and severally enforceable:

- (a) The right and remedy to have such provisions specifically enforced by a court and/or arbitrator(s) having equitable jurisdiction. Executive specifically acknowledges and agrees that any breach or threatened breach of the provisions of Section 8 hereof will cause substantial irreparable injury to Argo Group and that money damages will not provide an adequate remedy to Argo Group, and that Argo Group will be entitled to appropriate equitable relief, including but not limited to a temporary restraining order or temporary or permanent injunctive relief. Such equitable relief shall be available without posting of any bond or other security.
- (b) The right to require Executive to account for and pay over to Company all compensation, profits, monies, accruals, increments or other benefits (hereinafter collectively the "Benefits") derived or received by the Executive as a result of any conduct, activities, transactions and/or other provision of services constituting a breach of any of the provisions of Section 8.
- (c) Upon discovery by Company of a breach or threatened breach of Section 8, the right to immediately suspend any payments or benefits to Executive under Sections 3, 7 or 8 pending a resolution of the dispute.
- (d) The right to terminate Executive's employment for Cause pursuant to Section 6(c).
- (e) If Executive is determined to have breached any provisions of Section 8, the court or arbitrator shall extend the effect of those provisions of the Section for an amount of time equal to the time Executive was in breach thereof.

10. Change of Control

- (i) For purposes of this Agreement, a "Change of Control" shall be deemed to occur if:
 - (i) Any Person, other than (1) the Company or any of its subsidiaries, (2) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Affiliates, (3) an underwriter temporarily holding securities pursuant to an offering of such securities, or

- (4) a corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company, is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such person any securities acquired directly from the Company or its Affiliates) representing 50% or more of the combined voting power of the Company's then outstanding securities, or 50% or more of the then outstanding common stock of the Company, excluding any Person who becomes such a Beneficial Owner in connection with a merger or consolidation of the Company described in (ii) below.
- (ii) There is consummated a merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation, except if: (A) the merger or consolidation would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof) at least fifty percent (50%) of the combined voting power of the voting securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation; or (B) the merger or consolidation is effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the beneficial owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its Affiliates other than in connection with the acquisition by the Company or its Affiliates of a business) representing 50% or more of the combined voting power of the Company's then outstanding securities;
- (iii) The shareholders of the Company approve a plan of complete liquidation or dissolution of the Company or an agreement for the sale or disposition by the Company of all or substantially all the Company's assets, other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least 50% of the combined voting power of the voting securities of which are owned by the stockholders of the Company in substantially the same proportions as their ownership of the Company immediately prior to such sale.
- (iv) During any two-year period, individuals who at the beginning of the period constitute the Board of Directors of the Company cease for any reason to constitute a majority of the Board of Directors.

- (j) For purposes of this Section 10:
- (i) The term “Person” shall have the meaning given in Section 3(a)(9) of the 1934 Act as modified and used in Sections 13(d) and 14(d) of the 1934 Act.
 - (ii) The term “Beneficial Owner” shall have the meaning provided in Rule 13d-3 under the 1934 Act.
 - (iii) The term “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.
11. Successors and Assigns. This Agreement is personal in its nature and Executive cannot assign it without Company’s written consent. Company may assign this Agreement to any successor in interest and/or to Argo Group.
12. Notices. Any notice required or permitted to be given to Executive pursuant to this Agreement shall be sufficiently given if sent to Executive by registered or certified mail addressed to Executive at Executive’s home address as reflected in the Company's records at the time of such notice, or at such other address as Executive shall designate by written notice to the Company, and any notice required or permitted to be given to the Company pursuant to this Agreement shall be sufficiently given if sent to the Company by registered or certified mail addressed to it at 175 E. Houston Street, Suite 1300, San Antonio, Texas 78205, or at such other address as it shall designate by notice to Executive.
13. Invalid Provisions. The invalidity or unenforceability of a particular provision of this Agreement shall not affect the enforceability of any other provisions hereof and this Agreement shall be construed in all respects as if such invalid or unenforceable provision were omitted.
14. Amendment. This Agreement may only be amended in writing by an agreement executed by both parties hereto.

15. Entire Agreement. This Agreement contains the entire agreement of the parties regarding the subject matter contained herein and supersede s any and all prior agreements, promises, covenants, arrangements, communications, representations or warranties, whether oral or written, as well as the negotiations between said parties.
16. Arbitration.
- (a) Any claim or controversy arising between Executive and the Company and/or Argo Group, shall be settled by final and binding arbitration in New York, New York.
 - (b) Disputes that must be arbitrated under this Agreement shall include all statutory, contractual, and common law claims and controversies between Executive and Argo Group including, without limitation, controversies concerning the construction, performance or breach of this Agreement or any other agreement between the Company and Executive, whether entered into prior, on or subsequent to the date hereof, claims arising out of or relating to Executive's hiring, employment, or termination of employment, and claims of workplace discrimination, harassment and retaliation. Workers' compensation claims (except any claim asserted pursuant to Tex. Labor Code §451 or any successor provision), claims for unemployment benefits and claims based upon any Company's benefit plans containing a different final and binding dispute procedure are excluded from arbitration.
 - (c) This Section 16 and any arbitration hereunder are subject to and controlled by the Federal Arbitration Act, 9 U.S.C. §1, *et seq.* ("FAA"). Notwithstanding the foregoing, the parties agree that all questions of arbitrability will be submitted to the arbitrator. Additionally, in the event that the FAA is deemed not to apply, the parties agree that any review of the arbitration award shall be strictly limited to the bases provided for under the FAA.
 - (d) Submission to arbitration pursuant to this Section 16 may be compelled by any court located in New York, New York. The parties agree to submit to exclusive jurisdiction and venue in the courts in the state and county of New York for purpose of this Subsection 16(d).
 - (e) Any party may, without waiving any other rights and remedies under this Agreement, apply to any court located in the state and county of New York, to seek any interim or preliminary injunctive relief that is necessary to protect the rights or property of that party, pending the arbitrator's award or resolution of the controversy. The parties agree to submit to exclusive jurisdiction and venue in the courts in the state and county of New York for purpose of this Subsection 16(e).

- (f) The arbitration proceedings under this Section 16 shall be before a panel of three arbitrators and conducted in accordance with the American Arbitration Association's (AAA) National Rules for the Resolution of Employment Disputes in effect at the time the demand for arbitration is made, which are incorporated herein and are available through the AAA's website (<http://www.adr.org>) or the Company's Human Resource Department, except to the extent they conflict with the specific provisions of this Agreement.
- (g) The arbitrator may award reasonable attorneys' fees to the prevailing party if such an award would be permitted under the law governing the claim(s) involved.
- (h) The arbitration award may be specifically enforced by any party in any court of competent jurisdiction.
- (i) The parties acknowledge, understand and agree that:
 - (i) Each party has had the opportunity to consult with legal counsel regarding this Section 16;
 - (ii) By agreeing to arbitrate, the parties give up their rights to sue each other in a court of law and to have a trial by jury;
 - (iii) Arbitration awards are final and binding and a parties' ability to have a court reverse or modify an arbitration award is very limited, as envisioned by and provided for in the FAA;
 - (iv) The ability of the parties to conduct discovery (e.g., the ability of the parties to obtain documents, interrogatory answers and witness statements) is within the discretion of the arbitrator and may be more limited than and different from discovery in court proceedings;
 - (v) The arbitrator's award is not required to include factual findings or legal reasoning or otherwise explain the bases for the award;
 - (vi) The time limits for bringing a claim and other proceedings in arbitration may be different from the time limits imposed by courts;
 - (vii) Each party may be represented by an attorney during the arbitration proceedings;
 - (viii) Executive is still protected by all applicable employment laws, and does not give up any substantive rights to recover damages; and
 - (ix) This Section 16 survives the termination of Executive's employment and the termination or expiration of this Agreement for any reason.

17. Applicable Law. This Agreement is entered into under, and shall be governed for all purposes, by the laws of the State of New York, without regard to its conflicts of law principles.
18. Jurisdiction and Venue. The parties agree that any dispute between the parties that is determined to be not subject to arbitration pursuant to Section 15 shall be subject to exclusive jurisdiction and venue in the Southern District of New York.
19. No Waiver. Company's or Executive's failure at any time to give notice of any breach by the other party of, or to require compliance with, any condition or provision of this Agreement shall not be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.
20. Severability. If any provision of this Agreement is adjudged to be invalid or unenforceable, then the invalidity or unenforceability of that provision shall not affect the validity or unenforceability of any other provision of this Agreement, and the provision shall be reformed to the fullest extent possible or if reformation of such provision is deemed impossible such provision shall be severed from this Agreement, but the remainder of this Agreement shall remain in full force and effect.
21. Section 409A Compliance. This Agreement is intended to meet the requirements of Section 409A, and shall be interpreted and construed consistent with that intent.
22. Withholding of Taxes and Other Executive Deductions. Company may withhold from any benefits and payments made pursuant to this Agreement all federal, state, city and other taxes as may be required pursuant to any law or governmental regulation or ruling and any and all other normal Executive deductions made with respect to the Company's Executives generally.
23. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together will constitute one in the same agreement.

EXECUTIVE UNDERSTANDS, ACKNOWLEDGES AND AGREES THAT, IN ACCORDANCE WITH SECTION 16, THIS AGREEMENT IS SUBJECT TO MANDATORY ARBITRATION AND THAT EXECUTIVE IS AGREEING IN ADVANCE TO ARBITRATE ANY CONTROVERSIES WHICH ARISE WITH ARGO GROUP IN ACCORDANCE WITH THE TERMS OUTLINED THEREIN.

In witness whereof, the parties hereto have executed this Agreement as of the day and year written above.

COMPANY

By: /s/ Mark E. Watson
Mark E. Watson III
Title: Chief Executive Officer
Argo Group International Holdings, Ltd,

EXECUTIVE:

/s/ Jose Hernandez
Jose Hernandez

EXHIBIT A

GENERAL RELEASE

Argo Group International Holdings, Ltd. ("Company") and I, Jose Hernandez, agree as follows:

I. Complete Release

- A. **In General** : Pursuant to the requirements of Section 7 of my Executive Employment Agreement with the Company dated October 1, 2016 (the "Executive Employment Agreement"), and as consideration for the termination benefits contained therein, I hereby agree to irrevocably and unconditionally release any and all Claims I may now have against the Company and other parties as set forth in this Section I.
- B. **Released Parties** : The Released Parties are the "Argo Group" entities, as defined in the Executive Employment Agreement, which include the Company and all of its subsidiary holding and operating companies , and, with respect to each of them, their predecessors and successors; and, with respect to each such entity, all of its past, present and future employees, officers, directors, stockholders, owners, representatives, assigns, attorneys, agents, insurers, employee benefit programs (and the trustees, administrators, fiduciaries, and insurers of such programs); and any other persons acting by, through, under or in concert with any of the persons or entities listed in this subsection (the "Released Parties" and each a "Released Party").
- C. **Claims Released** : I understand and agree that I am releasing all known and unknown claims, demands, promises, causes of action and rights of any type that I may have had or currently have (the "Claims") against each and every Released Party based on, relating to, or arising out of any fact, act, omission, event, conduct, representation, agreement or other matter whatsoever, except that I am not releasing any claim to enforce: (i) this Agreement; (ii) any right, if any, to claim government-provided unemployment benefits; or (iii) any rights or claims that wholly arise or accrue after I sign this Agreement. I further understand that the Claims I am releasing may arise under many different laws (including statutes, regulations, other administrative guidance and common law doctrines) including but by no means limited to:
1. Anti-discrimination statutes, such as the Age Discrimination in Employment Act ("ADEA"), the Older Workers Benefit Protection Act ("OWBPA"), and Executive Order 11141, which prohibit age discrimination in employment; Title VII of the Civil Rights Act of 1964, Section 1981 of the Civil Rights Act of 1866, and Executive Order 11246, which prohibit discrimination based on race, color, national origin, religion, or sex; the Equal Pay Act, which prohibits paying men and women unequal pay for equal work; the Americans With Disabilities Act and Sections 503 and 504 of the Rehabilitation Act of 1973, which prohibit discrimination based on disability; and any other federal, state or local laws prohibiting employment or wage discrimination.

2. Federal employment statutes, such as the WARN Act, which requires that advance notice be given of certain work force reductions; the Employee Retirement Income Security Act of 1974, which, among other things, protects employee benefits; the Fair Labor Standards Act of 1938 and laws which regulate wage and hour matters; the Family and Medical Leave Act of 1993, which requires employers to provide leaves of absence under certain circumstances; and any other federal laws relating to employment, such as veterans' reemployment rights laws.
3. Other laws, such as any federal, state or local laws providing workers' compensation benefits (or prohibiting workers' compensation retaliation), restricting an employer's right to terminate employees or otherwise regulating employment; any federal, state or local law enforcing express or implied employment contracts or requiring an employer to deal with employees fairly or in good faith.
4. Tort and contract claims, such as claims for wrongful discharge, negligence, negligent hiring, negligent supervision, negligent retention, physical or personal injury, emotional distress, fraud, fraud in the inducement, negligent misrepresentation, defamation, invasion of privacy, interference with contract or with prospective economic advantage, breach of express or implied contract, breach of covenants of good faith and fair dealing, promissory estoppel, and similar or related claims.
5. Examples of released Claims include, but are not limited to: (i) Claims that in any way relate to my employment with the Company or any other Released Party, or the termination of that employment, such as Claims for compensation, bonuses, commissions, lost wages or unused accrued vacation or sick pay; (ii) Claims that in any way relate to the design or administration of any employee benefit program; (iii) Claims that I have irrevocable or vested rights to severance or similar benefits or to post-employment health or group insurance benefits; or (iv) any Claims to attorneys' fees or other indemnities.

D. **Unknown Claims** : I understand that I am releasing Claims about which I may be unaware. That is my knowing and voluntary intent, even though I recognize that someday I might learn that some or all of the facts I currently believe to be true are untrue or learn of facts or other matters about which I now am unaware, and even though I might then regret having signed this Release. Nevertheless, I am assuming that risk and I agree that this Agreement shall remain effective in all respects in any such case. I expressly waive all rights I might have under any law that is intended to protect me from waiving unknown claims. I understand the significance of doing so.

II. Promises, Warranties , And Representations

- A. **Employment Termination:** I understand and agree that my employment with the Company terminated on _____. I also understand and agree that I have no right of rehire or reinstatement with any Released Party, regardless of location, and that each and every Released Party is under no obligation to rehire or reinstate me. I also acknowledge and understand that the failure of a Released Party to rehire or reinstate me is contractual and is in no way discriminatory or retaliatory in nature.
- B. **Pursuit of Released Claims :** I affirm that I have not filed, have not caused to be filed, and am not presently party to, any actions, grievances, arbitrations, complaints, claims or other legal proceedings against or relating to any Released Party in any forum. To the extent permitted by law, I agree not to, directly or indirectly, file, initiate, encourage, aid or assist in any investigations, actions, grievances, arbitrations, complaints, claims or other legal proceedings against or relating to any Released Party. Notwithstanding the foregoing, I understand that nothing in this General Release prohibits me from: (i) challenging the knowing and voluntary nature of the release of ADEA claims pursuant to the OWBPA; or (ii) making or asserting: (A) any claim or right which cannot be waived under applicable law, including but not limited to the right to file a charge with, provide information to or participate in an investigation or proceeding conducted by the Texas Workforce Commission Civil Rights Division, the Equal Employment Opportunity Commission or other federal, local or state governmental agency charged with enforcing anti-discrimination laws, or the National Labor Relations Board; (B) any right I have to any payments pursuant to Section 7(b) of the Executive Employment Agreement; (C) any right I have to accrued benefits (within the meaning of Sections 203 and 204 of the Employee Retirement Income Securities Act of 1974, as amended); and (D) any rights I have or claims that may arise after the date this General Release is executed. I further agree and covenant that should any person, entity, organization, federal, state or local governmental agency institute an investigation, action, grievance, arbitration, complaint, claim or other legal proceeding involving any matter encompassed by the release set forth in Section 1, I shall not be entitled to recover and expressly waive any right to seek, accept or recover any monetary relief or other individual remedies.
- C. **Execution of this Agreement:** I understand and agree that, but for my execution of this General Release and the fulfillment of the promises contained therein, I would not be entitled to receive the benefit continuation coverage described in Section 7(a)(iii) of the Executive Employment Agreement or severance pay described in Section 7(b) of the Executive Employment Agreement.
- D. **Company Property :** Before accepting any monetary payments from the Company, I promise to comply with my obligation under Sections 8(c)(iv) and 8(c)(vi) of the Executive Employment Agreement.

- E. **Taxes** : I am responsible for paying any taxes on amounts I receive because I signed this Release. I agree that the Company may withhold all taxes it determines it is legally required to withhold.
- F. **Ownership of Claims** : I have not assigned or transferred any Claim I am releasing, nor have I purported to do so. In addition to any other remedies, rights or defenses that may be available to the Released Parties by virtue of this General Release or my breach hereof, I will pay the reasonable attorneys' fees, costs, expenses and any damages the Released Parties incur as a result of my breach of this representation or if this representation was false when made.
- G. **Implementation** : I agree to sign any documents and do anything else that is necessary in the future to implement this Agreement.

III. Miscellaneous

- A. **Entire Agreement** : This is the entire agreement between me and the Company with respect to my release of Claims against the Company. This Agreement may not be modified or canceled in any manner except by a writing signed by both me and an authorized Company official. I acknowledge that I have not relied on any representations, promises, or agreements of any kind made to me in connection with my decision to accept this General Release, except for those set forth in this General Release and my Executive Employment Agreement.
- B. **Successors** : This Agreement binds and inures to the benefit of the parties' heirs, administrators, representatives, executors, successors and assigns, and will inure to the benefit of all Released Parties and their respective heirs, administrators, representatives, executors, successors and assigns.
- C. **Interpretation** : This Agreement shall be construed as a whole according to its fair meaning. It shall not be construed strictly for or against me or any Released Party. Unless the context indicates otherwise, the singular or plural number shall be deemed to include the other. Captions are intended solely for convenience of reference and shall not be used in the interpretation of this Release.

- D. **Governing Law, Mandatory Arbitration and Venue:** This Agreement is entered into under, and shall be governed for all purposes, by the laws of the State of New York, without regard to its conflicts of law principles. Any claim or controversy arising between Executive and the Company and/or Argo Group, shall be settled by final and binding arbitration in New York, New York pursuant to Section 16 of the Executive Employment Agreement, which is incorporated by reference herein. I acknowledge and agree that I have read Section 16 of the Executive Employment Agreement and understand that it contains a mandatory arbitration provision and that I am agreeing in advance to arbitrate any controversies which arise in connection with this General Release and my Executive Employment Agreement. I agree that any dispute between the parties that is determined to be not subject to arbitration pursuant to Section 16 shall be subject to exclusive jurisdiction and venue in the Southern District of New York.

IV. Notice, Time for Consideration and Revocation Period

- A. THE GENERAL RELEASE OF CLAIMS CONTAINED IN THIS AGREEMENT CONSTITUTES A RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS, INCLUDING WITHOUT LIMITATION, ALL CLAIMS FOR AGE DISCRIMINATION UNDER THE AGE DISCRIMINATION IN EMPLOYMENT ACT AND ANY SIMILAR STATE LAWS. THIS GENERAL RELEASE DOES NOT WAIVE RIGHTS OR CLAIMS THAT MAY ARISE AFTER THE DATE IT IS EXECUTED;
- B. I AGREE THAT I AM WAIVING RIGHTS AND CLAIMS I MAY HAVE IN EXCHANGE FOR CONSIDERATION WHICH IS IN ADDITION TO THINGS OF VALUE TO WHICH I MAY ALREADY BE ENTITLED;
- C. I UNDERSTAND AND AGREE THAT I HAVE BEEN ADVISED THAT I HAVE THE RIGHT TO CONSULT WITH AN ATTORNEY OF MY CHOOSING PRIOR TO EXECUTING THIS GENERAL RELEASE;
- D. IF TERMINATED AS PART OF A TERMINATION OR EXIT INCENTIVE PROGRAM OFFERED TO A GROUP OR CLASS OF EMPLOYEES, I ACKNOWLEDGE i) THAT I HAVE AT LEAST FORTY-FIVE (45) DAYS WITHIN WHICH TO CONSIDER THIS GENERAL RELEASE BEFORE EXECUTING IT; AND ii) THAT I HAVE RECEIVED WRITTEN NOTICE FROM THE COMPANY WHICH INFORMS ME OF THE i) CLASS, UNIT, OR GROUP OF INDIVIDUALS COVERED BY THE PROGRAM, ii) ANY ELIGIBILITY FACTORS FOR SUCH PROGRAM, iii) ANY TIME LIMITS APPLICABLE TO SUCH PROGRAM, AND iv) THE JOB TITLES AND AGES OF ALL INDIVIDUALS THAT ARE AND ARE NOT ELIGIBLE OR SELECTED FOR THE PROGRAM.
- E. I UNDERSTAND THAT IN THE EVENT THAT I AM FORTY (40) YEARS OF AGE OR OLDER AT THE TIME OF TERMINATION, I WILL HAVE AT LEAST TWENTY-ONE (21) DAYS WITHIN WHICH TO CONSIDER THIS GENERAL RELEASE BEFORE EXECUTING IT; AND

F. I UNDERSTAND THAT SHOULD THE PROVISIONS OF (D) AND (E) ABOVE NOT OTHERWISE APPLY, I HAVE SEVEN (7) DAYS FOLLOWING MY EXECUTION OF THIS GENERAL RELEASE TO REVOKE IT BY DELIVERING WRITTEN NOTICE OF SUCH REVOCATION TO THE COMPANY AND THAT THE GENERAL RELEASE SHALL NOT BECOME EFFECTIVE OR ENFORCEABLE UNTIL THE REVOCATION PERIOD HAS EXPIRED.

Executed on this _____ day of _____, 20____.

Jose Hernandez

Executed on this _____ day of _____, 20____.

ARGO GROUP INTERNATIONAL HOLDINGS, LTD.

By: _____

Title: _____

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)

	Three Months Ended March 31,		For the Years Ended December 31,				
	2017	2016	2016	2015	2014	2013	2012
Earnings:							
Income before provision for income taxes	\$ 42.7	\$ 33.1	\$ 181.9	\$ 177.5	\$ 216.0	\$ 179.7	\$ 66.7
Add:							
Fixed charges	7.5	5.9	23.7	23.7	24.8	25.1	28.4
Total earnings	<u>\$ 50.2</u>	<u>\$ 39.0</u>	<u>\$ 205.6</u>	<u>\$ 201.2</u>	<u>\$ 240.8</u>	<u>\$ 204.8</u>	<u>\$ 95.1</u>
Fixed charges:							
Interest expense	\$ 5.9	\$ 4.8	\$ 19.6	\$ 19.0	\$ 19.9	\$ 20.2	\$ 23.7
Rental interest factor	1.6	1.1	4.1	4.7	4.9	4.9	4.7
Total fixed charges	<u>\$ 7.5</u>	<u>\$ 5.9</u>	<u>\$ 23.7</u>	<u>\$ 23.7</u>	<u>\$ 24.8</u>	<u>\$ 25.1</u>	<u>\$ 28.4</u>
Ratio of earnings to fixed charges	<u>6.7:1</u>	<u>6.6:1</u>	<u>8.7:1</u>	<u>8.5:1</u>	<u>9.7:1</u>	<u>8.2:1</u>	<u>3.3:1</u>

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 5, 2017

/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 5, 2017

/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, 2017 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 the 5th day of May 2017.

/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, 2017 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 5th day of May 2017.

/s/ Jay S. Bullock

Jay S. Bullock

Executive Vice President and Chief Financial Officer