

# Summary of Significant Accounting Policies

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

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

The information in the Condensed Consolidated Balance Sheets, the Condensed Consolidated Statements of Income and the Condensed Consolidated Statements of Cash Flows, shown on pages 21 through 24, is derived from the information in the in the Consolidated Balance Sheets, the Consolidated Statements of Income and the Consolidated Statements of Cash Flow in Argo Group International Holdings, Ltd. 2017 Form 10-K. For complete financial statements, including notes, please refer to the Consolidated Financial Statements beginning on Page F-1 of Argo Group International Holdings, Ltd. 2017 Form 10-K. See also Management’s Discussion and Analysis of Financial Condition and Results of Operations and other information in the 2017 Form 10-K.

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

**10% Stock Dividend.** On May 3, 2016, our Board of Directors declared a 10% stock dividend, payable on June 15, 2016, to shareholders of record at the close of business on June 1, 2016. On February 17, 2015, our Board of Directors declared a 10% stock dividend payable on March 16, 2015, to shareholders of record at the close of business on March 2, 2015. For the years ended December 31, 2016 and 2015, all references to share and per share amounts in these condensed consolidated financial statements have been adjusted to reflect the stock dividends for all periods presented.

**Investments.** Investments in fixed maturities at December 31, 2017 and 2016 include bonds and structured securities. Equity securities include common stocks. Other investments consist of private equity funds and limited partnerships. Short-term investments consist of money market funds, funds on deposit with Lloyd’s as security to support the corporate member’s capital, United Kingdom short-term government gilts, U.S. Treasury bills, sovereign debt and interest-bearing cash accounts. Short-term investments, maturing in less than one year, are classified as investments in the consolidated financial statements.

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

allocated to the segment in which the results of operations for the acquired company are reported.

Amortization expense incurred in 2017, 2016 and 2015 associated with assets having a finite life was \$5.9 million, \$5.5 million and \$7.5 million, respectively.

**Earned Premiums.** Premium revenue is recognized ratably over the policy period. Premiums that have yet to be earned are reported as “Unearned premiums” in the Condensed Consolidated Balance Sheets.

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

**Income Taxes.** On December 22, 2017, the Tax Cuts and Jobs Act (TCJA) was enacted. Among many changes resulting from TCJA, the new law (i) reduces the corporate tax rate to 21% effective January 1, 2018, (ii) eliminates the corporate alternative minimum tax for tax years beginning after December 31, 2017, (iii) allows businesses to immediately expense, for tax purposes, the cost of new investments in certain qualified depreciable assets, (iv) modifies the computation of loss reserve discounting for tax purposes, (v) modifies the recognition of income rules by requiring the recognition of income for certain items no later than the tax year in which an item is taken into account as income on an applicable financial statement and (vi) significantly modifies the United States international tax system.

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

**Maybrooke Acquisition.** Effective February 6, 2017, we acquired all of the issued and outstanding capital stock of Maybrooke, a holding company, and its subsidiaries, which operates under the name “Ariel Re.” The purchase price of \$235.3 million was paid in cash from funds on hand and available under our credit facility. Ariel Re is 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.

**Subsequent Event.** On February 20, 2018, our Board of Directors declared a 15% stock dividend payable on March 21, 2018, to shareholders of record at the close of business on March 7, 2018. The share numbers and per share amounts in these condensed consolidated financial statements have not been retroactively adjusted to give effect to the stock dividend.

(Further information on our accounting policies can be found in Argo Group’s 2017 Form 10-K: in the Critical Accounting Policies section of Management’s Discussion and Analysis and also in Note 1 to the Financial Statements).