Argo Re, Ltd.

Consolidated Financial Statements and Notes to Consolidated Financial Statements

For the Years Ended December 31, 2017 and 2016

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Table of Contents

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Report of Independent Auditors

The Board of Directors and Shareholder
Argo Re Ltd. and subsidiaries

We have audited the accompanying consolidated financial statements of Argo Re, Ltd. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in shareholder's equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Argo Re Ltd. and its subsidiaries as of December 31, 2017 and 2016, and the consolidated results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Supplementary Information
U.S. generally accepted accounting principles require that the incurred and paid claims development preceding the most recent year and the average annual percentage payout of incurred claims disclosed in Note 4 (pages 27-42) be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by the Financial Accounting Standards Board (FASB) who considers it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audit of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Ernst + Young LLP

San Antonio, Texas
April 12, 2018

ARGO RE, LTD.
CONSOLIDATED BALANCE SHEETS
(in millions, except number of shares and per share amounts)

	December 31, 2017	December 31, 2016
Assets		
Investments:		
Fixed maturities available-for-sale, at fair value (cost: 2017- $3,163.6; 2016 - $2,938.8)	$ 3,187.3	$ 2,932.4
Equity securities avialble-for-sale, at fair value (cost: 2017 - $336.5; 2016 - $ 335.2)	485.5	447.4
Other investments (cost: 2017 - $522.6; 2016 - $527.6)	532.1	535.0
Short-term investments, at fair value (cost: 2017 - $344.2; 2016 - $403.4)	344.2	403.5
Total investments	4,549.1	4,318.3
Cash	127.6	86.0
Accrued investment income	22.9	20.7
Premiums receivable	469.4	463.8
Reinsurance recoverables	1,682.0	1,385.6
Goodwill	152.2	152.2
Other intangible assets, net of accumulated amortization	62.9	67.7
Current income taxes receivable, net	4.6	—
Deferred acquisition costs, net	153.4	139.1
Ceded unearned premiums	337.9	302.8
Other assets	297.0	257.9
Total assets	$ 7,859.0	$ 7,194.1
Liabilities and Shareholder's Equity		
Reserves for losses and loss adjustment expenses	3,767.7	3,350.8
Unearned premiums	1,096.7	970.0
Accrued underwriting expenses	98.4	102.9
Ceded reinsurance payable, net	551.1	466.6
Funds held	42.7	77.1
Senior unsecured fixed rate notes	139.6	139.5
Other indebtedness	59.5	55.4
Junior subordinated debentures	228.2	144.3
Current income taxes payable, net	—	8.1
Deferred tax liabilities, net	28.3	24.1
Payable to parent, net	16.7	24.6
Other liabilities	21.0	31.4
Total liabilities	6,049.9	5,394.8
Commitments and contingencies (Note 14)		
Shareholders' equity:		
Common shares - $10.00 par, 112,000 shares authorized; 112,000 shares issued at December 31, 2017 and December 31, 2016, respectively	1.1	1.1
Additional paid-in capital	736.4	820.3
Holdings of parent company common shares (10,242,512 and 9,487,680 shares at December 31, 2017 and December 31, 2016, respectively)	(405.8)	(360.7)
Retained earnings	1,379.6	1,290.9
Accumulated other comprehensive income, net of taxes	97.8	47.7
Total shareholders' equity	1,809.1	1,799.3
Total liabilities and shareholders' equity	$ 7,859.0	$ 7,194.1

See accompanying notes.

ARGO RE, LTD.
CONSOLIDATED STATEMENTS OF INCOME
(in millions)

	For the Years Ended December 31, 2017	For the Years Ended December 31, 2016
Premiums and other revenue:		
Earned premiums	$ 1,448.6	$ 1,410.8
Net investment income	140.3	118.9
Fee and other income	22.2	24.5
Net realized investment and other gains	39.0	25.5
Total revenue	1,650.1	1,579.7
Expenses:		
Losses and loss adjustment expenses	942.6	810.1
Underwriting, acquisition and insurance expenses	588.1	535.1
Interest expense	19.3	18.2
Fee and other expense	14.6	22.4
Foreign currency exchange gain	7.5	(4.5)
Total expenses	1,572.1	1,381.3
Income before income taxes	78.0	198.4
Provision for income taxes	(10.7)	35.2
Net income	$ 88.7	$ 163.2

	For the Year Ended December 31, 2017	For the Year Ended December 31, 2016
Net realized investment and other gains before other-than-temporary impairment losses	$ 41.5	$ 35.7
Other-than-temporary impairment losses recognized in earnings:		
Other-than-temporary impairment losses on fixed maturities	(0.8)	(1.7)
Other-than-temporary impairment losses on equity securities	(1.7)	(8.5)
Impairment losses recognized in earnings	(2.5)	(10.2)
Net realized investment and other gains	$ 39.0	$ 25.5

See accompanying notes.

ARGO RE, LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions)

	For the Years Ended December 31, 2017	2016
Net income	$ 88.7	$ 163.2
Other comprehensive income (loss):		
Foreign currency translation adjustments	(1.4)	4.0
Defined benefit pension plans:		
Net (loss) gain arising during the year	1.2	(0.3)
Unrealized (losses) gains on securities:		
Losses (gains) arising during the year	106.9	58.1
Reclassification adjustment for gains included in net income	(41.6)	(23.2)
Other comprehensive income (loss) before tax	65.1	38.6
Income tax provision (benefit) related to other comprehensive loss:		
Defined benefit pension plans:		
Net (loss) gain arising during the year	0.4	(0.1)
Unrealized (loss) gains on securities:		
Gains (loss) arising during the year	28.0	15.7
Reclassification adjustment for gains included in net income	(13.4)	(13.2)
Income tax provision (benefit) related to other comprehensive loss	15.0	2.4
Other comprehensive income (loss), net of tax	50.1	36.2
Comprehensive income	$ 138.8	$ 199.4

See accompanying notes.

ARGO RE, LTD.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in millions, except number of shares and per share amounts)

	Common Shares	Additional Paid-In Capital	Holdings of Parent Company Common Shares	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Shareholder's Equity
Balance, January 1, 2016	$ 1.1	$ 820.3	$ (313.6)	$ 1,168.7	$ 11.5	$ 1,688.0
Net income	—	—	—	163.2	—	163.2
Other comprehensive income, net of tax	—	—	—	—	36.2	36.2
Repurchase of parent's common shares (847,111 at a weighted average price of $55.64)	—	—	(47.1)	—	—	(47.1)
Cash dividend to parent	—	—	—	(41.0)	—	(41.0)
Balance, December 31, 2016	$ 1.1	$ 820.3	$ (360.7)	$ 1,290.9	$ 47.7	$ 1,799.3
Net income	—	—	—	88.7	—	88.7
Other comprehensive income, net of tax	—	—	—	—	50.1	50.1
Repurchase of parent's common shares (754,832 at a weighted average price of $59.75)	—	—	(45.1)	—	—	(45.1)
Junior subordinated debt assumed from parent	—	(83.9)	—	—	—	(83.9)
Balance, December 31, 2017	$ 1.1	$ 736.4	$ (405.8)	$ 1,379.6	$ 97.8	$ 1,809.1

See accompanying notes.

ARGO RE, LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	For the Years Ended December 31, 2017	2016
Cash flows from operating activities:		
Net income	$ 88.7	$ 163.2
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Amortization and depreciation	29.9	35.2
Share-based payments expense	6.0	16.6
Excess tax benefit from share-based payment arrangements	—	(0.6)
Deferred income tax (benefit) provision, net	(10.8)	(1.1)
Net realized investment and other gains	(39.0)	(25.5)
Undistributed earnings from alternative investment portfolio	(49.5)	(23.9)
(Gain) loss on disposals of fixed assets, net	2.1	(0.1)
Amortization of debt issuance costs	0.2	0.2
Change in:		
Accrued investment income	(1.6)	0.9
Receivables	(300.5)	(318.1)
Deferred acquisition costs	(14.3)	(6.4)
Ceded unearned premiums	(35.2)	(51.2)
Reserves for losses and loss adjustment expenses	417.6	220.2
Unearned premiums	126.9	80.1
Ceded reinsurance payable and funds held	39.1	153.6
Income taxes	(12.7)	19.9
Accrued underwriting expenses	(3.6)	(19.8)
Change in intercompany notes	(48.1)	—
Payable to (receivable from) parent, net	7.9	7.0
Other, net	(32.7)	(54.2)
Cash provided by operating activities	170.4	196.0
Cash flows from investing activities:		
Sales of fixed maturity investments	1,315.3	1,138.4
Maturities and mandatory calls of fixed maturity investments	673.1	1,002.7
Sales of equity securities	200.3	208.3
Sales of other investments	95.5	96.8
Purchases of fixed maturity investments	(2,103.8)	(2,137.3)
Purchases of equity securities	(150.3)	(146.9)
Purchases of other investments	(38.9)	(96.3)
Change in foreign regulatory deposits and voluntary pools	(7.2)	(1.3)
Change in short-term investments	59.7	(193.0)
Settlements of foreign currency exchange forward contracts	(3.8)	(5.4)
Purchases of fixed assets	(30.2)	(32.1)
Cash acquired from Subsidiary contributed by Parent	30.6	—
Amount borrowed by Parent	(120.0)	—
Other, net	(2.9)	21.8
Cash used in investing activities	(82.6)	(144.3)
Cash flows from financing activities:		
Repurchase of parent's common shares	(45.1)	(47.1)
Excess tax benefit from share-based payment arrangements	—	0.6
Payment of cash dividends to parent	—	(41.0)
Cash used in financing activities	(45.1)	(87.5)
Effect of exchange rate changes on cash	(1.1)	0.1
Change in cash	41.6	(35.7)
Cash, beginning of year	86.0	121.7
Cash, end of year	$ 127.6	$ 86.0

See accompanying notes.

ARGO RE, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Business and Significant Accounting Policies

Business

Argo Re, Ltd. ("Argo Re," "we" or the "Company") is a Bermuda-based specialty property and casualty reinsurance company. Argo Re is also a direct underwriter of international specialty property and casualty insurance products through the operations of its subsidiaries, primarily Argo Group US, Inc. ("Argo Group US") and Argo Underwriting Agency Limited ("Syndicate 1200"). Syndicate 1200 products are underwritten by Argo Underwriting Agency Limited based in London, on behalf of one underwriting syndicate under the Lloyd's of London ("Lloyd's") global franchise.

Argo Re is a wholly-owned subsidiary of Argo Group International Holdings, Ltd. ("Argo Group" or the "Parent company").

Effective February 6, 2017, the Parent acquired all of the issued and outstanding capital stock of Maybrooke Holdings, S.A. ("Maybrooke"), a holding company, and its subsidiaries. As part of the ongoing liquidation of the Maybrooke holding company, one of its subsidiaries, Ariel Reinsurance, Ltd. ("ARL"), was contributed to the Parent company. As of December 31, 2017, ARL was dissolved and merged into Argo Re. The $165.0 million net assets of ARL, which included cash of $30.6 million, were used to offset certain amounts receivable from our Parent company. The assets and liabilities of ARL are included in our Consolidated Balance Sheet as of December 31, 2017. As the transaction took place on December 31, 2017, the acquisition had no impact to our Consolidated Statements of Income or Cash Flows, with the exception of the $30.6 million cash balance at the date of merger.

Basis of Presentation and Use of Estimates

The consolidated financial statements of Argo Re and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of consolidated 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 other intangibles and our deferred tax asset valuation allowance. Actual results could differ from those estimates.

Specifically, estimates for reserves for losses and loss adjustment expenses are based upon past claim experience modified for current trends as well as prevailing economic, legal and social conditions. Although management believes that amounts included in the accompanying consolidated financial statements are reasonable, such estimates may be more or less than the amounts ultimately paid when the claims are settled. The estimates are continually reviewed and any changes are reflected in current operating results. Further, the nature of loss exposures involves significant variability due to the nature of the long-tailed payments on certain claims. As such, losses and loss adjustment expenses could vary significantly from the recorded amounts.

The consolidated financial statements include the accounts and operations of Argo Re and its subsidiaries. All material intercompany accounts and transactions have been eliminated. Certain amounts in prior years' financial statements have been reclassified to conform to the current presentation. Amounts related to trade capital providers, who are third-party capital participants that provide underwriting capital to the Syndicate 1200 segment, are included in the balance sheet. Trade capital providers participate on a quota share basis, assuming 100% of their contractual participation in the underwriting syndicate results and with such results settled on a year of account basis.

We have evaluated our investment in our ten statutory trusts (collectively, the "Trusts") and one charitable foundation (collectively, the "Foundation") under the Financial Accounting Standards Board's ("FASB's") provisions for consolidation of variable interest entities under Accounting Standards Codification ("ASC") Topic 810-10, "Consolidation," as amended. We determined that the Trusts and Foundation are variable interest entities due to the fact that the Trusts and Foundation do not have sufficient equity to finance their activities without additional subordinate financial support from other parties. We do not have any power to direct the activities that impact the Trusts' or Foundation's economic performance. We are not entitled to receive a majority of the residual returns of the Trusts and U.S. charitable foundation. Additionally, we are not responsible for absorbing the majority of the expected losses of the Trusts or U.S. charitable foundation; therefore, we are not the primary beneficiary and, accordingly, the Trusts and U.S. charitable foundation are not included in our consolidated financial statements.

We have used a series of special purpose reinsurance companies to provide reinsurance coverage through a series of transactions, including insurance-linked securities. Under the provisions of ASC Topic 810-10, these reinsurance companies are variable interest entities. However, we do not have a variable interest in these entities, and therefore are not required to consolidate them in our consolidated financial statements.

Cash

Cash consists of cash deposited in banks, generally in concentration and operating accounts. Interest-bearing cash accounts are classified as short-term investments.

Investments

Investments in fixed maturities at December 31, 2017 and 2016 include bonds and structured securities. Equity securities include common stocks, preferred stocks and mutual funds. Other investments consist of foreign regulatory deposits, hedge funds, private equity funds, private equity direct investments, and voluntary pools. Short-term investments consist of money market funds, certificates of deposit, bonds, sovereign debt and interest-bearing cash accounts. Investments maturing in less than one year are classified as short-term investments in our consolidated financial statements.

The amortized cost of fixed maturity securities is adjusted for amortization of premiums and accretion of discounts. This amortization or accretion is included in “Net investment income” in our Consolidated Statements of Income.

For the structured securities portion of the fixed maturity securities portfolio, we recognize income using a constant effective yield based on anticipated prepayments and the estimated economic life of the securities. Premium or discount on high investment grade securities (rated AA or higher) is amortized into income using the retrospective method. Premium or discount on lower grade securities (rated less than AA) is amortized into income using the prospective method.

Our investments in fixed maturities and equity securities are considered available-for-sale and are carried at fair value. Changes in the fair value of investments classified as available-for-sale are not recognized in income during the period, but rather are recognized as a separate component of shareholders’ equity until realized. Fair value of these investments is estimated using prices obtained from third-party pricing services, where available. For securities where we were unable to obtain fair values from a pricing service or broker, fair values were estimated using information obtained from investment advisors. We performed several processes to ascertain the reasonableness of these investment values by i) obtaining and reviewing internal control reports for our service providers that obtain fair values from third-party pricing services, ii) discussing with our investment managers their process for reviewing and validating pricing obtained from outside services and obtaining values for all securities from our investment managers and iii) comparing the security pricing received from the investment managers with the prices used in the consolidated financial statements and obtaining additional information for variances that exceeded a certain threshold. As of December 31, 2017, investments we hold for which we did not receive a fair value from a pricing service or broker accounted for less than 1% of our investment portfolio. The actual value at which these securities could actually be sold or settled with a willing buyer or seller may differ from our estimated fair values depending on a number of factors including, but not limited to, current and future economic conditions, quantity sold or settled, presence of an active market and availability of a willing buyer or seller. The cost of securities sold is based on the specific identification method.

Changes in the value of other investments consisting of hedge funds, private equity funds, private equity direct investments and voluntary pools are principally recognized to income during the period using the equity method of accounting. Our 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. The underlying assets are invested in government securities, agency securities and corporate bonds whose values are obtained from Lloyd’s. Foreign currency future contracts held by us are valued by our counterparties using market driven foreign currency exchange rates.

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. Loss severity includes such factors as trends in real estate values and proceeds at foreclosure. We also recognize other-than-temporary losses on our fixed maturity securities that we intend to sell.

All investment balances include amounts relating to trade capital providers. The results of operations and other comprehensive income exclude amounts relating to trade capital providers. Trade capital providers’ participation in the syndicate results are included in reinsurance recoverable for ceded losses and reinsurance payable for ceded premiums.

Receivables

Premiums receivable, representing amounts due from insureds, are presented net of an allowance for doubtful accounts. The allowances for doubtful accounts were $3.2 million and $2.7 million at December 31, 2017 and 2016, respectively. Premiums receivable include amounts relating to the trade capital providers' quota share.

Reinsurance recoverables represent amounts of paid losses and loss adjustment expenses, case reserves and incurred but not reported ("IBNR") amounts ceded to reinsurers under reinsurance treaties. Reinsurance recoverables also reflect amounts that are due from trade capital providers. Reinsurance recoverables are presented in our Consolidated Balance Sheets net of an allowance for doubtful accounts of $2.1 million at December 31, 2017 and 2016 (see Note 3, "Reinsurance" for related disclosures).

An estimate of amounts that are likely to be charged off is established as an allowance for doubtful accounts as of the balance sheet date. Our estimate includes specific insured and reinsurance balances that are considered probable to be charged off after all collection efforts have ceased and in accordance with historical write-off trends based on aging categories. Premiums receivable and reinsurance recoverables on paid losses written off, net of recoveries against the allowance for doubtful accounts or directly to the income statement are as follows:

	For the Years Ended December 31,	
(in millions)	2017	2016
Premiums receivable	$ 1.5	$ 1.1
Reinsurance recoverables	—	—
Net written off	$ 1.5	$ 1.1

Recoveries occur when subsequent collection or litigation results in the receipt of amounts previously written off. Amounts recovered are applied against the bad debt expense account.

Earned Premiums

Premium revenue is generally recognized ratably over the policy period. Premiums that have yet to be earned are reported as "Unearned premiums" in our Consolidated Balance Sheets.

Unearned premium balances include cessions to reinsurers including trade capital providers, while the earned premium recognized in our Consolidated Statements of Income excludes amounts relating to trade capital providers. The trade capital providers' quota share amount is included in "Ceded reinsurance payable, net".

Assumed reinstatement premiums that reinstate coverage are written and earned at the time the associated loss event occurs. The original premium is earned over the remaining exposure period of the contract. Reinstatement premiums are estimated based upon contract terms for reported losses and estimated for incurred but not reported losses

Retrospectively Rated Policies

We have written a number of workers compensation, property and other liability policies that are retrospectively rated. Under this type of policy, the policyholder or cover holder may be entitled, subsequent to coverage expiration, to a refund or may owe additional premiums based on the amount of losses incurred under the policy. The retrospective premium adjustments on certain policies are limited to a minimum or maximum premium adjustment, which is calculated as a percentage of the standard amount of premium charged during the life of the policy. Accrued retrospectively rated premiums have been determined based on estimated ultimate loss experience of the individual policyholder accounts. The estimated liability for return of premiums under retrospectively rated policies is included in "Unearned premiums" in our Consolidated Balance Sheets and was $7.9 million and $5.7 million at December 31, 2017 and 2016, respectively. The estimated amount included in premiums receivables for additional premiums due under retrospectively rated policies was $0.1 million and $0.1 million at December 31, 2017 and 2016, respectively.

Deferred Acquisition Costs

Policy acquisition costs, which include commissions, premium taxes, fees and certain other costs of underwriting policies, are deferred, when such class of policies are profitable, and amortized over the same period in which the related premiums are earned. To qualify for capitalization, the policy acquisition cost must be directly related to the successful acquisition of an insurance contract. Anticipated investment income is considered in determining whether the deferred acquisition costs are recoverable and whether a premium deficiency exists. We continually review the methods of making such estimates and establishing the deferred costs with any adjustments made in the accounting period in which the adjustment arose.

The 2017 and 2016 net amortization of policy acquisition costs will not equal the change in our Consolidated Balance Sheets as the trade capital providers' share is not reflected in our Consolidated Statements of Income and differences arise from foreign currency exchange rates applied to deferred acquisition costs which are treated as a nonmonetary asset.

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 IBNR 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.

Reinsurance

In the normal course of business, our insurance and reinsurance subsidiaries cede risks above certain retention levels to other insurance companies. Reinsurance recoverables include claims we paid and estimates of unpaid losses and loss adjustment expenses that are subject to reimbursement under reinsurance and retrocessional contracts. The method for determining reinsurance recoverables for unpaid losses and loss adjustment expenses involves reviewing actuarial estimates of gross unpaid losses and loss adjustment expenses to determine our ability to cede unpaid losses and loss adjustment expenses under our existing reinsurance contracts. This method is continually reviewed and updated and any resulting adjustments are reflected in earnings in the period identified. Reinsurance premiums, commissions and expense reimbursements are accounted for on a basis consistent with those used in accounting for the original policies issued and the term of the reinsurance contracts. Amounts recoverable from reinsurers for losses and loss adjustment expenses for which our insurance and reinsurance subsidiaries have not been relieved of their legal obligations to the policyholder are reported as assets.

Goodwill and Intangible Assets

Goodwill and intangible assets are allocated to the segment in which the results of operations for the acquired company are reported. Intangible assets with a finite life are amortized over the estimated useful life of the asset. Goodwill and 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. For goodwill, we may perform a qualitative test to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount. A quantitative impairment test was performed in 2017. The first step of the quantitative test is to identify if a potential impairment exists by comparing the fair value of a reporting unit with its carrying amount, including goodwill ("Step 1"). If the fair value of a reporting unit exceeds its carrying value amount, goodwill of the reporting unit is not considered to have a potential impairment and the second step is not necessary. However, if the carrying amount of the reporting unit exceeds its fair value, the second step ("Step 2") is performed to determine if goodwill is impaired and to measure the amount of impairment loss to recognize, if any. Step 2 compares the implied fair value of goodwill with the carrying amount of goodwill. If the implied value of goodwill is less than the carrying amount of goodwill, it is written down to its fair value with a corresponding expense reflected in the Consolidated Statements of Income. The implied goodwill is calculated based on a hypothetical purchase price allocation, similar to the requirements in the accounting guidance for business combinations, whereby the implied fair value of the reporting unit is allocated to the fair value of the assets and liabilities of the reporting unit.

We perform our goodwill impairment test on the first day of the fourth quarter of each year, or October 1 of each year. In performing Step 1 of the impairment test, we estimated the fair value of reporting units using an average of three valuation methods: a comparable company analysis, a precedent transaction analysis and a discounted cash flow analysis. All three methods require management to make various judgments and assumptions. The discounted cash flow analysis included projections of earned premiums, loss ratios, expense growth and discount rates for each reporting unit. Assumptions about such future cash flows are based on our budgets, business plans, economic projections, anticipated future cash flows and market data. Finally, the comparable company analysis and precedent transaction analysis required judgment in selecting comparable companies and comparable transactions for use in the calculations. In all instances, future changes in these judgments and assumptions could cause impairment of goodwill.

For the years ended December 31, 2017 and 2016, all of our reporting units passed Step 1 of the goodwill impairment analysis as the fair value of each reporting unit were in excess of their carrying values. Therefore, Step 2 of the goodwill impairment analysis was not required. Any future decline in the fair value of these reporting units could result in the carrying value of the reporting unit being in excess of fair value, triggering Step 2 of the impairment testing model, which could result in an impairment of goodwill.

As noted above, we have elected to make the first day of the fourth quarter the annual impairment assessment date for goodwill and indefinite-lived intangible assets. A quantitative impairment analysis subsequent to this date has not been performed as we have concluded that no additional indicators of impairment have arisen through December 31, 2017.

The following table presents our intangible assets and accumulated amortization at December 31:

(in millions)	December 31, 2017 Gross Carrying Amount	December 31, 2017 Accumulated Amortization	December 31, 2016 Gross Carrying Amount	December 31, 2016 Accumulated Amortization
Lloyd's capacity	$ 60.5	n/a	$ 60.5	n/a
Distribution network	45.5	43.3	45.5	38.5
Additional Lloyd's capacity	4.8	4.8	4.8	4.8
Other	1.4	1.2	1.4	1.2
	$ 112.2	$ 49.3	$ 112.2	$ 44.5

The weighted average useful life by category at December 31, 2017 was 9.3 years for the distribution network, 5.0 years for the additional Lloyd's capacity and 8.7 years for other. The weighted average useful life for all categories was 8.9 years at December 31, 2017.

During the years ended December 31, 2017 and 2016, amortization expense was $4.7 million and $5.5 million, respectively, and is included in "Underwriting, acquisition and insurance expenses" in our Consolidated Statements of Income.

The estimated amortization expense for the years ended December 31, 2018 and 2019 is $2.2 million and $0.4 million, respectively.

Property and Equipment

Property and equipment used in operations, including certain costs incurred to develop or obtain computer software for internal use, are capitalized and carried at cost less accumulated depreciation and are reported in "Other assets" in our Consolidated Balance Sheets. Depreciation is calculated using a straight-line method over the estimated useful lives of the assets, generally three to thirty nine years. The accumulated depreciation for property and equipment was $115.1 million and $100.9 million at December 31, 2017 and 2016, respectively. The net book value of our property and equipment at December 31, 2017 and 2016 was $140.6 million and $135.5 million, respectively. The depreciation expense at December 31, 2017 and 2016 was $21.5 million and $20.7 million, respectively.

Derivative Instruments

We enter into short-term, currency spot and forward contracts to mitigate foreign exchange rate exposure in our non-U.S. Dollar denominated fixed maturity investments. The forward contracts used are typically thirty to ninety days and are renewed as long as the non-U.S. Dollar denominated fixed maturity investments are held in our portfolio. Forward contracts are designated as hedges for accounting purposes. We also enter into foreign currency exchange forward contracts to manage currency exposure on losses related to global catastrophe events. These foreign currency forward contracts are carried at fair value in our Consolidated Balance Sheets in "Other liabilities" and "Other assets" at December 31, 2017 and 2016, respectively. The realized and unrealized gains and losses are included in "Net realized investment and other gains" in our Consolidated Statements of Income.

Share-Based Payments

Argo Group has various share-based payment plans for which a portion of the related compensation expense is charged to Argo Re and its subsidiaries based on the legal entity or business unit to which each award recipient is assigned. Compensation expense for share-based payments is recognized based on the measurement-date fair value for awards that will settle in shares of Argo Group's capital stock. Awards that are expected to be settled in cash are accounted for as liability awards, resulting in the fair value of the award being measured at each reporting date until the award is exercised, forfeited or expires unexercised. Compensation expense for awards that are settled in equity of Argo Group are recognized on a straight line pro rata basis over the vesting period. Compensation expense for awards that are settled in cash are recognized on the accelerated recognition method over the award's vesting period. Share-based compensation expense is included in "Underwriting, acquisition and insurance expenses" in our Consolidated Statements of Income was $6.0 million and $16.6 million for the years ended December 31, 2017 and 2016, respectively.

Foreign Currency Exchange Gain (Loss)

The U.S. Dollar is the functional currency of all but two of our foreign operations. Monetary assets and liabilities in foreign operations that are denominated in foreign currencies are revalued at the exchange rates in effect at the balance sheet date. The resulting gains and losses from changes in the foreign exchange rates are reflected in net income. Revenues and expenses denominated in foreign currencies are translated at the prevailing exchange rate during the period with the resulting foreign exchange gains and losses included in net income for the period. In the case of our foreign currency denominated available-for-sale investments, the change in exchange rates between the local currency and our functional currency at each balance sheet date represents an unrealized appreciation or depreciation in value of these securities and is included as a component of accumulated other comprehensive gain.

Translation gains and losses related to our operations in Brazil and Malta are recorded as a component of shareholders' equity in our Consolidated Balance Sheets. At December 31, 2017 and 2016, the foreign currency translation adjustments were a loss of $19.0 million and $17.6 million, respectively.

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.

We recognize potential accrued interest and penalties within our global operations in "Interest expense" and "Underwriting, acquisition and insurance expenses," respectively, in our Consolidated Statements of Income related to unrecognized tax benefits.

Supplemental Cash Flow Information

Income taxes paid. We paid income taxes of $10.8 million and $16.6 million in 2017 and 2016, respectively.

Income taxes recovered. We recovered income taxes of $0.3 million and $0.5 million in 2017 and 2016, respectively.

Interest paid as follows:

	For the Years Ended December 31,	
(in millions)	2017	2016
Senior unsecured fixed rate notes	$ 9.3	$ 9.3
Junior subordinated debentures	7.1	6.4
Other indebtedness	2.4	2.3
Revolving credit facility	0.3	—
Total interest paid	$ 19.1	$ 18.0

Non cash activities. Our Consolidated Statements of Cash Flows contains a reconciliation of net income to "Net cash (used) provided by operating activities" which includes, among other things, certain adjustments for non-cash items. As shown in "Amount borrowed by parent" within the investing activities section of the Consolidated Statements of Cash Flows, we loaned $120.0 million to Argo Group. For the year ended December 31, 2017, the adjustment for "(Receivable from) payable to parent, net" includes a $134.4 million non-cash item related to the settlement of the $120.0 million loan, as well as other balances, due from Argo Group through the transfer of ARL.

Recently Issued Accounting Pronouncements

On February 14, 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" that allows a reclassification from accumulated other comprehensive income to retained earnings of the stranded tax effects in AOCI resulting from the TCJA. Current guidance required the effect of a change in tax laws or rates on deferred tax balances to be reported in income from continuing operations in the accounting period that includes the period of enactment, even if the related income tax effects were originally charged or credited directly to AOCI. The amount of the reclassification would include the effect of the change in the US federal corporate income tax rate on the gross deferred tax amounts and related valuation allowances, if any, at the date of the enactment of TCJA related to items in AOCI. The updated guidance is effective for reporting periods beginning after December 15, 2018 and is to be applied retrospectively to each period in which the effect of the TCJA related to items remaining in AOCI are recognized or at the beginning of the period of adoption. Early adoption is permitted, including adoption in any interim period for public business entities for reporting periods for which financial statements have not yet been issued. We have adopted the guidance effective January 1, 2018. The adoption of this ASU will not affect the Company's results of operations, financial position, or liquidity.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 (SAB 118) which provides guidance on accounting for the effects of the TCJA. We have adopted this guidance within our 2017 consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, "Compensation – Stock Compensation" (Topic 718): Scope of Modification Accounting. ASU 2017-09 clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. The guidance requires entities to apply the modification accounting guidance if the value, vesting conditions or classification of the award changes. In addition to all the disclosures about modifications that are required today, the entities are required to affirmatively disclose when compensation expense has not changed. The ASU will be applied prospectively and is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. We have adopted this ASU effective January 1, 2018. The adoption of this ASU will not have a material impact on our financial results and 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, 2021. 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 2017-01, "Business Combinations" (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, 2018, and interim periods within annual periods beginning after December 15, 2019. We have adopted this ASU effective January 1, 2018. The adoption of this ASU will not have a material impact on our financial results and disclosures.

In October 2016, the FASB issued ASU 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory." This ASU 2016-16 simplifies the income tax accounting of intra-entity transfers of an asset other than inventory by requiring an entity to recognize the income tax effect when the transfer occurs. The guidance is effective for annual reporting periods beginning after December 15, 2018, including interim reporting periods within those annual reporting periods and early adoption is permitted. We early adopted this ASU in 2017, and the adoption resulted in intercompany transfers being tax effected.

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, 2018, including interim periods within the year of adoption. 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 adopted this ASU effective January 1, 2018. We have elected to adopt the cumulative earnings approach to classify distributions received from equity method investees, which we will adopt retrospectively. This ASU will have no net effect on our consolidated statements of cash flows, but will have an immaterial impact on the classification 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, 2020, including interim periods within the year of adoption. 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, 2017, 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 has been 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 elected 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 December 15, 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 related to an available-for-sale debt security in combination with our other deferred tax assets. The ASU will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We have adopted this ASU effective January 1, 2018. We have determined that the change in the fair value of the noted investments will be included in “Net realized investment and other gains” in our consolidated statements of income. We anticipate the standard will increase the volatility of the results reported in 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 implementation

- ASU 2016-10, “Identifying Performance Obligations and Licensing” (Topic 606), which is intended to clarify the guidance for identifying promised goods or services 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), which amends certain aspects of ASU 2014-09 to address certain implementation issues; and

- ASU 2016-20, “Technical Corrections and Improvements” (Topic 606), provides additional guidance for quantitative and qualitative disclosures in certain cases, and makes 12 additional technical corrections and improvements to the new revenue standard.

We adopted this ASU effective January 1, 2018, as fee income related to our brokerage operations and management of the third-party capital for our underwriting Syndicates at Lloyd’s are subject to this updated guidance. We have selected the modified retrospective method to adopt this standard, which requires us to recognize the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings at the date of initial application. The adoption of this standard will not have a material impact on our consolidated financial results.

2. Investments

Composition of Invested Assets

The amortized cost, gross unrealized gains, gross unrealized losses and fair value of investments as of December 31 were as follows:

December 31, 2017

(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturities				
U.S. Governments	$ 358.9	$ 0.2	$ 4.7	$ 354.4
Foreign Governments	222.5	6.7	2.4	226.8
Obligations of states and political subdivisions	327.7	9.3	1.0	336.0
Corporate bonds	1,427.3	24.3	12.6	1,439.0
Commercial mortgage-backed securities	136.3	0.1	1.5	134.9
Residential mortgage-backed securities	309.3	2.8	2.7	309.4
Asset-backed securities	159.0	0.7	0.8	158.9
Collateralized loan obligations	222.6	5.9	0.6	227.9
Total fixed maturities	3,163.6	50.0	26.3	3,187.3
Equity securities	336.5	153.8	4.8	485.5
Other investments	522.6	9.5	—	532.1
Short-term investments	344.2	—	—	344.2
Total investments	$ 4,366.9	$ 213.3	$ 31.1	$ 4,549.1

(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	527.6	7.5	0.1	535.0
Short-term investments	403.4	0.1	—	403.5
Total investments	$ 4,205.0	$ 167.4	$ 54.1	$ 4,318.3

Included in “Total investments” in our Consolidated Balance Sheets at December 31, 2017 and 2016 is $130.8 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 Syndicate 1200.

Contractual Maturity

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

(in millions)	Amortized Cost	Fair Value
Due in one year or less	$ 231.3	$ 231.0
Due after one year through five years	1,308.5	1,317.1
Due after five years through ten years	623.3	630.7
Thereafter	173.3	177.4
Structured securities	827.2	831.1
Total	$ 3,163.6	$ 3,187.3

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, redemption characteristics and unfunded investment commitments of the other invested assets portfolio as of December 31, 2017 and 2016 were as follows:

December 31, 2017

(in millions)	Carrying Value	Unfunded Commitments
Investment Type		
Hedge funds	$ 163.6	$ —
Private equity	179.2	129.9
Long only funds	185.0	—
Other investments	4.3	—
Total other invested assets	$ 532.1	$ 129.9

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	4.4	—
Total other invested assets	$ 535.0	$ 93.4

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, funds that primarily own investment-grade corporate and sovereign fixed income securities and participations in investment pools

- **Other investments:** Other investments include our participation in a trust preferred investment pool and options.

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:

December 31, 2017	Less Than One Year		One Year or Greater		Total	
(in millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed maturities						
U.S. Governments	$ 253.1	$ 1.6	$ 83.7	$ 3.1	$ 336.8	$ 4.7
Foreign Governments	168.7	1.9	35.9	0.5	204.6	2.4
Obligations of states and political subdivisions	33.3	0.4	22.4	0.6	55.7	1.0
Corporate bonds	588.3	9.3	77.7	3.3	666.0	12.6
Commercial mortgage-backed securities	58.2	0.4	37.8	1.1	96.0	1.5
Residential mortgage-backed securities	164.4	1.6	52.4	1.1	216.8	2.7
Asset-backed securities	85.4	0.4	31.9	0.4	117.3	0.8
Collateralized loan obligations [(2)]	34.6	0.6	0.9	—	35.5	0.6
Total fixed maturities	1,386.0	16.2	342.7	10.1	1,728.7	26.3
Equity securities	46.6	4.8	—	—	46.6	4.8
Other investments [(2)]	—	—	0.3	—	0.3	—
Total	$ 1,432.6	$ 21.0	$ 343.0	$ 10.1	$ 1,775.6	$ 31.1

December 31, 2016	Less Than One Year		One Year or Greater		Total	
(in millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed maturities						
U.S. Governments	$ 183.4	$ 4.5	$ —	$ —	$ 183.4	$ 4.5
Foreign Governments	201.2	8.0	—	—	201.2	8.0
Obligations of states and political subdivisions	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 [(1)]	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 7,899 securities, of which 2,107 were in an unrealized loss position for less than one year and 357 were in an unrealized loss position for a period one year or greater as of December 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-then-temporarily impaired or not, we also considered that we do not intend to sell the investment and it is unlikely that we will be required to sell the investment before recovery of its amortized cost basis, 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 December 31, 2017.

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

(in millions)	For the Years Ended December 31, 2017	2016
Other-than-temporary impairment:		
Obligations of states and political subdivisions	$ (0.1)	$ —
Corporate bonds	(0.7)	(1.7)
Equity securities	(1.7)	(8.5)
Other-than-temporary impairment losses	(2.5)	(10.2)

Net Investment Income and Realized Gains and Losses

Investment income and expenses were as follows:

(in millions)	For the Years Ended December 31, 2017	2016
Investment income:		
Interest on fixed maturities	$ 94.2	$ 88.9
Dividends on equity securities	13.9	15.6
Income on alternative investments	49.5	29.9
Income on short-term and other investments	6.3	0.4
Investment income	163.9	134.8
Investment expenses	(23.6)	(15.9)
Net investment income	$ 140.3	$ 118.9

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

(in millions)	For the Years Ended December 31, 2017	2016
Realized gains		
Fixed maturities	$ 25.7	$ 21.5
Equity securities	51.3	57.5
Other investments	24.4	46.3
Short-term investments	0.7	0.5
Other assets	—	1.2
Gain on sale of real estate holdings	—	—
Gross realized investment and other gains	102.1	127.0
Realized losses		
Fixed maturities	(19.9)	(35.9)
Equity securities	(5.3)	(9.7)
Other investments	(35.2)	(45.4)
Short-term investments	(0.2)	(0.3)
Other-than-temporary impairment losses on fixed maturities	(0.8)	(1.7)
Other-than-temporary impairment losses on equity securities	(1.7)	(8.5)
Gross realized investment and other losses	(63.1)	(101.5)
Net realized investment and other gains before income taxes	39.0	25.5
Income tax expense	(12.1)	(11.6)
Net realized investment and other gains, net of income taxes	$ 26.9	$ 13.9

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

(in millions)	For the Years Ended December 31, 2017	2016
Change in unrealized gains (losses)		
Fixed maturities	$ 27.1	$ 36.5
Equity securities	36.1	(2.6)
Other investments	2.1	0.6
Short-term investments	—	0.4
Net unrealized investment and other gains (losses) before income taxes	65.3	34.9
Income tax (expense) benefit	(14.6)	(2.4)
Net unrealized investment and other gains (losses), net of income taxes	$ 50.7	$ 32.5

Foreign Currency Exchange Forward Contracts

We entered into foreign currency exchange forward contracts to manage operational currency exposure on our Canadian dollar ("CAD") investment portfolio, minimize negative impacts to investment portfolio return. and gain exposure to a total return strategy which invests in multiple currencies. The currency forward contracts are carried at fair value in our Consolidated Balance Sheets in "Other liabilities" and "Other assets" at December 31, 2017 and 2016, respectively. The gains and losses are included in "Net realized investment and other gains" in our Consolidated Statements of Income.

The fair value of our foreign currency exchange forward contracts as of December 31 was as follows:

(in millions)	December 31, 2017	December 31, 2016
Asset manager investment exposure	$ (0.9)	$ 0.7
Total return strategy	0.9	3.0
Total	$ —	$ 3.7

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

(in millions)	For the Years Ended December 31, 2017	2016
Realized gains		
Operational currency exposure	12.3	10.9
Asset manager investment exposure	1.5	9.0
Total return strategy	9.0	24.4
Gross realized investment gains	22.8	44.3
Realized losses		
Global catastrophe	—	—
Operational currency exposure	(13.8)	(18.0)
Asset manager investment exposure	(11.3)	(4.5)
Total return strategy	(6.7)	(20.4)
Gross realized investment losses	(31.8)	(42.9)
Net realized investment (losses) gains on foreign currency exchange forward contracts	$ (9.0)	$ 1.4

Regulatory Deposits, Pledged Securities and Letters of Credit

We are required to maintain assets on deposit with various regulatory authorities to support our insurance and reinsurance operations. We maintain assets pledged as collateral in support of irrevocable letters of credit issued under the terms of certain reinsurance agreements for reported loss and loss expense reserves. The following table presents our components of restricted assets at December 31:

(in millions)	December 31, 2017		December 31, 2016	
Securities on deposit for regulatory and other purposes	$	175.3	$	168.7
Securities pledged as collateral for letters of credit		78.1		35.9
Securities and cash on deposit supporting Lloyd's business		289.8		161.8
Total restricted investments	$	543.2	$	366.4

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 and income 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 assumptions 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 December 31, 2017 and 2016. 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 Level 3:

- We own a $1.9 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 funds' net asset value per share, at the end of each month. The underlying assets in the funds are valued primarily on the basis of closing market quotations or official closing prices on each valuation day.

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

- Fair value measurements 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.
- Fair value measurements from a broker and an independent valuation service, both based upon 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.

Short-term Investments: Short-term investments are principally reported at fair value using Level 1 inputs, with the exception of short-term corporate and governmental 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 2017 or 2016.

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

		Fair Value Measurements at Reporting Date Using		
(in millions)	December 31, 2017	Level 1 [(a)]	Level 2 [(b)]	Level 3 [(c)]
Fixed maturities				
U.S. Governments	$ 354.4	$ 349.9	$ 4.5	$ —
Foreign Governments	226.8	—	226.8	—
Obligations of states and political subdivisions	336.0	—	336.0	—
Corporate bonds	1,439.0	—	1,437.1	1.9
Commercial mortgage-backed securities	134.9	—	134.9	—
Residential mortgage-backed securities	309.4	—	309.4	—
Asset-backed securities	158.9	—	158.9	—
Collateralized loan obligations	227.9	—	227.9	—
Total fixed maturities	3,187.3	349.9	2,835.5	1.9
Equity securities	485.5	481.1	2.1	2.3
Other investments	97.3	—	97.3	—
Short-term investments	344.2	309.4	34.8	—
	$ 4,114.3	$ 1,140.4	$ 2,969.7	$ 4.2

(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	91.6	—	91.6	—
Short-term investments	403.5	373.1	30.4	—
	$ 3,874.9	$ 1,046.0	$ 2,826.5	$ 2.4

[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)	Credit Financial	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)	(0.1)	0.2	0.1
Purchases, issuances, sales, and settlements:			
Purchases	—	1.7	1.7
Issuances	—	—	—
Sales	—	—	—
Settlements	—	—	—
Ending balance, December 31, 2017	$ 1.9	$ 2.3	$ 4.2
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, 2017	$ —	$ —	$ —

(in millions)	Credit Financial	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	$ 2.0	$ 0.4	$ 2.4
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	$ —	$ —	$ —

At December 31, 2017 and 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.

3. Reinsurance

We reinsure certain risks with other insurance companies. Such arrangements serve to limit our maximum loss on certain individual risks as well as on catastrophes and large or unusually hazardous risks. We are liable to our insureds for reinsurance ceded in the event our reinsurers do not meet their obligations. Thus, a credit exposure exists with respect to reinsurance ceded to the extent that any reinsurer is unable or unwilling to meet the obligations assumed under the reinsurance contracts. Our allowance for uncollectible reinsurance balances receivable on paid losses and incurred claims was $2.1 million as of December 31, 2017 and 2016. Under certain reinsurance agreements, collateral, including letters of credit, is held to secure performance of reinsurers in meeting their obligations. The amount of such collateral was $646.7 million and $492.6 million at December 31, 2017 and 2016, respectively. The collateral we hold does not apply to our entire outstanding reinsurance recoverable. Rather, collateral is provided on an individual contract basis as appropriate. For each individual reinsurer, the collateral held may exceed or fall below the total outstanding recoverable from that individual reinsurer.

The long-term nature of the reinsurance contracts creates a credit risk to us over time arising from potentially uncollectible reinsurance. To mitigate that counterparty risk, we evaluate our reinsurers to assess their financial condition. The factors that underlie these reviews include a financial risk assessment as well as an internal assessment of the capitalization and the operational risk of the reinsurer. As a result of these reviews, we may make changes to the approved markets that are used in both our treaty and facultative reinsurance programs.

Estimated losses recoverable from reinsurers and the ceded portion of unearned premiums are reported as assets in our Consolidated Balance Sheets. Included in “Reinsurance recoverables” are paid loss recoverables of $290.6 million and $215.0 million as of December 31, 2017 and 2016, respectively. “Earned Premiums” and “Losses and loss adjustment expenses” are reported net of reinsurance in our Consolidated Statements of Income.

Losses and loss adjustment expenses of $942.6 million and $810.1 million for the years ended December 31, 2017 and 2016, respectively, are net of amounts ceded to reinsurers of $651.5 million and $419.3 million, respectively.

We are required to accept certain assigned risks and other legally mandated reinsurance obligations. Prior to the mid-1980s, we assumed various forms of casualty reinsurance for which we continue to maintain reserves for losses and loss adjustment expenses (see Note 5, “Run-off Lines”). For such assumed reinsurance transactions, we engage in various monitoring steps that are common with assumed reinsurance such as ongoing claims reviews. We currently assume property related reinsurance primarily through our subsidiaries, Argo Re and Ariel Re, and casualty related reinsurance primarily through Syndicate 1200.

Premiums were as follows:

(in millions)	For the Years Ended December 31, 2017	2016
Direct written premiums	$ 1,979.7	$ 1,792.5
Reinsurance ceded to other companies	(857.6)	(724.6)
Reinsurance assumed from other companies	419.4	372.3
Net written premiums	$ 1,541.5	$ 1,440.2
Direct earned premiums	$ 1,863.3	$ 1,722.8
Reinsurance ceded to other companies	(817.3)	(675.8)
Reinsurance assumed from other companies	402.6	363.8
Net earned premiums	$ 1,448.6	$ 1,410.8
Percentage of reinsurance assumed to net earned premiums	27.8%	25.8%

4. Reserves for Losses and Loss Adjustment Expenses

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

(in millions)	For the Twelve Months Ended December 31, 2017	2016
Net reserves beginning of the year	$ 2,180.2	$ 2,133.3
Add:		
Losses and LAE incurred during current calendar year, net of reinsurance:		
Current accident year	945.8	843.4
Prior accident years	(3.2)	(33.3)
Losses and LAE incurred during calendar year, net of reinsurance	942.6	810.1
Deduct:		
Losses and LAE payments made during current calendar year, net of reinsurance:		
Current accident year	215.9	178.9
Prior accident years	545.4	537.6
Losses and LAE payments made during current calendar year, net of reinsurance:	761.3	716.5
Change in participation interest [(1)]	(23.2)	(36.3)
Foreign exchange adjustments	38.1	(10.4)
Net reserves - end of year	2,376.4	2,180.2
Add:		
Reinsurance recoverables on unpaid losses and LAE, end of year	1,391.3	1,170.6
Gross reserves - end of year	$ 3,767.7	$ 3,350.8

(1) Amount represents (decrease) increase in reserves due to change in our Syndicate 1200 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 (favorable) unfavorable development of prior accident years' losses and LAE reserves on each reporting segment is presented below:

	For the Twelve Months Ended December 31,	
(in millions)	2017	2016
U.S. Operations	$ (38.7)	$ (35.9)
International Operations	18.2	(16.0)
Run-off Lines	17.3	18.6
Total unfavorable (favorable) prior-year development	$ (3.2)	$ (33.3)

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

Year ended December 31, 2017:

- *U.S. Operations:* Favorable development in our general liability, workers compensation, surety and commercial automobile lines.
- *International Operations:* Unfavorable development in the property and liability lines, primarily due to the first quarter 2017 Ogden rate change and claims from Hurricane Matthew. Partially offsetting this unfavorable development was favorable development on the property reinsurance lines
- *Run-off Lines:* Unfavorable development on prior accident years driven by our asbestos exposure due to increasing defense costs and an increase in the time claims remain open, and in other run-off lines, partially offset by favorable development in the run-off risk management lines.

Year ended December 31, 2016:

- *U.S. Operations:* Favorable development in our commercial automobile, workers compensation, surety and commercial multiple peril lines, partially offset by unfavorable development in our general liability lines
- *International Operations:* Favorable development in the property reinsurance lines, as well as general liability and property facultative business underwritten by our Lloyd's Syndicate 1200.
- *Run-off Lines:* Unfavorable development from our asbestos exposure, run-off risk management lines and other run-off lines. The unfavorable development from our asbestos exposure was due to increased defense costs and a final settlement with a large primary insured.

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.

Short-Duration Contract Disclosures

ASU 2015-09, "Disclosures about Short-Duration Contracts" (Topic 944), requires insurers to make disclosures about their liability for unpaid claims and claim adjustment expenses for short-duration insurance contracts. These disclosures include tables showing incurred and paid claims development information (net of reinsurance and excluding unallocated loss adjustment expenses) which are disaggregated based on the characteristics of the insurance contracts that the insurer writes and other factors specific to the reporting entity. The information should be disclosed by accident year for the number of years claims typically remain outstanding, but need not be more than 10 years, including a reconciliation of the disaggregated information to the consolidated statement of financial position. The basis for our disaggregation of this information is by each of our two ongoing reporting segments, U.S. Operations and International Operations, further disaggregated within each segment by our operating divisions and the primary insurance and reinsurance lines of business we write. We've chosen to disaggregate the data in this way so as to not obscure useful information by otherwise aggregating items with significantly different characteristics.

Operating Divisions

Our U.S. Operations reporting segment is comprised of two primary operating divisions, Excess and Surplus Lines and Commercial Specialty, while International Operations includes the International Specialty, and Syndicate 1200 operating divisions. Each of our operating divisions are further described below.

Excess and Surplus Lines

The Excess and Surplus Lines division focuses on U.S.-based risks that the standard (admitted) market is unwilling or unable to underwrite. The standard market's limited appetite for such coverage is often driven by the insured's unique risk characteristics, the perils involved, the nature of the business, and/or the insured's loss experience. We are often able to underwrite these risks with more flexible policy terms through our Excess and Surplus Lines division. We underwrite this business on both an admitted and non-admitted basis.

Commercial Specialty

This Commercial Specialty division provides coverages designed to meet the specialized insurance needs of U.S.-based businesses within certain well-defined markets. It targets business classes and industries with distinct risk profiles that can benefit from specially designed insurance programs, tailored loss control and expert claims handling. This division serves its targeted niche markets with a narrowly focused underwriting profile and specialized knowledge of the businesses it serves.

International Specialty

International Specialty includes Argo's Bermuda insurance and reinsurance platform, which specialize in specialty property catastrophe reinsurance, excess casualty insurance and professional liability insurance. ArgoGlobal SE, our Malta-based unit, underwrites various insurance products and services in continental Europe. Argo Seguros is our property and casualty insurance company based in Sao Paolo, Brazil, which is focused on serving that country's domestic commercial insurance market.

Syndicate 1200

The Syndicate 1200 division is focused on underwriting worldwide property, specialty and non-U.S. liability insurance through Argo Underwriting Agency, Ltd. on behalf of Lloyd's Syndicate 1200 within the Lloyd's of London global franchise.

Lines of Business

We use an underwriting committee structure to monitor and evaluate the operating performance of our lines of business. The underwriting committees are organized to allow products or coverages with similar characteristics to be managed and evaluated in distinct groups. Using this approach, our insurance business is categorized into underwriting groups, which are Liability, Professional, Property and Specialty. Noted below are descriptions of the types of characteristics considered to disaggregate our business into these groups, as well as other qualitative factors to consider when using the information contained in the following incurred and paid claims development tables.

Liability

Our Liability business generally covers exposures where most claims are reported without a significant time lag between the event that gives rise to a claim and the date the claim is reported to us. However, since facts and information are frequently not complete at the time claims are reported to us, and because protracted litigation is sometimes involved, it can be several years before the ultimate value of these claims is determined. In our International Specialty division, much of the business covers higher layers, potentially increasing the time it takes to fully determine our exposure.

Professional

Much of our Professional business is written on a claims-made basis resulting in coverage only for claims that are reported to us during the year in which the policy is effective, thus reducing the number of claims that will become known to us after the end of the policy expiration date. However, facts and information are frequently not complete at the time claims are reported to us, and protracted litigation is sometimes involved. It can be several years before the ultimate value of these claims is determined. In our International Specialty division, much of the business covers higher layers, potentially increasing the time it takes to fully determine our exposure.

Property

Property losses are generally reported within a short period of time from the date of loss, and in most instances, property claims are settled and paid within a relatively short timeframe. However, Property can be impacted by catastrophe losses which can be more complex than non-catastrophe Property claims due to factors such as difficulty accessing impacted areas and other physical, legal and regulatory impediments potentially extending the period of time it takes to settle and pay claims. The impacts of catastrophe losses can be more significant in our International Specialty and Syndicate 1200 divisions.

Specialty

Specialty lines losses are generally reported within a short period of time from the date of loss, and in most instances, Specialty lines claims are settled and paid within a relatively short timeframe. However, Specialty lines can be impacted by larger losses where facts and information are frequently not complete at the time claims are reported to us. These large losses can be more complex than smaller Specialty claims due to factors such as difficulty determining actual damages and other physical, legal and regulatory impediments potentially extending the period of time it takes to settle and pay claims.

Descriptions of the primary types of coverages included in each of the lines of business for each operating division are noted below:

Excess and Surplus Lines

- *Liability:* primary and excess specialty casualty, contract liability, commercial multi-peril, product liability, environmental liability, and auto liability

Commercial Specialty

- *Liability:* workers compensation, general liability, auto liability, and various public entity liability risks
- Professional: management liability and errors and omissions liability

International Specialty

- *Liability:* long-tail casualty and general liability
- *Property*: catastrophe reinsurance and direct and facultative excess reinsurance

Syndicate 1200

- *Liability:* general liability, international casualty and motor treatie
- *Professional:* professional indemnity, directors and officer's liability, and medical malpractice
- *Property:* direct and facultative excess reinsurance, North American and international binders, and residential collateral protection for lending institutions
- *Specialty*: personal accident, aviation, cargo, yachts, and onshore and offshore marine

Run-off Lines Segment

We have a Run-off Lines segment for certain products that we no longer underwrite, including asbestos and environmental claims. We have excluded the Run-off Lines segment from the following disaggregated short-duration contract disclosures due to its insignificance to our consolidated financial position and results of operations, both quantitatively and qualitatively. Gross reserves for losses and LAE in Run-off Lines account for less than 7% of our consolidated gross reserves for losses and LAE, and are primarily related to accident years prior to the mid-1990s. As such, claims development tables for the most recent 10 accident years would not provide meaningful information to users of our financial statements, as the majority of the remaining reserves for losses and LAE would be for accident years not separately presented. See Note 5, "Run-off Lines," for further information on this segment, including discussion of prior accidents years' development.

Accident Years Presented

Based on the previous operating structure and management of our business prior to calendar year 2011, we did not track ultimate claims and claim adjustment expenses by accident year at a level of detail consistent with the current segmentation of our business, including our operating divisions, with the exception of the business in Syndicate 1200. As a result, it is impracticable to obtain the information necessary to provide historical ultimate claims and claim adjustment expense estimates prior to December 31, 2011 in the following incurred and paid claims development tables for all disaggregation categories except those associated with Syndicate 1200.

Syndicate 1200 ultimate claims and claim adjustment expenses are provided beginning with accident year 2010 due to the retroactive whole account quota share contract we entered into on December 31, 2012. As a result of this transaction, reserves for losses and LAE prior to accident year 2010 were legally transferred to another syndicate within the Lloyd's market. Under this quota share contract, we did not retain any direct indemnity or credit risk for the reserves prior to accident year 2010.

Foreign Currency

Portions of the business we write in the Syndicate 1200 and International Specialty divisions are denominated in foreign currencies. We have used the December 31, 2017 balance sheet foreign exchange rates to recast the incurred and paid claims information for all periods presented in the following claims development tables in order to eliminate the effects of changes in foreign currency translation rates.

Reserves for Incurred But Not Reported ("IBNR") Claims

Reserves for IBNR claims are based on the estimated ultimate cost of settling claims, including the effects of inflation and other social and economic factors, using past experience adjusted for current trends and any other factors that would modify past experience. We use a variety of statistical and actuarial techniques to analyze current claims costs, including frequency and severity data and prevailing economic, social and legal factors. Each such method has its own set of assumptions and outputs, and each has strengths and weaknesses in different areas. Since no single estimation method is superior to another method in all situations, the methods and assumptions used to project loss reserves will vary by coverage and product. We use what we believe to be the most appropriate set of actuarial methods and assumptions for each product line grouping and coverage. While the loss projection methods may vary by product line and coverage, the general approach for calculating IBNR remains the same: ultimate losses are forecasted first, and that amount is reduced by the amount of cumulative paid claims and case reserves. Reserves established in prior years are adjusted as loss experience develops and new information becomes available. Adjustments to previously estimated reserves are reflected in the results of operations in the year in which they are made.

As described above, various actuarial methods are utilized to determine the reserves for losses and LAE recorded in our Consolidated Balance Sheets. Weightings of methods at a detailed level may change from evaluation to evaluation based on a number of observations, measures, and time elements. There were no significant changes to the methods and assumptions underlying our consolidated reserve estimations and selections as of December 31, 2017.

Incurred & Paid Claims Development Disclosures

The following tables provide information about incurred and cumulative paid losses and allocated loss adjustment expenses ("ALAE"), net of reinsurance. The following tables also include IBNR reserves plus expected development on reported claims and the cumulative number of reported claims as of December 31, 2017.

Reporting Segment: ***U.S. Operations***
Operating Division: ***Excess and Surplus Lines***
Line of Business: ***Liability***
(in millions, except number of claims reported)

Accident Year	Incurred Losses & ALAE, Net of Reinsurance For the Years Ended December 31, 2011 [(1)]	2012 [(1)]	2013 [(1)]	2014 [(1)]	2015 [(1)]	2016 [(1)]	2017
2011	$ 202.9	$ 206.0	$ 205.8	$ 200.0	$ 193.5	$ 192.8	$ 189.0
2012		189.6	196.0	189.7	183.6	184.4	182.1
2013			217.9	222.6	224.3	227.2	220.4
2014				213.0	215.1	213.1	211.9
2015					232.3	237.0	228.6
2016						246.5	250.9
2017							260.6
						Total	$ 1,543.5

Accident Year	Cumulative Paid Losses & ALAE, Net of Reinsurance For the Years Ended December 31, 2011 [(1)]	2012 [(1)]	2013 [(1)]	2014 [(1)]	2015 [(1)]	2016 [(1)]	2017
2011	$ 17.6	$ 53.8	$ 91.0	$ 122.9	$ 146.6	$ 162.4	$ 170.0
2012		17.2	52.8	89.1	120.8	142.4	157.5
2013			17.6	60.2	100.4	135.2	163.7
2014				15.0	52.2	95.9	131.6
2015					16.5	51.9	91.4
2016						17.4	52.8
2017							11.5
						Total	$ 778.5
						Outstanding liabilities for unpaid losses and ALAE prior to 2011, net of reinsurance	70.1
						Total outstanding liabilities for unpaid losses and ALAE, net of reinsurance	$ 835.1

Accident Year	As of December 31, 2017: Incurred Losses & ALAE, Net of Reinsurance	IBNR & Expected Development on Reported Claims	Cumulative Number of Reported Claims [(2)]
2011	$ 189.0	$ 12.4	8,404
2012	182.1	15.1	7,322
2013	220.4	34.9	7,180
2014	211.9	48.0	6,306
2015	228.6	92.3	5,661
2016	250.9	151.4	4,969
2017	260.6	218.4	3,801

(1) Information presented for calendar years prior to 2017 is required supplementary information and is unaudited.

(2) The cumulative number of reported claims is measured at a coverage level by occurrence. Reported occurrences that do not result in a liability are included as reported claims.

Reporting Segment: ***U.S. Operations***
Operating Division: ***Commercial Specialty***
Line of Business: ***Liability***
(in millions, except number of claims reported)

Accident Year	Incurred Losses & ALAE, Net of Reinsurance For the Years Ended December 31, 2011 [(1)]	2012 [(1)]	2013 [(1)]	2014 [(1)]	2015 [(1)]	2016 [(1)]	2017
2011	$ 140.6	$ 155.1	$ 159.0	$ 157.5	$ 158.2	$ 154.0	$ 153.7
2012		140.3	146.3	149.7	152.2	151.5	147.7
2013			126.6	133.2	135.1	133.2	131.1
2014				115.5	118.6	116.9	114.5
2015					102.6	106.7	101.6
2016						95.9	99.4
2017							$ 114.2
						Total	$ 862.2

Accident Year	Cumulative Paid Losses & ALAE, Net of Reinsurance For the Years Ended December 31, 2011 [(1)]	2012 [(1)]	2013 [(1)]	2014 [(1)]	2015[(1)]	2016 [(1)]	2017
2011	$ 23.1	$ 57.5	$ 85.9	$ 111.3	$ 126.1	$ 135.1	$ 139.8
2012		20.1	51.0	80.7	105.3	120.8	127.9
2013			18.9	49.4	73.6	93.6	102.8
2014				17.4	38.4	58.7	75.2
2015					16.4	35.0	48.8
2016						11.1	31.7
2017							16.3
						Total	$ 542.5
Outstanding liabilities for unpaid losses and ALAE prior to 2011, net of reinsurance							55.3
Total outstanding liabilities for unpaid losses and ALAE, net of reinsurance							$ 375.0

Accident Year	As of December 31, 2017: Incurred Losses & ALAE, Net of Reinsurance	IBNR & Expected Development on Reported Claims	Cumulative Number of Reported Claims [(2)]
2011	$ 153.7	$ 6.8	28,153
2012	147.7	9.6	23,594
2013	131.1	13.4	18,901
2014	114.5	17.3	16,261
2015	101.6	27.4	14,379
2016	99.4	38.1	11,225
2017	114.2	64.8	10,897

(1) Information presented for calendar years prior to 2017 is required supplementary information and is unaudited.

(2) The cumulative number of reported claims is measured by individual claimant at a coverage level. Reported occurrences that do not result in a liability are included as reported claims.

Reporting Segment: ***U.S. Operations***
Operating Division: ***Commercial Specialty***
Line of Business: ***Professional***
(in millions, except number of claims reported)

Accident Year	Incurred Losses & ALAE, Net of Reinsurance For the Years Ended December 31, 2011 (1)	2012 (1)	2013 (1)	2014 (1)	2015 (1)	2016 (1)	2017
2011	$ 35.0	$ 35.0	$ 35.0	$ 32.5	$ 28.2	$ 26.9	$ 26.6
2012		27.8	28.3	28.6	25.8	24.0	24.5
2013			20.9	21.5	21.1	19.0	19.8
2014				22.4	22.4	26.0	33.7
2015					29.9	29.5	33.2
2016						44.2	44.8
2017							60.1
					Total		$ 242.7

Accident Year	Cumulative Paid Losses & ALAE, Net of Reinsurance For the Years Ended December 31, 2011 (1)	2012 (1)	2013 (1)	2014 (1)	2015 (1)	2016 (1)	2017
2011	$ 3.2	$ 11.8	$ 17.8	$ 22.0	$ 24.0	$ 25.4	$ 25.7
2012		2.3	8.6	16.9	19.9	21.4	22.6
2013			1.9	6.3	10.9	14.2	17.6
2014				2.3	5.4	15.1	24.1
2015					1.8	8.3	15.6
2016						2.4	11.9
2017							3.5
						Total	$ 121.0
Outstanding liabilities for unpaid losses and ALAE prior to 2011, net of reinsurance							0.2
Total outstanding liabilities for unpaid losses and ALAE, net of reinsurance							$ 121.9

	As of December 31, 2017		
Accident Year	Incurred Losses & ALAE, Net of Reinsurance	IBNR & Expected Development on Reported Claims	Cumulative Number of Reported Claims (2)
2011	$ 26.6	$ 0.3	818
2012	24.5	0.2	637
2013	19.8	1.1	616
2014	33.7	2.1	1,041
2015	33.2	6.5	1,802
2016	44.8	19.8	3,190
2017	60.1	50.4	3,272

(1) Information presented for calendar years prior to 2017 is required supplementary information and is unaudited.

(2) The cumulative number of reported claims is measured by individual claimant at a coverage level. Reported occurrences that do not result in a liability are included as reported claims.

Reporting Segment: ***International Operations***
Operating Division: ***International Specialty***
Line of Business: ***Liability***
(in millions, except number of claims reported)

Accident Year	Incurred Losses & ALAE, Net of Reinsurance For the Years Ended December 31, 2011 [1]	2012 [1]	2013 [1]	2014 [1]	2015 [1]	2016 [1]	2017
2011	$ 6.6	$ 6.6	$ 6.6	$ 4.4	$ 2.2	$ 1.6	$ 1.0
2012		7.4	7.4	7.4	5.6	4.5	1.7
2013			9.1	9.5	9.5	6.5	6.2
2014				10.7	10.9	10.7	7.2
2015					12.6	15.3	25.7
2016						15.2	15.3
2017							18.4
						Total	$ 75.5

Accident Year	Cumulative Paid Losses & ALAE, Net of Reinsurance For the Years Ended December 31, 2011 [1]	2012 [1]	2013 [1]	2014 [1]	2015 [1]	2016 [1]	2017
2011	$ —	$ —	$ —	$ —	$ —	$ —	$ —
2012		—	—	—	0.1	0.1	0.1
2013			0.4	0.7	0.8	0.9	3.4
2014				0.2	0.7	0.8	1.0
2015					0.3	0.6	16.8
2016						0.4	0.9
2017							0.2
						Total	$ 22.4
Outstanding liabilities for unpaid losses and ALAE prior to 2011, net of reinsurance							0.4
Total outstanding liabilities for unpaid losses and ALAE, net of reinsurance							$ 53.5

As of December 31, 2017

Accident Year	Incurred Losses & ALAE, Net of Reinsurance	IBNR & Expected Development on Reported Claims	Cumulative Number of Reported Claims [2]
2011	$ 1.0	$ 1.0	1,422
2012	1.7	1.6	1,403
2013	6.2	2.7	1,306
2014	7.2	3.1	1,465
2015	25.7	0.7	1,720
2016	15.3	14.1	2,148
2017	18.4	18.0	1,927

(1) Information presented for calendar years prior to 2017 is required supplementary information and is unaudited.

(2) The cumulative number of reported claims is measured by individual claimant at a coverage level. Reported occurrences that do not result in a liability are included as reported claims.

Reporting Segment: ***International Operations***
Operating Division: ***International Specialty***
Line of Business: ***Property***
(in millions, except number of claims reported)

Accident Year	Incurred Losses & ALAE, Net of Reinsurance For the Years Ended December 31, 2011 (1)	2012 (1)	2013 (1)	2014 (1)	2015 (1)	2016 (1)	2017
2011	$ 118.0	$ 107.4	$ 109.6	$ 107.6	$ 106.9	$ 106.8	$ 107.1
2012		47.4	51.7	50.6	51.8	46.7	46.6
2013			35.5	39.8	39.2	35.1	34.6
2014				28.3	28.5	26.5	25.6
2015					28.4	24.7	23.5
2016						46.2	40.1
2017							54.5
					Total		$ 332.0

Accident Year	Cumulative Paid Losses & ALAE, Net of Reinsurance For the Years Ended December 31, 2011 (1)	2012 (1)	2013 (1)	2014 (1)	2015 (1)	2016 (1)	2017
2011	$ 41.1	$ 67.5	$ 89.3	$ 97.6	$ 100.0	$ 101.3	$ 102.3
2012		12.4	31.3	40.8	49.8	44.2	44.5
2013			5.2	21.7	32.2	32.5	33.2
2014				3.3	14.0	20.6	23.5
2015					4.6	11.9	15.5
2016						14.7	22.8
2017							12.1
						Total	$ 253.9
	Outstanding liabilities for unpaid losses and ALAE prior to 2011, net of reinsurance						4.0
	Total outstanding liabilities for unpaid losses and ALAE, net of reinsurance						$ 82.1

Accident Year	As of December 31, 2017: Incurred Losses & ALAE, Net of Reinsurance	IBNR & Expected Development on Reported Claims	Cumulative Number of Reported Claims (2)
2011	$ 107.1	$ —	400
2012	46.6	0.8	322
2013	34.6	0.5	357
2014	25.6	1.5	355
2015	23.5	3.7	420
2016	40.1	8.7	647
2017	54.5	4.2	786

(1) Information presented for calendar years prior to 2017 is required supplementary information and is unaudited.

(2) The cumulative number of reported claims is measured by individual claimant at a coverage level. Reported occurrences that do not result in a liability are included as reported claims.

Reporting Segment: ***International Operations***
Operating Division: ***Syndicate 1200***
Line of Business: ***Liability***
(in millions, except number of claims reported)

Accident Year	Incurred Losses & ALAE, Net of Reinsurance For the Years Ended December 31, 2010 [1]	2011 [1]	2012 [1]	2013 [1]	2014 [1]	2015 [1]	2016 [1]	2017
2010	$ 5.9	$ 5.0	$ 4.7	$ 6.4	$ 6.2	$ 6.1	$ 6.0	$ 6.1
2011		8.5	9.0	11.4	11.5	10.8	10.6	11.2
2012			9.1	11.3	15.5	14.9	14.4	15.2
2013				23.7	27.8	27.4	25.6	25.7
2014					38.8	38.0	35.2	34.6
2015						35.9	30.9	31.0
2016							26.6	27.9
2017								25.3
							Total	$ 177.0

Accident Year	Cumulative Paid Losses & ALAE, Net of Reinsurance For the Years Ended December 31, 2010 [1]	2011 [1]	2012 [1]	2013 [1]	2014 [1]	2015 [1]	2016 [1]	2017
2010	$ —	$ 0.2	$ 0.6	$ 1.1	$ 2.1	$ 2.9	$ 3.9	$ 4.2
2011		0.3	0.8	1.7	3.5	5.7	7.3	8.2
2012			0.4	1.2	2.7	6.0	8.6	10.5
2013				1.6	3.4	7.2	11.8	16.2
2014					2.0	4.8	10.2	14.1
2015						0.8	5.3	7.6
2016							1.9	5.8
2017								1.8
							Total	$ 68.4
Total outstanding liabilities for unpaid losses and ALAE, net of reinsurance								$ 108.6

Accident Year	As of December 31, 2017 Incurred Losses & ALAE, Net of Reinsurance	IBNR & Expected Development on Reported Claims
2010	$ 6.1	$ 0.1
2011	11.2	0.6
2012	15.2	1.5
2013	25.7	3.9
2014	34.6	7.2
2015	31.0	11.1
2016	27.9	14.1
2017	25.3	19.8

(1) Information presented for calendar years prior to 2017 is required supplementary information and is unaudited.

Reporting Segment: ***International Operations***
Operating Division: ***Syndicate 1200***
Line of Business: ***Professional***
(in millions, except number of claims reported)

Accident Year	Incurred Losses & ALAE, Net of Reinsurance For the Years Ended December 31, 2010 (1)	2011 (1)	2012 (1)	2013 (1)	2014 (1)	2015 (1)	2016 (1)	2017
2010	$ 16.1	$ 13.2	$ 13.1	$ 11.6	$ 10.4	$ 9.7	$ 9.7	$ 9.8
2011		19.9	21.8	19.2	16.1	15.3	15.3	15.8
2012			14.5	14.4	14.7	14.6	14.6	15.7
2013				23.6	23.6	23.7	23.3	23.6
2014					36.4	37.6	37.9	41.4
2015						39.6	39.1	40.7
2016							34.2	28.5
2017								25.5
							Total	$ 201.0

Accident Year	Cumulative Paid Losses & ALAE, Net of Reinsurance For the Years Ended December 31, 2010 (1)	2011 (1)	2012 (1)	2013 (1)	2014 (1)	2015 (1)	2016 (1)	2017
2010	$ 0.1	$ 1.0	$ 2.0	$ 3.1	$ 3.9	$ 5.3	$ 6.7	$ 7.0
2011		1.1	2.6	4.3	6.8	8.6	11.0	11.7
2012			0.6	1.9	4.5	6.0	8.5	9.9
2013				1.7	3.9	7.4	12.1	16.0
2014					1.7	6.7	15.3	24.7
2015						2.3	8.6	15.3
2016							2.1	5.9
2017								1.1
							Total	$ 91.6
	Total outstanding liabilities for unpaid losses and ALAE, net of reinsurance							$ 109.4

Accident Year	As of December 31, 2017 Incurred Losses & ALAE, Net of Reinsurance	IBNR & Expected Development on Reported Claims
2010	$ 9.8	$ 0.2
2011	15.8	0.9
2012	15.7	1.8
2013	23.6	4.2
2014	41.4	9.0
2015	40.7	15.1
2016	28.5	14.8
2017	25.5	20.1

(1) Information presented for calendar years prior to 2017 is required supplementary information and is unaudited.

Reporting Segment: ***International Operations***
Operating Division: ***Syndicate 1200***
Line of Business: ***Property***
(in millions, except number of claims reported)

Accident Year	Incurred Losses & ALAE, Net of Reinsurance For the Years Ended December 31,							
	2010 (1)	2011 (1)	2012 (1)	2013 (1)	2014 (1)	2015 (1)	2016 (1)	2017
2010	$ 51.1	$ 59.0	$ 55.3	$ 54.8	$ 52.1	$ 51.8	$ 51.3	$ 51.9
2011		109.8	115.1	109.1	96.2	94.3	93.7	93.6
2012			89.5	89.3	93.5	92.6	91.6	91.3
2013				84.0	79.8	78.8	77.3	76.9
2014					71.2	64.5	65.9	66.1
2015						54.9	66.3	73.2
2016							70.7	86.3
2017								83.9
							Total	$ 623.2

Accident Year	Cumulative Paid Losses & ALAE, Net of Reinsurance For the Years Ended December 31,							
	2010 (1)	2011 (1)	2012 (1)	2013 (1)	2014 (1)	2015 (1)	2016 (1)	2017
2010	$ 1.8	$ 19.8	$ 28.4	$ 34.2	$ 36.2	$ 40.5	$ 42.0	$ 43.0
2011		23.7	47.8	62.6	74.4	80.3	81.9	83.3
2012			29.9	48.2	63.5	74.6	77.0	77.9
2013				44.8	57.2	69.7	73.8	74.2
2014					29.7	51.8	57.8	59.5
2015						23.0	42.9	51.9
2016							39.1	62.3
2017								27.4
							Total	$ 479.5
							Total outstanding liabilities for unpaid losses and ALAE, net of reinsurance	$ 143.7

	As of December 31, 2017	
Accident Year	Incurred Losses & ALAE, Net of Reinsurance	IBNR & Expected Development on Reported Claims
2010	$ 51.9	$ —
2011	93.6	—
2012	91.3	—
2013	76.9	—
2014	66.1	—
2015	73.2	3.7
2016	86.3	8.6
2017	83.9	33.6

(1) Information presented for calendar years prior to 2017 is required supplementary information and is unaudited.

Reporting Segment: ***International Operations***
Operating Division: ***Syndicate 1200***
Line of Business: ***Specialty***
(in millions, except number of claims reported)

Accident Year	Incurred Losses & ALAE, Net of Reinsurance For the Years Ended December 31, 2010 [1]	2011 [1]	2012 [1]	2013 [1]	2014 [1]	2015 [1]	2016 [1]	2017
2010	$ 13.1	$ 16.0	$ 13.8	$ 13.3	$ 12.3	$ 12.3	$ 12.2	$ 12.2
2011		39.0	40.7	39.4	34.6	33.8	33.8	33.6
2012			53.1	57.0	61.4	49.9	59.7	59.4
2013				76.7	82.2	83.5	83.1	82.6
2014					93.2	99.6	101.0	101.9
2015						90.5	88.7	94.4
2016							86.6	85.1
2017								80.1
							Total	$ 549.3

Accident Year	Cumulative Paid Losses & ALAE, Net of Reinsurance For the Years Ended December 31, 2010 [1]	2011 [1]	2012 [1]	2013 [1]	2014 [1]	2015 [1]	2016 [1]	2017
2010	$ 1.9	$ 8.8	$ 9.0	$ 9.4	$ 9.1	$ 9.9	$ 10.1	$ 10.2
2011		11.7	19.8	24.0	27.5	28.9	29.5	29.8
2012			18.2	27.9	39.4	46.3	49.3	50.3
2013				31.4	53.1	69.6	77.0	78.6
2014					38.2	72.3	83.5	88.8
2015						31.4	54.8	65.7
2016							37.9	57.9
2017								18.8
							Total	$ 400.1
							Total outstanding liabilities for unpaid losses and ALAE, net of reinsurance	$ 149.2

Accident Year	As of December 31, 2017 Incurred Losses & ALAE, Net of Reinsurance	IBNR & Expected Development on Reported Claims
2010	$ 12.2	$ —
2011	33.6	—
2012	59.4	—
2013	82.6	—
2014	101.9	2.6
2015	94.4	7.3
2016	85.1	13.0
2017	80.1	41.0

(1) Information presented for calendar years prior to 2017 is required supplementary information and is unaudited.

Syndicate 1200 Claim Frequency Information

Cumulative claim frequency information has been excluded from the Syndicate 1200 Liability, Professional and Property incurred and paid claims development tables above due to the impracticability of obtaining such information at the level required for meaningful disaggregated disclosure.

Syndicate 1200 measures claim frequency based on the number of reported claims by individual claimant at a coverage level for non-bordereau reporting, which is consistent with market practices for insurance business sourced through open market channels. For claims reported on a bordereau for business sourced through channels such as Lloyd's authorized coverholders, which constitutes approximately half of the business written in Syndicate 1200, the number of reported claims is measured by bordereau report at a coverage level. This method of tracking and analyzing bordereau-reported claims is consistent with common industry practice within the Lloyd's market. The information for both bordereau and non-bordereau claims may be pooled dependent on the class of business and analyzed in the aggregate to determine the ultimate cost of settling the claims by line of business and Lloyd's year of account. Due to our methodology of establishing ultimate liabilities for Syndicate 1200 claims, there is not a reasonable way to disaggregate the IBNR reserves and expected development on reported claims between bordereau and non-bordereau business for separate disclosure.

The reconciliation of the net incurred and paid development tables to the liability for unpaid losses and LAE in our Consolidated Balance Sheets is as follows:

(in millions)		As of December 31, 2017
Liabilities for unpaid losses and ALAE:		
US Operations:		
Excess and Surplus Lines - Liability	$	835.1
Commercial Specialty - Liability		375.0
Commercial Specialty - Professional		121.9
International Operations:		
International Specialty - Liability		53.5
International Specialty - Property		82.1
Syndicate 1200 - Liability		108.6
Syndicate 1200 - Professional		109.4
Syndicate 1200 - Property		143.7
Syndicate 1200 - Specialty		149.2
Run-off Lines		197.5
Other lines		151.0
Total liabilities for unpaid losses and ALAE, net of reinsurance		2,327.0
Reinsurance recoverables on unpaid losses and LAE:		
US Operations:		
Excess and Surplus Lines - Liability		293.3
Commercial Specialty - Liability		246.6
Commercial Specialty - Professional		70.2
International Operations:		
International Specialty - Liability		95.8
International Specialty - Property		67.4
Syndicate 1200 - Liability		77.1
Syndicate 1200 - Professional		78.6
Syndicate 1200 - Property		91.5
Syndicate 1200 - Specialty		88.6
Run-off Lines		91.4
Other lines		190.8
Total reinsurance recoverables on unpaid losses and LAE		1,391.3
Unallocated loss adjustment expenses		67.0
Unamortized reserve discount		(17.6)
Gross liability for unpaid losses and LAE	$	3,767.7

Other lines in the table above is comprised of products within our four operating segments which are not individually significant for separate disaggregated disclosure.

Claims Duration

The following table provides supplementary unaudited information about the annual percentage payout of incurred losses and ALAE, net of reinsurance, as of December 31, 2017:

	Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance [1]							
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
US Operations:								
Excess and Surplus Lines - Liability	8.3%	18.3%	19.3%	16.4%	12.1%	8.0%	5.4%	N/A
Commercial Specialty - Liability	15.0%	21.8%	18.5%	16.0%	9.1%	6.1%	4.0%	N/A
Commercial Specialty - Professional	8.2%	22.5%	27.3%	18.6%	9.4%	5.0%	2.9%	N/A
International Operations:								
International Specialty - Liability	11.5%	13.0%	17.6%	14.8%	10.6%	8.4%	6.1%	N/A
International Specialty - Property	26.6%	30.7%	24.9%	9.2%	4.5%	2.0%	1.0%	N/A
Syndicate 1200 - Liability	5.0%	10.3%	13.7%	17.0%	17.9%	10.6%	7.3%	5.1%
Syndicate 1200 - Professional	4.4%	9.4%	13.6%	15.6%	13.6%	13.9%	8.1%	5.8%
Syndicate 1200 - Property	39.8%	25.1%	16.1%	9.9%	3.8%	2.3%	1.2%	0.7%
Syndicate 1200 - Specialty	40.4%	28.0%	15.8%	8.8%	3.3%	1.9%	1.0%	0.5%

(1) The average annual percentage payout is calculated from a paid losses and ALAE development pattern based on an actuarial analysis of the paid losses and ALAE movements by accident year for each disaggregation category. The paid losses and ALAE development pattern provides the expected percentage of ultimate losses and ALAE to be paid in each year. The pattern considers all accident years included in the claims development tables.

Information About Amounts Reported at Present Value

We discount certain workers compensation liabilities for unpaid losses and LAE within our US Operations and Run-off Lines segments. The discounted US Operations liabilities relate to all non-ALAE workers compensation liabilities within one of our insurance subsidiaries. In Run-off Lines, we discount certain pension-type liabilities for unpaid losses and LAE. The following tables provide information about these discounted liabilities for unpaid losses and LAE:

	Carrying Amount of Reserves for Losses & LAE		Aggregate Amount of Discount	
	As of December 31,		As of December 31,	
(in millions, except discount percentages)	2017	2016	2017	2016
US Operations:				
Commercial Specialty - Liability	$ 126.7	$ 121.1	$ 10.6	$ 10.3
Run-off Lines	175.5	184.5	7.0	9.1
Total	$ 302.2	$ 305.6	$ 17.6	$ 19.4

	Interest Accretion [1]		Discount Rate	
	For the Years Ended December 31,		As of December 31,	
	2017	2016	2017	2016
US Operations:				
Commercial Specialty - Liability	$ 1.9	$ 1.9	2.25%	2.25%
Run-off Lines	2.1	2.1	3.50%	3.50%
Total	$ 4.0	$ 4.0		

(1) Interest accretion is recorded in the line item “Losses and loss adjustment expenses” in our Consolidated Statements of Income.

5. Run-off Lines

We have discontinued active underwriting of certain lines of business, including those lines that were previously recorded in Argo Group’s Risk Management segment. All current activity within these lines is related to the management of claims and other administrative functions. Also included in Run-off Lines are other liability reserves, which include exposure to claims for asbestos and environmental liabilities written in past years. The other liability reserves are often characterized by long elapsed periods between the occurrence of a claim and ultimate payment to resolve the claim. We use a specialized staff dedicated to administer and settle these claims.

The following table presents our gross reserves for Run-off Lines as of December 31:

(in millions)	December 31, 2017	December 31, 2016
Asbestos and Environmental:		
Reinsurance assumed	$ 29.3	$ 28.4
Other	26.6	20.0
Total Asbestos and Environmental	55.9	48.4
Risk management	219.6	236.9
Run-off reinsurance lines	1.8	1.9
Other run-off lines	4.6	3.7
Gross reserves - Run-off Lines	$ 281.9	$ 290.9

We have received asbestos and environmental liability claims arising from other liability coverage primarily written in the 1960s, 1970s and into the mid-1980s. Asbestos and environmental claims originate from policies directly underwritten by us and from reinsurance assumed during this period, including a portion assumed from the London market. The following table represents the total gross reserves for our asbestos exposure:

(in millions)	December 31, 2017	December 31, 2016
Direct written		
Case reserves	$ 2.1	$ 2.8
Unallocated loss adjustment expense ("ULAE")	0.5	0.5
Incurred but not reported ("IBNR")	18.8	12.1
Total direct written reserves	21.4	15.4
Assumed domestic		
Case reserves	9.8	10.5
ULAE	0.8	0.8
IBNR	13.7	10.5
Total assumed domestic reserves	24.3	21.8
Assumed London		
Case reserves	2.3	3.3
ULAE	—	—
IBNR	0.6	1.4
Total assumed London reserves	2.9	4.7
Total asbestos reserves	$ 48.6	$ 41.9

The following table presents our results for Run-off Lines:

(in millions)	For the Years Ended December 31, 2017	For the Years Ended December 31, 2016
Asbestos and Environmental:		
Reinsurance assumed	$ (8.7)	$ (1.3)
Other	(6.7)	(9.6)
Total Asbestos and Environmental	(15.4)	(10.9)
Risk management	(8.8)	(13.1)
Run-off reinsurance lines	(0.1)	0.1
Other run-off lines	(1.4)	(1.2)
Total underwriting loss - Run-off Lines	$ (25.7)	$ (25.1)

Reserves for asbestos and environmental claims cannot be estimated with traditional loss reserving techniques that rely on historical accident year loss development factors. The uncertainty in the asbestos and environmental reserves estimates arises from several factors including lack of actuarially credible historical data, inapplicability of standard actuarial projection techniques, uncertainty with regards to claim costs, coverage interpretations and judicial, statutory and regulatory provisions under which the claims may be ultimately resolved. It is impossible to predict how the courts will interpret coverage issues and these resolutions may have a material impact on the ultimate resolution of the asbestos and environmental liabilities. We use a variety of estimation methods to calculate reserves as a whole; however, reserves for asbestos and environmental claims were determined utilizing a variety of methods which rely on historical claim reporting and average claim cost information. We apply greatest weight to the method that projects future calendar period claims and average claim costs because it best captures the unique claim characteristics of our underlying exposures. Although management has recorded its best estimate of loss reserves, due to the uncertainties of estimation of liability that may arise as discussed herein, further deterioration of claims could occur in the future.

Please see Note 4, "Reserves for Losses and Loss Adjustment Expenses" for further discussion

6. Senior Unsecured Fixed Rate Notes

In September 2012, Argo Group, through its subsidiary Argo Group US, issued $143,750,000 aggregate principal amount of the Argo Group US's 6.5% Senior Notes due September 15, 2042 (the "Notes"). The Notes are unsecured and unsubordinated obligations of the Argo Group US and rank equally in right of payment with all of Argo Group US's other unsecured and unsubordinated debt. The Notes are guaranteed on a full and unconditional senior unsecured basis by the Argo Group. The Notes may be redeemed, for cash, in whole or in part, on or after September 15, 2017, at Argo Group US'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 December 31, 2017 and 2016, the Notes consisted of the following:

(in millions)	December 31, 2017	December 31, 2016
Senior unsecured fixed rate notes		
Principal	$ 143.8	$ 143.8
Less: unamortized debt issuance costs	(4.2)	(4.3)
Senior unsecured fixed rate notes, less unamortized debt issuance costs	$ 139.6	$ 139.5

7. Junior Subordinated 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 December 31, 2017 and 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 December 31, 2017	Amount
05/15/2003	Argonaut Group Statutory Trust I	05/15/2033	3M LIBOR + 4.10%	5.52%	15.5
12/16/2003	Argonaut Group Statutory Trust III	01/08/2034	3M LIBOR + 4.10%	5.46%	12.3
04/29/2004	Argonaut Group Statutory Trust IV	04/29/2034	3M LIBOR + 3.85%	5.27%	13.4
05/26/2004	Argonaut Group Statutory Trust V	05/24/2034	3M LIBOR + 3.85%	5.30%	12.3
05/12/2004	Argonaut Group Statutory Trust VI	05/12/2034	3M LIBOR + 3.80%	5.40%	13.4
09/17/2004	Argonaut Group Statutory Trust VII	12/15/2034	3M LIBOR + 3.60%	5.19%	15.5
09/22/2004	Argonaut Group Statutory Trust VIII	09/22/2034	3M LIBOR + 3.55%	5.21%	15.5
10/22/2004	Argonaut Group Statutory Trust IX	12/15/2034	3M LIBOR + 3.60%	5.19%	15.5
09/15/2005	Argonaut Group Statutory Trust X	09/15/2035	3M LIBOR + 3.40%	4.99%	30.9
	Total Outstanding				$ 144.3

(in millions)

Issue Date	Trust Preferred Pools	Maturity	Rate Structure	Interest Rate at December 31, 2016	Amount
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				$ 144.3

Junior Subordinated Debentures from Parent

Unsecured junior subordinated debentures with a principal balance of $91.8 million were assumed from Argo Group at December 31, 2017 ("the assumed debt"). During 2017, Argo Group acquired Maybrooke, which included the assumed debt. As part of the ongoing liquidation of the Maybrooke holding company, the acquired debt was ultimately assigned to Argo Re and is carried on our consolidated balance sheet at $83.9 million, which represents the debt's fair value at the date of acquisition plus accumulated accretion of discount to par value, as required by accounting for business combinations under ASC 805. At December 31, 2017, the acquired debt was eligible for redemption at par. Interest accrues on the acquired debt based on a variable rate, which is reset quarterly. Interest payments are payable quarterly. A summary of the terms of the acquired debt outstanding at December 31, 2017 is presented below:

(in millions)

Issue Date	Maturity	Rate Structure	Interest Rate at December 31, 2017	Principal at December 31, 2017	Carrying Value at December 31, 2017
9/15/2007	9/15/2037	3 month LIBOR + 3.15%	4.74%	$ 91.8	$ 83.9

8. 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	December 31, 2017	December 31, 2016
Floating rate loan stock	$ 58.9	$ 54.8
Other debt	0.6	0.6
Total other indebtedness	$ 59.5	$ 55.4

Floating Rate Loan Stock

This debt was assumed through the acquisition of Argo Underwriting Agency, Ltd. These notes are unsecured. At December 31, 2017 and 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 December 31, 2017 and 2016 is presented below:

(in millions)

Issue Date	Currency	Maturity	Rate Structure	Interest Rate at December 31, 2017	Amount
12/08/2004	U.S. Dollar	11/15/2034	6 month LIBOR + 4.2%	5.66%	$ 6.5
09/06/2005	Euro	08/22/2035	3 month LIBOR + 4.0%	3.67%	14.1
10/31/2006	U.S. Dollar	01/15/2036	6 month LIBOR + 4.0%	5.46%	10.0
10/31/2006	Euro	11/22/2036	3 month LIBOR + 4.0%	3.67%	12.4
06/08/2007	Euro	09/15/2037	3 month LIBOR + 3.9%	3.57%	15.9
					$ 58.9

(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
					$ 54.8

No principal payments have been made since the acquisition of Argo Underwriting Agency, Ltd. The floating rate loan stock denominated in Euros fluctuates due to foreign currency translation. The outstanding balance on these loans was $42.4 million and $38.3 million as of December 31, 2017 and 2016, respectively. The foreign currency translation adjustment is recorded in our Consolidated Statements of Income.

Borrowing Under Revolving 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 was borrowed by Argo Group, and therefore are excluded from these financial statements.

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 December 31, 2017 and 2016, there were no borrowings outstanding under the revolving portions of the credit facilities. At December 31, 2017 and 2016, there were $0.5 million and $0.2 million, respectively in LOCs against the New and Prior Credit Agreement, respectively.

Other Debt

As part of the ARIS Title Insurance Corporation ("ARIS") acquisition, at December 31, 2017 and 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.

9. Disclosures about Fair Value of Financial Instruments

Cash. The carrying amount approximates fair value.

Investment securities and short-term investments. See Note 2, "Investments," for additional information.

Premiums receivable and reinsurance recoverables on paid losses. The carrying value of current receivables and reinsurance recoverables on paid losses approximates fair value.

Debt. At December 31, 2017 and 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. All of these debt instruments would be in Level 3 of the fair value hierarchy, as the fair value estimates shown below were calculated using unobservable inputs reflecting our assumptions about the assumptions market participants would use in pricing the liabilities.

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

	December 31, 2017		December 31, 2016	
(in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Junior subordinated debentures				
Trust preferred debentures	$ 144.3	$ 144.5	$ 144.3	$ 135.7
Subordinated debentures acquired with Maybrooke	83.9	85.0	—	—
Senior unsecured fixed rate notes	139.6	141.2	139.5	139.3
Floating rate loan stock	58.9	59.0	54.8	51.5

10. Shareholders' Equity

Argo Re did not pay a dividend to Argo Group in 2017. In 2016, Argo Re paid cash dividends to Argo Group of $41.0 million.

For the year ended December 31, 2017 and 2016, we repurchased 754,832 common shares and 847,111 common shares, respectively for $45.1 million and $47.1 million, respectively. These shares, which were repurchased on behalf and for the benefit of Argo Group, are held in treasury and reflected in "Holdings in parent company common shares" in our Consolidated Balance Sheets at December 31, 2017 and 2016.

A summary of Argo Group's common shares repurchased in 2017 is shown below:

Repurchase Type	Date Trading Plan Initiated	2017 Purchase Period	Number of Shares Repurchased	Average Price of Shares Repurchased	Total Cost (in millions)	Repurchase Authorization Year
10b5-1 Trading Plan	6/14/2017	06/20/2017-08/10/2017	156,570	$ 59.53	$ 9.4	2016
10b5-1 Trading Plan	9/15/2017	09/18/2017-11/07/2017	84,711	$ 60.71	5.1	2016
Open Market	N/A	08/11/2017-09/15/2017	421,976	$ 59.75	25.2	2016
Open Market	N/A	11/08/2017-11/21/2017	91,575	$ 59.28	5.4	2016
Total			754,832	$ 59.76	$ 45.1	

11. Underwriting, Acquisition and Insurance Expenses

Underwriting, acquisition and insurance expenses were as follows:

(in millions)	For the Years Ended December 31, 2017	2016
Commissions	$ 255.1	$ 234.0
General expenses	317.3	280.2
Premium taxes, boards and bureaus	32.3	25.2
	604.7	539.4
Net deferral of policy acquisition costs	(16.6)	(4.3)
Total underwriting, acquisition and insurance expenses	$ 588.1	$ 535.1

12. 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 generally file a consolidated United States federal income tax return.

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

On December 22, 2017, U.S. tax legislation referred to as the TCJA was enacted. The effects of changes in tax laws and tax rates are recognized in the period of enactment. Accordingly, we have recorded the impacts of the TCJA in our 2017 consolidated financial statements which, among other changes, primarily includes the remeasurement of our deferred tax assets and liabilities for the reduced US federal tax rate from 35% to 21% beginning on January 1, 2018, and the computation of a provisional amount for the loss reserve discounting modifications. The remeasurement resulted in a reduction of net deferred tax liabilities of $20.2 million, which includes a $20.9 million benefit related to deferred taxes previously recognized in accumulated other comprehensive income. We are still analyzing certain aspects of the TCJA and refining our calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts. Thus, our 2017 consolidated financial statements reflect a reasonably estimated provisional amount based on information available and in accordance with SAB 118. SAB 118 provides guidance on accounting for the effects of the U.S. tax reform where our determinations are incomplete but we are able to determine a reasonable estimate. A final determination is required to be made within a measurement period not to extend beyond one year from the enactment date of the U.S. tax reform. As additional guidance is released, the estimate will be updated as necessary.

The following table presents the components of income tax (benefit) provision included in the amounts reported in our consolidated financial statements:

(in millions)	For the Years Ended December 31, 2017	2016
Current income tax (benefit) provision related to:		
United States	$ (0.3)	$ 30.4
United Kingdom	0.3	3.9
Other jurisdictions	0.2	2.0
Total current income tax provision	0.2	36.3
Deferred income tax (benefit) provision related to:		
United States	(0.3)	3.3
United Kingdom	(10.6)	(4.4)
Other jurisdictions	—	—
Total deferred income tax (benefit) provision	(10.9)	(1.1)
Income tax (benefit) provision	$ (10.7)	$ 35.2

Total income tax benefit for 2017 included a net benefit of $20.2 million to reflect the change in tax laws and tax rates included in TCJA at the date of enactment, resulting primarily from remeasuring our deferred tax assets and liabilities.

Our expected income tax provision computed on pre-tax income (loss) at the weighted average tax rate has been calculated as the sum of the pre-tax income (loss) in each jurisdiction multiplied by that jurisdiction's applicable statutory tax rate. For the years ended December 31, 2017 and 2016, pre-tax income (loss) attributable to our operations and the operations' effective tax rates were as follows:

(in millions)	2017		2016	
	Pre-Tax Income (Loss)	Effective Tax Rate	Pre-Tax Income (Loss)	Effective Tax Rate
Bermuda	$ 64.2	0.0%	$ 117.0	0.0%
United States	66.9	(0.9%)	115.2	29.2%
United Kingdom	(54.3)	18.9%	(35.7)	1.2%
Belgium	0.1	75.0%	(0.1)	23.2%
Brazil	0.8	0.0%	0.6	0.0%
Ireland (2)	(0.2)	0.0%	(0.2)	5.0%
Malta	0.3	0.0%	1.6	0.3%
Switzerland	(0.0) (1)	21.1%	— (1)	0.0%
United Arab Emirates	0.2	0.0%	— (1)	0.0%
Pre-tax income	$ 78.0	(13.7%)	$ 198.4	17.7%

(1) Pre-tax income for the respective year was less than $0.1 million.
(2) Effective tax rate of 5 percent on intercompany dividends of $40.0 million for the year ended December 31, 2016. Dividends eliminated in consolidation.

Our effective tax rate may vary significantly from period to period depending on the jurisdiction generating the pre-tax income (loss) and its corresponding statutory tax rate. The geographic distribution of pre-tax income (loss) can fluctuate significantly between periods given the inherit nature of our business. 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:

	For the Years Ended December 31,	
(in millions)	2017	2016
Income tax provision at expected rate	$ 12.9	$ 34.1
Tax effect of:		
Nontaxable investment income	(4.7)	(5.5)
Foreign exchange adjustments	1.9	5.3
Withholding taxes	0.4	2.4
Change in valuation allowance	(1.8)	0.7
Impact of change in tax rate related to TCJA	(20.2)	—
Other	0.8	(1.8)
Income tax (benefit) provision	$ (10.7)	$ 35.2

The net deferred tax liability comprises the tax effects of temporary differences related to the following assets and liabilities:

	December 31,	
(in millions)	2017	2016
Deferred tax assets:		
Losses and loss adjustment expense reserve discounting	$ 17.2	$ 21.1
Unearned premiums	21.4	29.1
Net operating loss carryforwards	18.3	26.7
Impairment of investment values	4.0	8.6
Accrued bonus	2.6	7.4
Stock option expense	2.0	8.1
United Kingdom underwriting results	3.9	—
Other	20.0	32.5
Deferred tax assets, gross	89.4	133.5
Deferred tax liabilities:		
Unrealized gains on equity securities	(30.5)	(39.1)
Unrealized gains on fixed maturities and other investment securities	(5.0)	(3.9)
Deferred acquisition costs	(16.9)	(22.2)
TCJA reserve transitional liability	(5.5)	—
United Kingdom underwriting results	—	(5.4)
Deferred gain on like-kind exchange	(8.0)	(13.3)
Depreciable fixed assets	(14.5)	(21.0)
Unrealized gains on limited partnership interests	(14.6)	(17.6)
Other	(6.2)	(11.6)
Deferred tax liabilities, gross	(101.2)	(134.1)
Deferred tax (liabilities) assets, net before valuation allowance	$ (11.8)	$ (0.6)
Valuation allowance	(16.5)	(23.5)
Deferred tax liabilities, net	$ (28.3)	$ (24.1)
Net deferred tax (liabilities) assets - Other jurisdictions	$ 4.2	$ (6.6)
Net deferred tax liabilities - United States	(32.5)	(17.5)
Deferred tax liabilities, net	$ (28.3)	$ (24.1)

Our gross deferred tax assets are supported by taxes paid in previous periods, reversal of taxable temporary differences and recognition of future taxable 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 future taxable income sufficient to recover tax benefits that cannot be recovered from taxes paid in the carryback period, generally for our US property and casualty insurers two years for net operating losses and for all our US subsidiaries three years for capital losses. If a company determines that any of its deferred tax assets will not result in future tax benefits, a valuation allowance must be established for the portion of these assets that are not expected to be realized. The net change in valuation allowance for deferred tax assets was a decrease of $7.0 million in 2017 relating to the items discussed below. Based upon a review of our available evidence, both positive and negative discussed above, our management concluded that it is more-likely-than-not that the other deferred tax assets will be realized.

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 $7.2 million generated from PXRE Corporation and for the tax effected net operating loss carryforward of $0.6 million from ARIS. The valuation allowances have been established pursuant to Internal Revenue Code Section 382 limits regarding the application of net operating loss carryforwards following an ownership change. The loss carryforwards available per year for both of these items are $2.8 million, as required by Internal Revenue Code Section 382.

Furthermore, due to cumulative losses incurred 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 is required as of December 31, 2017 of which $7.7 million relates to Brazil operations, and $1.1 million relates to Malta operations.

For tax return purposes, as of December 31, 2017, we had net operating loss (NOL) carryforwards in Brazil, Malta and the United States. The amount and timing of realizing the benefits of NOL carryforwards depend on future taxable income and limitation imposed by tax laws. Only a portion of the United States NOL carryforwards have been recognized as mentioned above in the consolidated financial statements and are included in net deferred tax liabilities. The NOL amounts by jurisdiction and year of expiration are as follows:

(in millions)		December 31, 2017	Expiration
Net operating loss carryforwards by jurisdiction			
Brazil	$	17.0	Indefinite
Malta		3.0	Indefinite
United States		45.3	2025 - 2030

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 December 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 2014. 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.

13. Pension Benefits and Savings Plans

Argo Group US sponsors a qualified defined benefit plan and non-qualified unfunded supplemental defined benefit plans, all of which were curtailed effective February 2004. As of December 31, 2017 and 2016, the qualified pension plan was underfunded by $2.7 million and $3.7 million, respectively. The non-qualified pension plans were unfunded by $2.2 million at December 31, 2017 and 2016, respectively. Underfunded and unfunded amounts are included in “Other liabilities” in our Consolidated Balance Sheets. Based on the current funding status of the pension plan, effects of the curtailment and expected changes in pension plan asset values and pension obligations, we do not believe any significant funding of the pension plan will be required during the year ending December 31, 2018. Net periodic benefit costs were $0.2 million and $0.1 million for the years ended December 31, 2017 and 2016, respectively.

Substantially all of our employees are either eligible or mandated by applicable laws to participate in employee savings plans. Under these plans, a percentage of the employee’s pay may be or is mandated based on applicable laws to be contributed to various savings alternatives. The plans also call for our contributions under several formulae. Charges to income related to our contributions were $6.0 million and $5.8 million in 2017 and 2016, respectively.

14. Commitments and Contingencies

Argo Re and its 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 $129.9 million related to our limited partnership investments at December 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.

15. Leases

We lease office space and equipment under lease agreements that expire at various intervals and are subject to renewal options at market rates prevailing at the time of renewal. At December 31, 2017, the future minimum payments under non-cancelable operating leases are as follows:

(in millions)	Amount Due
2018	$ 13.6
2019	12.6
2020	10.5
2021	9.5
2022	8.1
Thereafter	52.8
Total	$ 107.1

We incurred lease expense of $5.5 million and $11.2 million for the years ended December 31, 2017 and 2016, respectively.

16. Statutory Accounting Principles

Financial Information

The statutory capital and surplus for Argo Re and our principal operating subsidiaries was as follows:

Statutory capital and surplus [1]	December 31,	
(in millions)	2017	2016
Bermuda	$ 1,694.4	$ 1,480.1
United Kingdom [2]	330.3	216.6
United States	992.8	886.7

(1) Such amounts include ownership interests in affiliate insurance and reinsurance subsidiaries, as well as amounts related to intercompany transactions which are not eliminated on a standalone statutory basis.

(2) Capital on deposit with Lloyd's in U.S. Dollars

The statutory net income for Argo Re and our principal operating subsidiaries was as follows:

Statutory net income (loss) [1]	For the Years Ended December 31,	
(in millions)	2017	2016
Bermuda	$ 37.4	$ 158.2
United Kingdom [2]	(95.5)	1.8
United States	57.0	99.0

(1) Such amounts include ownership interests in affiliate insurance and reinsurance subsidiaries, as well as amounts related to intercompany transactions which are not eliminated on a standalone statutory basis.

(2) In U.S. Dollars

Dividends

As an insurance and reinsurance company, we depend on dividends and other permitted payments from our insurance subsidiaries to assist in the payment of cash dividends to Argo Group, for debt service and for our operating expenses. The ability of our insurance subsidiaries to pay dividends to us is subject to certain restrictions imposed by the jurisdictions of domicile that regulate our insurance subsidiaries and each jurisdiction has calculations for the amount of dividends that an insurance company can pay without the approval of the insurance regulator.

The payment of dividends to our shareholders is governed by the Bermuda Companies Act of 1981, as amended, which permits the payment of dividends so long as (i) we are not, or would not be after the payment, unable to pay our liabilities as they become due and (ii) the realizable value of our assets is in excess of our liabilities after taking such payment into account. In light of these restrictions, we have no material restrictions on dividend payments that may be made to our shareholders at December 31, 2017.

Argo Re is the direct subsidiary of Argo Group, and therefore, has direct dividend paying capabilities to the parent.

Effective December 31, 2017, ARL was merged into Argo Re. As of December 31, 2017, Argo Re's solvency and liquidity margins and statutory capital and surplus were in excess of the minimum levels required by the Insurance Act. As of December 31, 2017 and 2016, the minimum statutory capital and surplus required to be maintained by Argo Re was $403.8 million and $362.1 million, respectively.

Argo Re is generally 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 seven days before payment of such dividends) with the Bermuda Monetary Authority ("BMA") an affidavit signed by at least two directors (one of whom must be a Bermuda resident director if any of the insurer's directors are resident in Bermuda) and the principal representative stating that it will continue to meet its solvency margin and minimum liquidity ratio. Argo Re may not reduce its total statutory capital by 15% or more, as set out in its previous year's financial statements, unless it has received the prior approval of the BMA. Based on these regulatory restrictions, the maximum amount available for payment of dividends to Argo Group by Argo Re during 2018 without prior regulatory approval is $382.4 million.

Argo Re did not pay a dividend to Argo Group in 2017. In 2016, Argo Re paid cash dividends to Argo Group of $41.0 million in each year. The proceeds of the dividends were used to repay intercompany balances related primarily to dividend and interest payments and other corporate expenses.

Our U.S. insurance subsidiaries file financial statements prepared in accordance with statutory accounting principles prescribed or permitted by insurance regulatory authorities of the state in which they are domiciled. The differences between statutory-based financial statements and financial statements prepared in accordance with GAAP vary between jurisdictions. The principal differences are that for statutory-based financial statements, deferred policy acquisition costs are not recognized, a portion of the deferred federal income tax asset is non-admitted, bonds are generally carried at amortized cost, certain assets are non-admitted and charged directly to surplus, a collectability allowance related to reinsurance recoverables is charged directly to surplus and outstanding losses and unearned premium are presented net of reinsurance.

As an intermediate insurance holding company, Argo Group US is largely dependent on dividends and other permitted payments from its insurance subsidiaries to service its debt, fund operating expenses and pay dividends to Argo Ireland. Various state insurance laws restrict the amount that may be transferred to Argo Group US from its subsidiaries in the form of dividends without prior approval of regulatory authorities. In addition, that portion of the insurance subsidiaries' net equity that results from the difference between statutory insurance principles and GAAP would not be available for dividends.

Argo Group US did not receive dividends from its subsidiaries in 2017.

In December 2016, Argo Group US received an ordinary dividend in the amount of $18.1 million in cash from Rockwood. In December 2016, Argo Group US received an ordinary dividend of $41.6 million from Argonaut Insurance Company. In March 2016, Argo Group US received an ordinary dividend of $35.0 million, in the form of $19.9 million in cash and $15.1 million in securities, from Colony 2016.

Argonaut Insurance Company is a direct subsidiary of Argo Group US and is regulated by the Illinois Division of Insurance. During 2018, Argonaut Insurance Company may be permitted to pay dividends of up to $87.3 million without approval from the Illinois Division of Insurance. Rockwood, a direct subsidiary of Argo Group US, is regulated by the Pennsylvania Department of Insurance. Rockwood may be permitted to pay dividends of up to $33.2 million without approval from the Pennsylvania Department of Insurance during 2018. Each department of insurance may require prior approval for the payment of all dividends, based on business and regulatory conditions of the insurance companies.

During 2016 we realigned our internal ownership structure so that Colony became a direct subsidiary of Argonaut Insurance Company. Prior to 2016, Colony had been a direct subsidiary of Argo Group US.

Argo Underwriting Agency Ltd. ("AUA") is our wholly-owned subsidiary through which we conduct the operations of Syndicate 1200. Dividend payments from AUA to its immediate parent is not restricted by regulatory authority. Dividend payments will be subject to the earnings, operations, financial condition, capital and general business requirements of AUA.

Certain assets of our subsidiaries are pledged to regulatory agencies, serve as collateral for letters of credit or are assigned as the assets of the trade capital providers of our Lloyd's syndicate, and therefore, are not available funds that may be paid up as dividends to Argo Group. See Note 2, "Investments" for further discussion.

17. Insurance Assessments

We are required to participate in statutorily created insolvency guarantee and weather-related loss protection associations in all states in the U.S. where we are authorized to transact business. These associations were formed for the purpose of paying the claims of insolvent companies. We are assessed a pro-rata share of such claims based upon our premium writings, subject to a maximum annual assessment per line of insurance. Certain of these assessments can be recovered through premium tax offsets or policy surcharges. We do not believe that assessments on current insolvencies will have a material impact on our financial condition or results of operations. We have accrued assessments of $4.8 million and $4.7 million at December 31, 2017 and 2016, respectively.

18. Transactions with Related Parties

In 2013, our Surety unit received a submission through its established broker network to issue approximately $13 million of surety bonds on behalf of Kinetica Partners, LLC ("Kinetica") in connection with a Gulf of Mexico pipeline project. Mr. Gary Woods, Chairman of our Board of Directors, is also the Chairman of the Board of Directors of Kinetica, and beneficially owns 10% of Kinetica through a family trust. The submission was underwritten, priced and bound in the ordinary course of business by the Surety unit. The terms and conditions of the surety bonds that were issued and the premium charged to Kinetica for issuance of the bonds, were consistent with those routinely applied and charged for similarly situated risks bound for unrelated third-parties. As of December 31, 2017, the surety bonds were still outstanding. Per the Surety unit's standard requirements in connection with the issuance of surety bonds, Kinetica and Mr. Woods, in his personal capacity, among others, executed our Surety unit's standard form of indemnity agreement holding our Surety unit harmless against any and all losses and expenses incurred resulting from the issuance of the surety bonds.

19. Subsequent Events

We have performed an evaluation of subsequent events through April 12, 2018, which is the date that the financial statements were issued. No reportable subsequent events were identified.