ARGO

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Argo Group Limited

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

MANAGEMENT AND ADMINISTRATION

DIRECTORS
Michael Kloter
Kyriakos Rialas
Andreas Rialas
David Fisher
Kenneth Watterson

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Heritage Court
41 Athol Street
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NOMINATED ADVISER AND STOCKBROKER
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CONTENTS

CHAIRMAN'S STATEMENT

Key highlights for the twelve months ended 31 December 2011

- Revenues US$11.2 million (2010: US$10.9 million)
- Operating profit US$2.1 million (2010: US$1.2 million)
- Profit before tax US$2.2 million (2010: US$2.5 million)
- Maintained balance sheet strength - net assets US$43.4 million (2010: US$44.4 million) after dividend payment and share buybacks totalling US$2.8 million (2010: US$1.7 million)
- Final dividend declared - 2.0c (1.3p) per share (2010: 1.9c, 1.2p) in respect of year ended 31 December 2011
- Purchase of two shopping parks resulting in Argo Real Estate Opportunities Fund Limited ("AREOF"), a company to which the Group provides management services, becoming the largest listed retail property company operating in Romania

The Group and its objective

Argo's primary business is to deliver a diversified approach to investing in emerging markets. Its investment objective is to provide investors with absolute returns in the funds that it manages by investing in, inter alia, fixed income, special situations, local currencies and interest rate strategies, private equity, real estate, quoted equities, high yield corporate debt and distressed debt, although not every fund invests in each of these asset classes.

Argo was listed on the AIM market in November 2008 and has a performance track record dating back to 2000.

Business and operational review

This report sets out the results of Argo Group Limited for the year ended 31 December 2011.

The year under review proved challenging given the low level of new inflows into the Argo funds and continuing redemptions. Assets under management ("AUM") decreased by 19.4% to US$325.4 million from their level at 31 December 2010. Despite flat-to-negative fund performance during the year the decrease in AUM of US$75.9 million was mainly due to the accelerated payment of redemptions following the lifting of the gate from the Argo Global Special Situations Fund ("AGSSF"). The Argo funds have yet to regain their high-water mark.

The Group generated revenues of US$11.2 million (2010: US$10.9 million) for the year ended 31 December 2011 with management fees accounting for US$9.2 million (2010: US$10.0 million). The Group benefitted from a one-off fee of US$1.1 million which is included in other income.

During the year the Group continued with its cost saving initiatives with total costs falling to US$9.0 million (2010: US$9.7 million). Overall, the financial statements show an operating profit for the year of US$2.1 million (2010: US$1.2 million) with earnings per share being maintained at US$0.03 (2010: US$0.03).

Argo has maintained its strong balance sheet with over US$27.4 million (2010: US$27.5 million) in net current assets. The Group has held its net asset position of US$43.4 million (2010: US$44.4 million) even after paying a dividend of US$1.4 million (2010: US$1.1 million) and buying back shares at a total cost of US$1.4 million (2010: US$0.6 million).

Net current assets include investments in The Argo Fund ("TAF") and AREOF at fair values of US$15.6 million and US$0.9 million respectively. Since the year end the Board has approved the investment of a further US$2 million in TAF.

CHAIRMAN'S STATEMENT (continued)

Business and operational review (continued)

Following on from the Argo funds' consolidation of their real estate assets in Romania the Group subscribed US$0.99 million of its cash resources to acquire new shares in AREOF. Furthermore, the Group has provided AREOF with a notice of deferral in relation to the amounts due from the provision of investment management services, under which it will not demand payment of such amounts until the Group judges that AREOF is in a position to pay the outstanding liability. These amounts accrued or receivable at 31 December 2011 total US$2,480,165 (€1,915,333).

The number of employees of the Group at the year end increased to 42 (2010: 26) mainly due to the acquisition of the holding companies of the two shopping parks in Romania and the subsequent transfer of staff to the Argo Group.

In order to retain and properly incentivise its qualified personnel, the Company intends to continue paying its employees variable compensation in the form of a cash bonus in the aggregate amount of 30%-50% of profit before tax. To further incentivise personnel and to align their interests with those of the shareholders the Group granted options during the year over 5,900,000 shares to directors and employees under The Argo Group Limited Employee Stock Option Plan.

Fund performance

Performance across the range of Argo funds was very mixed for the year. The main fund, TAF, was marginally ahead, by 0.10%, as was the Argo Distressed Credit Fund ("ADCF"), by 1.18%; by comparison, the main hedge fund indices showed a negative return of around 1% for the same period.

Managing the Argo funds continued to be a challenge against the back-drop of multiple sovereign debt downgrades, declining economic growth and austerity measures with markets becoming very volatile and difficult to trade.

The Argo Funds

Fund	Launch date	2011 Year total	2010 Year total	Since inception	Annualised performance	Sharpe ratio	Down months	AUM
		%	%	%	CAGR %			US$m
The Argo Fund	Oct-00	0.10	8.55	134.50	8.65	0.75	23 of 135	95.7
Argo Global Special Situations Fund	Aug-04	-35.21	8.21	-4.46	0.32	0.02	23 of 89	6.0
AGSSF Holdings	Feb-09	-37.98	-1.50	-34.20	-10.50	-0.49	16 of 35	75.0
Argo Distressed Credit Fund	Oct-08	1.18	10.32	24.57	7.16	0.83	13 of 39	25.7
Argo Real Estate Opportunities Fund	Aug-06	178.23	2.65	-24.22	-6.45	N/A	N/A	97.7*
Argo Capital Partners Fund	Aug-06	-50.81	-24.5	-53.3	-13.3	N/A	N/A	25.3
Total								325.4

* NAV only officially measured twice a year, March and September.

AGSSF Holdings Limited ("AHL") comprises assets that are currently more difficult to liquidate. In the first half of the year it delivered an encouraging year-to-date return of 5.54% which was in part driven by a disposal of equity in a European IT services company. At the end of the year AHL felt the impact of the Greek crisis which saw the complete write down of its equity interest in a Greek telecommunications company. The immediate challenges facing the Fund remain engineering exits for the Greek investment and defaulted loans to an Indonesian petrochemical plant.

CHAIRMAN'S STATEMENT (continued)

Fund performance (continued)

AREOF continues to operate in a particularly challenging and difficult environment in which regional and global property markets have remained weak despite some initial signs of recovery and the economic and financing background has been most uncertain. Tenants continue to seek rent concessions, albeit at a slightly reduced level from the previous year. Against this backdrop, in September 2011 AREOF successfully completed the purchase of a further two shopping parks, ERA Shopping Park Iasi and ERA Shopping Park Oradea, in Romania, from funds advised by the Argo Group. Following the purchase of these assets AREOF has become the largest listed owner and operator of retail parks in the country thus making it more marketable to international investors over the long term. Further information may be found in the published accounts of AREOF on its website at www.argoproperty.com.

AREOF is currently finalising a major asset management initiative on its Sibiu Shopping City retail park to attract further leading international tenants and strengthen its income deriving from this asset. AREOF has successfully renegotiated terms with its bankers and continues to maintain tenant occupancy at around 98%-100%. The Fund's adjusted Net Asset Value was US$97.7 million (€75.4 million) as at 30 September 2011, compared with US$35.9 million (€27.1 million) a year earlier.

Argo Capital Partners Fund ("ACPF"), a private equity fund closed to new subscriptions, was invested in three projects at the year end. ACPF reported a negative return of 50.81% for the year (2010: -24.5%) mainly due to the complete write down of its investment in the Greek telecommunications company. This Fund has suffered mainly from the lack of liquidity and demand for private equity assets in emerging markets. Whilst the intention was to sell some portfolio investments in 2011 it is disappointing that difficult operating conditions hindered this process. However, in September 2011 we completed the disposal of the two shopping parks, ERA Shopping Park Iasi and ERA Shopping Park Oradea, to AREOF. This transaction represented an internal consolidation of Argo's real estate interests in Romania and thus measures were taken to ensure there were no conflicts of interest. The transaction was an all paper deal resulting in ACPF owning 24.5% of the issued shares in the combined AREOF group. Funds advised by Argo control a combined 73.9% of the AREOF group.

Dividends and share purchase programme

Underlining the Board's confidence in the future prospects of the Group, the directors recommend a final dividend of 2.0c (1.3p) per share (2010: 1.9c, 1.2p). The final dividend will be paid on 20 June 2012 to shareholders who are on the Register of Members on 25 May 2012.

Going forward, the Company intends, subject to its financial performance, to pay a final dividend each year.

During the year the directors authorised the repurchase of 6,235,000 shares at a total cost of US$1.4 million this marking the successful conclusion of the share purchase programme that was announced two years ago. The Board has decided for the time being to abstain from a renewal of the share purchase programme but reserves the right to buy back its own shares on an ad hoc basis if and when the opportunity arises.

Outlook

Conditions in global financial markets are once again characterised by uncertainty amid investor anxiety about the future of the Eurozone. The hedge fund model is rapidly changing with investors challenging fee structures and managers increasingly seeking three-year lockups. This uncertainty has made attracting new investors to Argo's funds difficult. Nevertheless, the Group is carrying out a number of initiatives to make its funds in emerging markets more attractive to new investors when market conditions improve.

AREOF's asset base has almost doubled after certain other funds advised by the Group injected the ERA Shopping Park Iasi and ERA Shopping Park Oradea into AREOF. As a consequence, AREOF is now the largest listed retail property fund operating in Romania. Following on from this AREOF has successfully been admitted to the Open Market of the Frankfurt Stock Exchange. The Board believes this transaction along with the dual-listing and the potential for cost savings will make AREOF more attractive to investors and expects the discount to net asset value at which the Fund's shares currently trade to narrow significantly.

CHAIRMAN'S STATEMENT (continued)

Outlook (continued)

Since the year end Argo has completed a significant fund restructuring exercise, effective 1 February 2012, to reconfirm its mandate with the investor base of AHL and ACPF and to attract new liquidity. The portfolio assets of AHL and ACPF have been transferred into a new fund, Argo Special Situations Fund LP (SSF), in exchange for ordinary partnership interests in SSF with the objective of acquiring follow-on investments and maximising the value of the assets. The fundraising initiative is currently underway with existing and new investors being invited to subscribe for two-year preference shares targeting a 13.5% annualised return. As part of this restructuring exercise the high-water mark for earning performance fees has been re-set to zero. SSF is a closed-ended fund with a realisation period of three years subject to extension.

Argo retains a strong balance sheet and is well-equipped to deal with the volatile economic conditions being faced by global financial markets. The business will continue to look for opportunities and invest in infrastructure where necessary whilst operating as cost-effectively as possible.

The Board is confident that with its talented team the Group can continue to meet the ongoing economic challenges and is well placed to benefit from an eventual global recovery and in particular the emerging markets sector.

Michael Kloter
Non-Executive Chairman

Date: 15 March 2012

DIRECTORS' REPORT

The directors present their annual report and the audited accounts of the Group for the year ended 31 December 2011.

Principal activity

The principal activity of the Company is that of a holding company and the principal activity of the wider Group is that of an investment management business.

Results, review of the business and future prospects

The Consolidated Statement of Comprehensive Income is set out on page 14. The Chairman's Statement set out on page 3 includes information about the Group's business and performance during the year and an indication of future prospects.

Dividends and share purchase programme

The directors recommend a final dividend of 2.0c (1.3p) per share (2010: 1.9c, 1.2p). The final dividend will be paid on 20 June 2012 to shareholders who are on the Register of Members on 25 May 2012. The final dividend for the year ended 31 December 2010 of US$1,418,257 was paid on 22 June 2011 to ordinary shareholders who were on the Register of Members on 27 May 2011. Going forward, the Company intends, subject to its financial performance, to pay a final dividend each year.

During the year the directors authorised the repurchase of 6,235,000 shares at a total cost of US$1.4 million this marking the successful conclusion of the share purchase programme that was announced two years ago. The Board has decided for the time being to abstain from a renewal of the share purchase programme but reserves the right to buy back its own shares on an ad hoc basis if and when the opportunity arises.

Directors and their interests

The directors, who served throughout the year and held office at 31 December 2011 and to date, along with their beneficial interests (including those of connected parties) in the ordinary shares of the Company are as follows:

	31 December 2011 Ordinary shares No.	31 December 2010 Ordinary shares No.
Michael Kloter	1,000,000	1,000,000
Kyriakos Rialas	8,768,363	8,768,363
Andreas Rialas	15,638,146	15,638,146
David Fisher	-	-
Kenneth Watterson	88,141	88,141

Michael Kloter's interest is represented through a corporate vehicle, currently Dodoni AG, the indirect beneficiaries of which are Michael Kloter and his family.

Kyriakos Rialas' interest is represented by the shareholding of Wisynco Investments Inc., the beneficiaries of which include Kyriakos Rialas and his family.

Andreas Rialas' interest is represented by a direct interest in 460,833 shares and the holding of 15,177,313 shares by Farkland Ventures Inc. (a company belonging to Rialco Trust) the beneficiaries of which are potentially Andreas Rialas and his family.

Biographical details of the current directors are set out on page 12.

Substantial shareholdings

On 15th March 2012 the following interests in 3% or more of the Company's Ordinary share capital had been reported:

	No. of Ordinary shares	Percentage of issued capital
Lynchwood Nominees Limited	38,218,602	56.68%
Vidacos Nominees Limited	4,997,054	7.41%
Pershing Nominees Limited	3,393,467	5.03%
Nortrust Nominees Limited	3,307,623	4.91%

DIRECTORS' REPORT (continued)

Corporate governance statement

The directors recognise the value of the Principles of Good Governance and Code of Best Practice as set out in the UK Corporate Governance Code to the extent appropriate taking into account the size of the Company and the nature of its business.

Whilst the Company is not obliged by the Alternative Investment Market ("AIM") rules to do so, the Board intends, where appropriate, to comply with the main provisions of the Principles of Good Governance and Code of Best Practice as set out in the UK Corporate Governance Code.

Regulatory Information

Argo Group Limited has two main operating companies, Argo Capital Management (Cyprus) Limited ("Argo Cyprus") and Argo Capital Management Limited ("Argo London"), which are regulated by the Cyprus Securities and Exchange Commission and the UK Financial Services Authority ("FSA") respectively. As such the Group is subject to the conduct of business rules, compliance requirements and minimum capital standards of those bodies. Both Argo Cyprus and Argo London have satisfied the minimum regulatory capital requirements of their respective regulatory bodies and the Board is satisfied that the Group is adequately capitalised to continue its operations effectively.

Argo Group Limited is also admitted to trading on the Alternative Investment Market of the London Stock Exchange and is subject to the disclosure requirements and governance processes that this status demands.

Internal Control and risk management

Risk is inherent in all business and is therefore present within the Group's activities. The Group seeks to effectively identify, monitor and manage each of its risks with ultimate responsibility of risk management resting with the Board.

The key risk that the Board considers most important to its business is operational risk. Operational flaws can result from a lack of resources or planning, error or fraud, the inability to capitalise on market opportunities or weaknesses in systems and controls. The Board believes that operational risk is mitigated as follows:

- appropriate financial and management controls are in place which ensure day-to-day operations are managed effectively;
- the valuation of key assets by independent third parties with the Pricing Review Committee providing additional oversight of valuations used for hard-to-price assets; and
- the existence of disaster recovery procedures.

Risk management and control is one element of the Group's overall system of internal controls which provides an ongoing process for identifying, evaluating and managing the Group's significant risks. This control framework enables the Board, through the Audit Committee and regular board meetings, to monitor the effectiveness of the risk management and internal control systems. Throughout the year the Board has continued to receive regular financial and other management information related to the control of expenditure against budget as well as reports on compliance and risk matters. The Board is satisfied that appropriate planned actions continue to be effective in improving controls as the Group develops and the overall assessment of the control framework continues to be satisfactory.

Audit Committee

The Audit Committee was established in November 2008. Membership comprises at least two members, each being an independent non-executive director. The Audit Committee now comprises Ken Watterson (chair), David Fisher and Michael Kloter. The Board is satisfied that the members of the Audit Committee have recent and relevant financial experience.

The Audit Committee is a sub-committee of the Board and makes recommendations to the Board which retains the right of final decision. The Audit Committee has primary responsibility for reviewing the consolidated financial statements, liaising with the external auditors and reviewing the effectiveness of internal controls.

Audit Committee (continued)

The terms of reference of the Audit Committee include the following:

- Review of interim and full-year accounts including the accounting policies, principles and practices underlying them and the auditors' findings. The Committee reviews this information in advance of its consideration by the Board allowing adequate time before Board approval to complete any actions requested by the Committee;
- review of the effectiveness of the external auditors, approval of the scope and cost of their external audit work and their reappointment;
- review of the valuation policies of the underlying Argo funds which are also audited by KPMG;
- review of non-audit work carried out by the external auditors (and trends in the non-audit fees) in accordance with the Committee's policy to ensure the safeguarding of audit independence and objectivity;
- monitor and review of the Group's framework of internal controls, the identification and control of major risks and the results of the Group's risk review process;
- consideration of developments in corporate governance and accounting standards in the UK and internationally;
- overseeing and challenging due diligence on risk issues relating to material transactions and strategic proposals that are subject to approval by the Board;
- providing advice to the Remuneration Committee on risk weightings to be applied to performance objectives incorporated in the incentive structure for the executives;
- review of reports provided by the external compliance monitoring adviser;
- consideration of the results of the Group's review of intangible asset impairment and going concern;
- consideration of the Group's technology strategy and related risks;
- consideration of the Group's treasury objectives and policies;
- shareholder communications and other announcements; and
- any material litigation involving the Group.

The Audit Committee met formally twice during the year and there was full attendance at the meetings. The Committee met with the external auditors, without the executive directors being present, to review the scope of their audit and findings thereon for the interim and year end financial statements. The Committee recommended to the Board that a resolution be put to the shareholders for the reappointment of the auditors at the annual general meeting.

The Audit Committee considered the need for an internal audit function and concluded that, for the Group at its current stage of development, such a function is not required. It should be noted, however, that the investment manager, Argo Cyprus, has an internal audit function, being a requirement of its license under the regulations of the Cyprus Securities and Exchange Commission. Similarly, the investment adviser, Argo London, is reviewed by an external compliance consultant as part of its duty to satisfy its responsibilities under the FSA regulations.

Remuneration Committee

The Remuneration Committee was established in November 2008. Membership comprises at least two members, each being an independent non-executive director. The Remuneration Committee now comprises Michael Kloter (chair), Ken Watterson and David Fisher.

In accordance with authority delegated by the Board of directors the terms of reference of the Remuneration Committee cover the following:

- To determine and agree with the Board of directors the framework or broad policy for the remuneration of the chief executive and such other members of the executive management as it is designated to consider for purposes of compliance with the FSA remuneration code ("Code");

- To ensure the Group's remuneration policy for all staff is compliant with the Code;

DIRECTORS' REPORT (continued)

Remuneration Committee (continued)

- To review the framework or broad policy for remuneration to ensure it remains appropriate and relevant and in formulating proposals, be sensitive to the need for an appropriate balance between long and short-term elements of pay.

The Remuneration Committee met formally three times during the year and there was full attendance at the meetings. The Chief Executive Officer and Chief Investment Officer attended all or part of the meetings at the invitation of the Remuneration Committee but took no part in the determination of their own remuneration.

The Remuneration Committee has considered the final rules on remuneration in financial companies issued by the FSA as applied to the Group, and in particular its emphasis on the need to ensure that remuneration plans do not incentivise excessive risk taking. The Committee believe that the nature of the variable remuneration plans in place have been structured appropriately in light of the Group's business model and risk profile, the proportion of variable remuneration which is deferred, the length of the deferral period and the performance conditions attached to the awards.

Donations

During the year the Group made charitable donations of US$12,029 (2010: US$5,412).

Creditor payment policy

It is the Group's policy and practice to agree commercial terms of business with suppliers prior to the supply of goods and services. In the absence of any dispute, the Group pays, wherever possible, in accordance with those agreed terms. The number of days' purchases of the Group represented by trade creditors at 31 December 2011 was 11 (2010: 6).

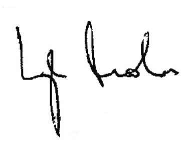
Statement of disclosure to auditor

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditors are unaware. Each director has taken all the steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Auditors

Our auditors, KPMG Audit LLC, being eligible, have expressed their willingness to continue in office. A resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Signed on behalf of the Board



Kyriakos Rialas
Chief Executive Officer

Date: 15 March 2012

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for preparing the Directors' Report and the consolidated financial statements in accordance with applicable law and regulations. In addition, the directors have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards.

The consolidated financial statements are required to give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period.

In preparing these consolidated financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with International Financial Reporting Standards; and
- prepare the consolidated financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time its financial position. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation governing the preparation and dissemination of financial statements may differ from one jurisdiction to another.

DIRECTORS

Michael Kloter
Non-Executive Chairman
Michael holds a law degree from the University of Geneva, Switzerland, and a lawyer's licence of the Canton of Zurich, Switzerland. After gaining professional experience as a clerk at the District Court of Zurich and experience in a business law practice in Zurich, Switzerland he founded his own law firm in Zurich in 1995. Since then he has practised as a business lawyer and acts as director for a number of companies.

Kyriakos Rialas
Chief Executive Officer
Kyriakos has 25 years of professional investment and managerial experience in the financial services sector. He has overall responsibility for risk management, legal, regulatory and general management of the Argo business. Prior to joining Argo, he was General Manager of Emporiki Bank in Cyprus from 1999 to 2003 where he managed a portfolio of syndicated loans worth US$1 billion. Kyriakos has also worked for the Treasury department of the Bank of Cyprus Group and London Forfaiting Cyprus where he was Finance Director, overseeing subsidiaries in India, Russia, Thailand and Hong Kong. Before that he worked for Capital Intelligence in bank analysis and rating for emerging markets. He has a degree in Engineering from the University of Cambridge and qualified as a Chartered Accountant with KPMG in London. He started his banking career in the fixed income division of SG Warburg & Co in London.

Andreas Rialas
Chief Investment Officer
Prior to founding Argo, Andreas worked for Deutsche Bank for three years where he was involved in emerging markets proprietary trading and trade finance specialist products. Before that, he was at London Forfaiting (Asia) Ltd as Head of Secondary Debt Trading in emerging markets. Andreas has travelled extensively in both Eastern and Western Europe visiting and cultivating relationships with banks. He originated and syndicated many pioneering syndicated loan and trade finance transactions for Eastern European borrowers in the Baltic States, Bulgaria, the Czech Republic, Croatia, Kazakhstan, Macedonia, Romania, Russia, Slovakia and Ukraine. In his role as Head of Secondary Debt Trading at London Forfaiting (Asia) Ltd, he developed extensive knowledge of the Asian Debt Markets and was responsible for the secondary trading in Europe of primary assets originated by the Hong Kong subsidiary of London Forfaiting (Asia) Ltd. He studied law at the University of London, graduating in 1991 and subsequently trained to be an English Barrister specialising in banking law qualifying in 1993.

David Fisher
Non-Executive Director
David Fisher is Chairman of the Investment Committee of Innova Capital, one of Central Europe's leading private equity firms; of EnerCap Partners, a new renewable energy fund in Central Europe; and of Da Vinci CIS Private Sector Growth Fund Limited. In June 2010 he was appointed to the Board of Argo Real Estate Opportunities Fund Limited. He has over 30 years of experience in business, finance and law.

As a Partner at Innova and as the Chief Investment Officer for CARESBAC-Polska and the Romanian-American Enterprise Fund, David has made and managed more than 30 private equity investments in Central & Eastern Europe in the last 15 years. Formerly he was Group Vice President and General Counsel of Communications Equity Associates, a worldwide media, entertainment and communications merchant bank. He is a Chartered Director with the Institute of Directors and holds a Diploma in International Commercial Arbitration from the Chartered Institute of Arbitrators. David holds degrees from Davidson College (BA), Vanderbilt Law School (JD) and Harvard Business School (MBA). He is an American who has lived and worked in Europe for more than 15 years.

Kenneth Watterson
Non-Executive Director
Kenneth has 23 years of experience within the financial services industry. His specific areas of expertise include compliance and risk management, operations and change management. Kenneth holds a Master's degree from the University of St. Andrews and a Master's degree from London Guildhall University in Financial Regulation & Compliance Management, specialising in Corporate Governance. He has board experience within a number of UK, Isle of Man and Channel Islands companies. Kenneth has worked with Coutts and Close Bros international private banks and as the Chief Operating Officer and director of a US$1.6 billion hedge fund group. He is a Chartered Director as awarded by the Institute of Directors.

REPORT OF THE INDEPENDENT AUDITORS, KPMG AUDIT LLC, TO THE MEMBERS OF ARGO GROUP LIMITED

We have audited the consolidated financial statements of Argo Group Limited for the year ended 31 December 2011 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Shareholders' Equity, the Consolidated Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs).

This report is made solely to the Group's members, as a body. Our audit work has been undertaken so that we might state to the Group's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and the Group's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 11, the directors are responsible for the preparation of consolidated financial statements that give a true and fair view. Our responsibility is to audit, and express an opinion on, the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the consolidated financial statements

An audit involves obtaining evidence about the amounts and disclosures in the consolidated financial statements sufficient to give reasonable assurance that the consolidated financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the consolidated financial statements.

Opinion on the consolidated financial statements

In our opinion the consolidated financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2011 and of the Group's profit for the year then ended; and
- have been properly prepared in accordance with IFRSs.

KPMG Audit LLC

KPMG Audit LLC
Chartered Accountants
Heritage Court
41 Athol Street
Douglas
Isle of Man IM99 1HN

15 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER 2011

	Note	Year ended 31 December 2011 US$'000	Year ended 31 December 2010 US$'000
Management fees		9,214	10,034
Incentive fees		91	434
Other income		1,845	480
Revenue	2(e), 3	11,150	10,948
Legal and professional expenses		(397)	(614)
Management and incentive fees payable	2(f)	(79)	(444)
Operational expenses		(1,730)	(1,931)
Employee costs	4	(6,130)	(5,864)
Foreign exchange gain/(loss)		28	(134)
Amortisation of intangible assets	9	(683)	(651)
Depreciation	10	(35)	(99)
Operating profit	6	2,124	1,211
Interest income on cash and cash equivalents		45	57
Unrealised (loss)/gain on investments		(13)	1,226
Profit on ordinary activities before taxation	3	2,156	2,494
Taxation	7	(260)	(267)
Profit for the year after taxation attributable to members of the Company	8	1,896	2,227
Other comprehensive income			
Exchange differences on translation of foreign operations		(111)	(469)
Total comprehensive income for the year		1,785	1,758

		Year ended 31 December 2011 US$	Year ended 31 December 2010 US$
Earnings per share (basic)	8	0.03	0.03
Earnings per share (diluted)	8	0.02	0.03

The directors consider that all results derive from continuing activities.

The notes on pages 18 to 39 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

	Note	At 31 December 2011 US$'000	At 31 December 2010 US$'000
Assets			
Non-current assets			
Intangible assets	9	15,942	16,615
Fixtures, fittings and equipment	10	70	41
Loans and advances receivable	14	38	253
Total non-current assets		16,050	16,909
Current assets			
Investments	11	16,539	15,563
Trade and other receivables	12	3,314	1,312
Cash and cash equivalents	13	8,358	11,907
Loans and advances receivable	14	240	5
Total current assets		28,451	28,787
Total assets	3	44,501	45,696
Equity and liabilities			
Equity			
Issued share capital	15	674	737
Share premium		30,878	32,199
Revenue reserve		14,123	13,645
Foreign currency translation reserve	2(d)	(2,250)	(2,139)
Total equity		43,425	44,442
Current liabilities			
Trade and other payables	16	913	1,054
Taxation payable	7	163	200
Total current liabilities	3	1,076	1,254
Total equity and liabilities		44,501	45,696

These consolidated financial statements were approved by the Board of directors on 15 March 2012 and were signed on its behalf by:

Kyriakos Rialas
Chief Executive Officer

Michael Kloter
Non-Executive Chairman

The notes on pages 18 to 39 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
YEAR ENDED 31 DECEMBER 2011

	Issued share capital 2010	Share premium 2010	Revenue reserve 2010	Foreign currency translation reserve 2010	Total 2010
	US$'000	US$'000	US$'000	US$'000	US$'000
As at 1 January 2010	**769**	**32,772**	**12,544**	**(1,670)**	**44,415**
Total comprehensive income					
Profit for the period after taxation	-	-	2,227	(469)	1,758
Transactions with owners recorded directly in equity					
Dividends to equity holders	-	-	(1,126)	-	(1,126)
Purchase of own shares	(32)	(573)	-	-	(605)
As at 31 December 2010	**737**	**32,199**	**13,645**	**(2,139)**	**44,442**

	Issued share capital 2011	Share premium 2011	Revenue reserve 2011	Foreign currency translation reserve 2011	Total 2011
	US$'000	US$'000	US$'000	US$'000	US$'000
As at 1 January 2011	**737**	**32,199**	**13,645**	**(2,139)**	**44,442**
Total comprehensive income					
Profit for the period after taxation	-	-	1,896	(111)	1,785
Transactions with owners recorded directly in equity					
Dividends to equity holders (note 15)	-	-	(1,418)	-	(1,418)
Purchase of own shares (note 15)	(63)	(1,321)	-	-	(1,384)
As at 31 December 2011	**674**	**30,878**	**14,123**	**(2,250)**	**43,425**

The notes on pages 18 to 39 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED 31 DECEMBER 2011

	Note	Year ended 31 December 2011 US$'000	Year ended 31 December 2010 US$'000
Net cash inflow from operating activities	18	354	932
Cash flows from investing activities			
Interest received on cash and cash equivalents		45	57
Purchase of current asset investments	11	(988)	-
Purchase of fixtures, fittings and equipment	10	(64)	(8)
Net cash (used in)/generated from investing activities		(1,007)	49
Cash flows from financing activities			
Repurchase of own shares	15	(1,384)	(605)
Dividends paid	15	(1,418)	(1,126)
Net cash used in financing activities		(2,802)	(1,731)
Net decrease in cash and cash equivalents		(3,455)	(750)
Cash and cash equivalents at 1 January 2011 and 1 January 2010		11,907	13,069
Foreign exchange loss on cash and cash equivalents		(94)	(412)
Cash and cash equivalents as at 31 December 2011 and 31 December 2010		8,358	11,907

The notes on pages 18 to 39 form part of these consolidated financial statements.

1. CORPORATE INFORMATION

The Company is domiciled in the Isle of Man under the Companies Act 2006. Its registered office is at 33-37 Athol Street, Douglas, Isle of Man, IM1 1LB and the principal place of business is at 10 Vasilissis Frederikis Street, 1066 Nicosia, Cyprus. The principal activity of the Company is that of a holding company and the principal activity of the wider Group is that of an investment management business. The functional and presentational currency of the Group undertakings is US dollars. The Group has 42 (2010: 26) employees.

Wholly owned subsidiaries	Country of incorporation
Argo Capital Management (Cyprus) Limited	Cyprus
Argo Capital Management Limited	United Kingdom
Argo Capital Management Property Limited	Cayman Islands
Argo Capital Management (Asia) Pte. Ltd.	Singapore
North Asset Management Srl	Romania
North Asset Management Sarl	Luxembourg
Argo Investor Services AG	Switzerland

2. ACCOUNTING POLICIES

(a) Accounting convention

These consolidated financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial instruments, and in accordance with International Financial Reporting Standards.

These accounts have been prepared on the basis that the Company is a going concern.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Subsidiaries are consolidated from the date upon which control is transferred to the Company and cease to be consolidated from the date upon which control is transferred from the Company.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Company. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

(c) Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination.

The acquiree’s identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date.

Goodwill

Goodwill arising on the consolidation represents the excess of the cost of the acquisition over the Company’s interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Any excess of the Company's interest in the fair value of the identifiable assets and liabilities over the cost of the acquisition (negative goodwill) is immediately recognised in the Consolidated Statement of Comprehensive Income. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed at least annually for impairment. Any impairment is recognised immediately in the Consolidated Statement of Comprehensive Income.

2. ACCOUNTING POLICIES (continued)

(c) Business combinations (continued)

Intangible assets
The Group's principal intangible asset is a fund management contract recorded at directors' valuation at the date of acquisition. The directors' valuation is based on the underlying share price of the vendor and its assets under management at the time of acquisition. This intangible asset has a finite life and is amortised on a straight line basis over the period of the contract. Impairment tests are undertaken annually to determine any diminution in the recoverable amount below carrying value. The Group does not capitalise internally generated goodwill or intangible assets.

Impairment of intangible assets
At each balance sheet date the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

(d) Foreign currency translation

The consolidated financial statements are expressed in US dollars. Transactions denominated in currencies other than US dollars have been translated at the rate of exchange prevailing at the date of the transaction. Assets and liabilities in other currencies are translated to US dollars at the rates of exchange prevailing at the balance sheet date. The resulting profits or losses are reflected in the Consolidated Statement of Comprehensive Income.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's foreign currency translation reserve. Such translation differences are recognised in the Consolidated Statement of Comprehensive Income as income or as expenses in the year of the operation's disposal.

(e) Revenue

Revenue is recognised to the extent that it is probable that economic benefit will flow to the Group and the revenue can be reliably measured.

Management and incentive fees receivable
The Group recognises revenue for providing management services to mutual funds. Revenue accrues on a monthly basis on completion of management services and is based on the assets under management of each mutual fund.

Incentive fees generally arise monthly or annually, however for the Argo funds incentive fees may arise monthly, annually or on realisation of an investment. In addition, for the Argo Real Estate Opportunities Fund Ltd ("AREOF") (managed by Argo Capital Management Property Ltd) incentive fees may be triggered at any time on realisation of a property asset.

2. ACCOUNTING POLICIES (continued)

(e) Revenue (continued)

Management and incentive fees receivable (continued)
The management and incentive fees receivable from AREOF are defined in the management contract between that company and Argo Capital Management Property Ltd. The management contract has a fixed term expiring on 31 July 2018.

During the year the Group provided AREOF with a notice of deferral in relation to the amounts due from the provision of investment management services, under which it will not demand payment of such amounts until the Group judges that AREOF is in a position to pay the outstanding liability. These amounts accrued or receivable at 31 December 2011 total US$2,480,165 (€1,915,333). In the directors' view these amounts are fully recoverable and they have therefore concluded that it is appropriate to continue to recognise income from these investment management services.

(f) Management and incentive fees payable

The Group pays management and incentive fees based on a proportion of fees receivable from mutual funds. Fees payable are accrued on a monthly basis consistent with revenue streams earned.

(g) Depreciation

Plant and equipment is initially recorded at cost and depreciated on a straight-line basis over the expected useful lives of the assets as follows:

Leasehold	33 1/3% per annum
Fixtures and fittings	10% to 33 1/3% per annum
Office equipment	10% to 33 1/3% per annum
Computer equipment and software	20% to 33 1/3% per annum

(h) Investments held at fair value through profit or loss

All investments are classified as held at fair value through profit or loss. Investments are initially recognised at fair value. Transaction costs are expensed as incurred.

After initial recognition, investments are measured at fair value, with unrealised gains and losses on investments and impairment of investments recognised in the Consolidated Statement of Comprehensive Income. Investments held at fair value in managed mutual funds are valued at fair value of the net assets as provided by the administrators of those funds. Investments in the management shares of The Argo Fund Ltd, Argo Capital Investors Fund SPC (comprising the segregated portfolio Argo Global Special Situations Fund SP), Argo Capital Partners Fund Ltd, Argo Distressed Credit Fund Limited and AGSSF Holdings Limited are stated at fair value, being the recoverable amount.

(i) Trade date accounting

All 'regular way' purchases and sales of financial assets are recognised on the 'trade date', i.e. the date that the entity commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of the asset within the time frame generally established by regulation or convention in the market place.

(j) Financial instruments

Financial assets and liabilities are recognised on the Consolidated Statement of Financial Position when the Company becomes party to the contractual provisions of the instrument.

Non-derivative financial instruments include trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables. The initial and subsequent measurement of non-derivative financial instruments is dealt with below.

2. ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

Trade and other receivables
Trade and other receivables do not carry any interest and are stated at their original invoice amount as reduced by appropriate allowances for estimated irrecoverable amounts. An estimate for doubtful debts is made when collection is no longer probable. Bad debts are written off when identified.

Cash and cash equivalents
Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments which are readily convertible to known amounts of cash, subject to insignificant risk of changes in value, and have a maturity of less than six months from the date of acquisition.

For the purposes of the cash flow statement, cash and cash equivalents consist of cash in hand and bank deposits.

Trade payables
Trade payables are not interest bearing and are stated at their nominal value.

(k) Loans and borrowings
All loans and borrowings payable are initially recognised at cost, calculated as the fair value of the consideration received less issue costs where applicable. After initial recognition, all interest-bearing loans and borrowings are subsequently measured at amortised cost. Amortised cost is calculated by using the effective interest method, taking into account any issue costs, and discounts and premiums on settlement.

All loans and borrowings receivable are initially recognised at cost and subsequently measured at amortised cost.

(l) Current taxation
Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those enacted or substantially enacted by the balance sheet date.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Consolidated Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other periods or because it excludes items that are never taxable or deductible.

(m) Deferred taxation
Deferred income tax is provided for using the liability method on temporary timing differences at the balance sheet date between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised in full for all temporary differences. Deferred tax assets are recognised for all deductible temporary differences, carried forward unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax credits and unused losses can be utilised.

The carrying amount of deferred income tax assets is revalued at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that is probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

2. ACCOUNTING POLICIES (continued)

(n) Accounting estimates, assumptions and judgements

The preparation of the consolidated financial statements necessitates the use of estimates, assumptions and judgements. These estimates, assumptions and judgements affect the reported amounts of assets, liabilities and contingent liabilities at the balance sheet date as well as affecting the reported income and expenses for the year. Although the estimates are based on management's knowledge and best judgment of information and financial data, the actual outcome may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that and prior periods, or in the period of the revision and future periods if the revision affects both current and future periods.

In the process of applying the Group's accounting policies, which are described above, management has made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements:

- Management and incentive fees
- Intangibles (note 9)

It has been assumed that, when available, the audited financial statements of the funds under the Group's management will confirm the net asset values used in the calculation of management and performance fees receivable.

(o) Operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. Benefits, such as rent free periods, received and receivable as incentives to take on operating leases are spread on a straight line basis over the lease term, or, if shorter than the full lease term, over the period to the review date on which the rent is first expected to be adjusted to the prevailing market rent.

(p) Financial instruments and fair value hierarchy

The following represents the fair value hierarchy of financial instruments measured at fair value in the Statement of Financial Position. The hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

2. ACCOUNTING POLICIES (continued)

(q) Future changes in accounting policies

IASB (International Accounting Standards Board) and IFRIC (International Financial Reporting Interpretations Committee) have issued the following standards and interpretations with an effective date after the date of these financial statements:

New/Revised International Financial Reporting Standards (IAS/IFRS)	Effective date (accounting periods commencing on or after)
IAS 1 Presentation of Financial Statements - Amendments to revise the way other comprehensive income is presented (June 2011)	1 July 2012
IAS 12 Income Taxes – Limited scope amendment (recovery of underlying assets) (December 2010)	1 January 2012
IAS 19 Employee Benefits - Amendment resulting from the Post-Employment Benefits and Termination Benefits projects (as amended in June 2011)	1 January 2013
IAS 27 Consolidated and Separate Financial Statements – Reissued as IAS 27 Separate Financial Statements (as amended in May 2011)	1 January 2013
IAS 28 Investments in Associates – Reissued as IAS 28 Investments in Associates and Joint Ventures (as amended in May 2011)	1 January 2013
IAS 32 Financial Instruments Presentation – Amendments to application guidance on the offsetting of financial assets and financial liabilities (December 2011)	1 January 2014
IFRS 7 Financial Instruments: Disclosures – Amendments enhancing disclosures about transfers of financial assets (October 2010)	1 July 2011
IFRS 7 Financial Instruments: Disclosures – Amendments enhancing disclosures about offsetting of financial assets and financial liabilities (December 2011)	1 January 2013
IFRS 7 Financial Instruments: Disclosures – Amendments requiring disclosures about the initial applicable of IFRS 9 (December 2011)	1 January 2015
IFRS 9 Financial Instruments - Classification and measurement of financial assets (as amended in December 2011)	1 January 2015
IFRS 9 Financial Instruments – Accounting for financial liabilities and derecognition (as amended in December 2011)	1 January 2015
IFRS 10 Consolidated Financial Statements (May 2011)	1 January 2013
IFRS 11 Joint Arrangements (May 2011)	1 January 2013
IFRS 12 Disclosure of Interests in Other Entities (May 2011)	1 January 2013
IFRS 13 Fair Value Measurement (May 2011)	1 January 2013

The directors do not expect the adoption of these standards and interpretations to have a material impact on the Group's financial statements in the period of initial application, except for IFRS 9 Financial Instruments, which becomes mandatory for the Group's 2015 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

Any standard adopted during the year has presentational impact only; it is therefore not necessary to adjust comparative information.

(r) Dividends payable

Interim and final dividends are recognised when declared.

3. SEGMENTAL ANALYSIS

The Group operates as a single asset management business.

The operating results of the companies set out in note 1 above are regularly reviewed by the directors of the Group for the purposes of making decisions about resources to be allocated to each company and to assess performance. The following summary analyses revenues, profit or loss, assets and liabilities:

	Argo Group Ltd	Argo Capital Management (Cyprus) Limited	Argo Capital Management Limited	Argo Capital Management Property Limited	Other	Year ended 31 December
	2011	2011	2011	2011	2011	2011
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Revenues from external customers	-	6,520	1,123	3,503	4	11,150
Intersegment revenues	5,222	-	2,942	-	488	8,652
Reportable segment profit/(loss)	4,792	(2,388)	(1,237)	1,180	(202)	2,145
Intersegment profit/(loss)	5,222	(7,850)	2,455	-	169	(4)
Reportable segment assets	49,441	2,285	3,410	3,946	445	59,527
Reportable segment liabilities	83	332	835	114	65	1,429

Revenues, profit or loss, assets and liabilities may be reconciled as follows:	Year ended 31 December 2011
	US$'000
Revenues	
Total revenues for reportable segments	19,802
Elimination of intersegment revenues	(8,652)
Group revenues	**11,150**
Profit or loss	
Total profit for reportable segments	2,145
Elimination of total intersegment losses	4
Other unallocated amounts	7
Profit on ordinary activities before taxation	**2,156**
Assets	
Total assets for reportable segments	59,527
Elimination of intersegment receivables	(373)
Elimination of Company's cost of investments	(14,653)
Group assets	**44,501**
Liabilities	
Total liabilities for reportable segments	1,429
Elimination of intersegment payables	(353)
Group liabilities	**1,076**

3. SEGMENTAL ANALYSIS (continued)

	Argo Group Ltd	Argo Capital Management (Cyprus) Limited	Argo Capital Management Limited	Argo Capital Management Property Limited	Other	Year ended 31 December
	2010	2010	2010	2010	2010	2010
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Revenues from external customers	-	7,845	38	3,063	2	10,948
Intersegment revenues	3,084	-	3,057	-	547	6,688
Reportable segment profit/(loss)	3,692	1,699	(1,283)	(1,737)	127	2,498
Intersegment profit/(loss)	3,084	(4,500)	3,057	(2,257)	547	(69)
Reportable segment assets	47,455	5,112	4,622	2,881	603	60,673
Reportable segment liabilities	88	514	851	80	43	1,576

Revenues, profit or loss, assets and liabilities may be reconciled as follows:

	Year ended 31 December 2010
	US$'000
Revenues	
Total revenues for reportable segments	17,636
Elimination of intersegment revenues	(6,688)
Group revenues	**10,948**
Profit or loss	
Total profit for reportable segments	2,498
Elimination of total intersegment losses	69
Other unallocated amounts	(73)
Profit on ordinary activities before taxation	**2,494**
Assets	
Total assets for reportable segments	60,673
Elimination of intersegment receivables	(325)
Elimination of Company's cost of investments	(14,652)
Group assets	**45,696**
Liabilities	
Total liabilities for reportable segments	1,576
Elimination of intersegment payables	(322)
Group liabilities	**1,254**

4. EMPLOYEE COSTS

	Year ended 31 December 2011 US$'000	Year ended 31 December 2010 US$'000
Wages and salaries	5,540	5,399
Social security costs	524	421
Other	66	44
	6,130	5,864

5. KEY MANAGEMENT PERSONNEL REMUNERATION

Included in employee costs are payments to:

	Year ended 31 December 2011 US$'000	Year ended 31 December 2010 US$'000
Directors and key management personnel	3,245	3,561

The remuneration of the directors of the Company for the year was as follows:

	Salaries US$'000	Fees US$'000	Benefit US$'000	Cash bonus US$'000	Year ended 31 December 2011 US$'000	Year ended 31 December 2010 US$'000
Executive Directors						
Kyriakos Rialas	243	-	-	195	438	530
Andreas Rialas	232	-	2	981	1,215	700
Non-Executive Directors						
Michael Kloter	-	85	-	-	85	74
David Fisher	-	40	-	-	40	39
Ken Watterson	-	40	-	-	40	39

6. OPERATING PROFIT

Operating profit is stated after charging:

	Year ended 31 December 2011 US$'000	Year ended 31 December 2010 US$'000
Auditors' remuneration	99	111
Depreciation	35	99
Amortisation	683	651
Directors' fees	2,696	2,592
Operating lease payments	486	530

7. TAXATION

Taxation rates applicable to the parent company and the Cypriot, UK, Singaporean, Luxembourg, Swiss and Romanian subsidiaries range from 0% to 26.5% (2010: 0% to 28%).

Income Statement

	Year ended 31 December 2011 US$'000	Year ended 31 December 2010 US$'000
Taxation charge for the year on Group companies	260	273
Over provision in respect of prior years	-	(6)
Tax on profit on ordinary activities	260	267

The tax charge for the year can be reconciled to the profit per the Consolidated Statement of Comprehensive Income as follows:

	Year ended 31 December 2011 US$'000	Year ended 31 December 2010 US$'000
Profit before tax	2,156	2,494
Applicable Isle of Man tax rate for Argo Group Limited of 0%	-	-
Timing differences	4	16
Non-deductible expenses	19	16
Non-taxable income	(11)	(14)
Other adjustments	-	(4)
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	248	253
Tax charge	260	267

Balance Sheet

	At 31 December 2011 US$'000	At 31 December 2010 US$'000
Corporation tax payable	163	200

8. EARNINGS PER SHARE

Earnings per share is calculated by dividing the net profit for the period by the weighted average number of shares outstanding during the period.

	Year ended 31 December 2011 US$'000	Year ended 31 December 2010 US$'000
Net profit for the year after taxation attributable to members	1,896	2,227

	No. of shares	No. of shares
Weighted average number of ordinary shares for basic earnings per share	70,411,827	75,150,213
Effect of dilution	5,900,000	-
Weighted average number of ordinary shares for diluted earnings per share	76,311,827	75,150,213

	Year ended 31 December 2011 US$	Year ended 31 December 2010 US$
Earnings per share (basic)	0.03	0.03
Earnings per share (diluted)	0.02	0.03

9. INTANGIBLE ASSETS

	Fund management contracts US$'000
Cost	
At 1 January 2010	18,633
Foreign exchange movement	(79)
At 31 December 2010	18,554
Foreign exchange movement	86
At 31 December 2011	18,640
Amortisation and impairment	
At 1 January 2010	1,180
Amortisation of Argo business intangible assets	651
Foreign exchange movement	108
At 31 December 2010	1,939
Amortisation of Argo business intangible assets	683
Foreign exchange movement	76
At 31 December 2011	2,698
Net book value	
At 31 December 2010	16,615
At 31 December 2011	15,942

The Group tests intangible assets annually for impairment, or more frequently if there are indications that the intangible assets may be impaired. The recoverable amounts of the intangible assets that have been reviewed for impairment are separately identifiable business units within the Group. The value in use approach has been used as the businesses were not considered saleable in their current form due to certain factors, the main being reliance on certain key individuals.

At the balance sheet date the carrying value of goodwill was US$14.8m (2010: US$14.9m) after a prior year restatement of cost to write off pre-acquisition goodwill of US$0.1m against revenue reserves.

The key assumptions on which the directors have based their five year discounted cash flow analysis are a pre-tax discount rate of 15% (2010: 15%), an inflation rate of 5% (2010: 5%) and a weighted average growth in assets under management (which determine management and performance fee income) of 7% to 12% (2010: 10% to 12.5%), with 2.1% to 3.6% (2010: 3% to 3.75%) of this estimated to be from annual profits. The assumption of growth in assets under management has been based on the historic performance of existing funds as well as forecast performance on funds restructured since the year end and new product initiatives currently under development. The calculations use cash flow projections based on actual operating results. The result of this review has been compared to the carrying value of goodwill and accordingly the directors have concluded that there is no impairment to goodwill. As an added sensitivity, if the estimated discount rate applied to the discounted cash flows had been 25% higher (2010: 25% higher) or the estimated growth rate of assets under management had been 20% lower (2010: 25% lower) there would still have been no impairment of goodwill as the net present value of future cash flows would still have been higher than the carrying value of goodwill.

9. INTANGIBLE ASSETS (continued)

At the balance sheet date the carrying value of the AREOF management contract is US$1.0m (2010: US$1.8m), net of amortisation. The intangible asset is being amortised over 5 years and 44 days, being the remaining period of the contract from the date of acquisition. During the period the Group successfully renegotiated the extension of this management contract by five years from the current termination date of 31 July 2013 to 31 July 2018.

10. FIXTURES, FITTINGS AND EQUIPMENT

	Fixtures, fittings & equipment US$ '000
Cost	
At 1 January 2010	299
Additions	8
Disposals	-
Foreign exchange movement	(12)
At 31 December 2010	295
Additions	64
Disposals	-
Foreign exchange movement	(2)
At 31 December 2011	357
Accumulated Depreciation	
At 1 January 2010	163
Depreciation charge for period	99
Disposals	-
Foreign exchange movement	(8)
At 31 December 2010	254
Depreciation charge for period	35
Disposals	-
Foreign exchange movement	(2)
At 31 December 2011	287
Net book value	
At 31 December 2010	41
At 31 December 2011	70

11. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Holding	Investment in management shares	At 31 December 2011 Total cost US$ '000	At 31 December 2011 Fair value US$ '000
10	The Argo Fund Ltd	-	-
10	Argo Capital Investors Fund SPC	-	-
10	Argo Capital Partners Fund	-	-
100	Argo Distressed Credit Fund Ltd	-	-
100	AGSSF Holdings Ltd	-	-
		-	-

Holding	Investment in ordinary shares	Total cost US$ '000	Fair value US$ '000
66,435	The Argo Fund Ltd	14,343	15,579
10,899,021	Argo Real Estate Opportunities Fund Ltd	988	960
		15,331	16,539

Holding	Investment in management shares	At 31 December 2010 Total cost US$ '000	At 31 December 2010 Fair value US$ '000
10	The Argo Fund Ltd	-	-
10	Argo Capital Investors Fund SPC	-	-
10	Argo Capital Partners Fund Ltd	-	-
100	Argo Distressed Credit Fund Ltd	-	-
100	AGSSF Holdings Ltd	-	-
		-	-

Holding	Investment in ordinary shares	Total cost US$ '000	Fair value US$ '000
66,435	The Argo Fund Ltd	14,343	15,563
		14,343	15,563

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12. TRADE AND OTHER RECEIVABLES

	At 31 December 2011 US$ '000	At 31 December 2010 US$ '000
Trade receivables	2,591	1,060
Other receivables	50	41
Prepayments and accrued income	673	211
	3,314	1,312

The directors consider that the carrying amount of trade and other receivables approximates their fair value. All trade receivable balances are recoverable within one year from the balance sheet date

During the year the Group provided AREOF (to whom it provides investment management services) with a notice of deferral in relation to the amounts due from the provision of investment management services, under which it will not demand payment of such amounts until the Group judges that AREOF is in a position to pay the outstanding liability. These amounts accrued or receivable at 31 December 2011 total US$2,480,165 (€1,915,333).

In the audited financial statements of AREOF at 30 September 2011, a material uncertainty surrounding the refinancing of bank debts was referred to in relation to the basis of preparation of the financial statements. In the view of the directors of AREOF, discussions with the banks are continuing satisfactorily and they have therefore concluded that it is appropriate to prepare those financial statements on a going concern basis.

13. CASH AND CASH EQUIVALENTS

Included in cash and cash equivalents is a balance of US$100,000 (2010: US$100,000) which represents a bank guarantee in respect of credit cards issued to Argo Capital Management Property Limited. Due to the nature of this balance it is not freely available.

14. LOANS AND ADVANCES RECEIVABLE

	At 31 December 2011 US$'000	At 31 December 2010 US$'000
Deposits on leased premises - current	240	5
Deposits on leased premises - non-current	38	253
	278	258

The deposits on leased premises are retained by the lessor until vacation of the premises at the end of the lease term as follows:

	At 31 December 2011 US$'000	At 31 December 2010 US$'000
Current:		
Lease expiring within one year	240	5

	At 31 December 2011 US$'000	At 31 December 2010 US$'000
Non-current:		
Lease expiring in second year after balance sheet date	-	33
Lease expiring in third year after balance sheet date	38	220
	38	253

15. SHARE CAPITAL

The Company's authorised share capital is unlimited ordinary shares with a nominal value of US$0.01.

	31 December 2011 No.	31 December 2011 US$'000	31 December 2010 No.	31 December 2010 US$'000
Issued and fully paid				
Ordinary shares of US$0.01 each	67,428,494	674	73,663,494	737
	67,428,494	**674**	**73,663,494**	**737**

The directors recommend a final dividend of 2.0c (1.3p) per share (2010: 1.9c, 1.2p) for the year ended 31 December 2011. The final dividend for the year ended 31 December 2010 of US$1,418,257 was paid on 22 June 2011 to ordinary shareholders who were on the Register of Members on 27 May 2011. Going forward, the Company intends, subject to its financial performance, to pay a final dividend each year.

During the year the directors authorised the repurchase of 6,235,000 shares at a total cost of US$1.4 million.

16. TRADE AND OTHER PAYABLES

	At 31 December 2011 US$ '000	At 31 December 2010 US$ '000
Trade and other payables	68	49
Other creditors and accruals	845	1,005
	913	1,054

Trade and other payables are normally settled on 30-day terms.

17. OBLIGATIONS UNDER OPERATING LEASES

Operating lease payments represent rentals payable by the Group for certain of its business premises. The leases have no escalation clauses or renewal or purchase options and no restrictions imposed on them.

As at the balance sheet date, the Group had outstanding future minimum lease payments under non-cancellable operating leases, which fall due as follows.

	At 31 December 2011 US$ '000	At 31 December 2010 US$ '000
Operating lease liabilities:		
Within one year	420	440
In the second to fifth years inclusive	167	305
Present value of minimum lease payments	587	745

18. RECONCILIATION OF NET CASH INFLOW FROM OPERATING ACTIVITIES TO PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	Year ended 31 December 2011 US$ '000	Year ended 31 December 2010 US$ '000
Profit on ordinary activities before taxation	2,156	2,494
Interest income	(45)	(57)
Amortisation of intangible assets	683	651
Depreciation	35	99
Decrease in payables	(141)	(1,638)
(Increase)/decrease in receivables	(2,022)	97
Decrease/(increase) in fair value of current asset investments	13	(1,226)
Net foreign exchange (gain)/loss	(28)	134
Income taxes (paid)/repaid	(297)	378
Net cash inflow from operating activities	354	932

19. RELATED PARTY TRANSACTIONS

All Group revenues derive from funds or entities in which two of the Company's directors, Andreas Rialas and Kyriakos Rialas, have an influence through directorships and the provision of investment advisory services.

At the balance sheet date the Company holds investments in The Argo Fund Limited and AREOF. These investments are reflected in the accounts at a fair value of US$15,578,970 and US$959,694 respectively.

During the period the Group provided AREOF (to whom it provides investment management services) with a notice of deferral in relation to the amounts due from the provision of investment management services, under which it will not demand payment of such amounts until the Group judges that AREOF is in a position to pay the outstanding liability. These amounts accrued or receivable at 31 December 2011 total US$2,480,165 (€1,915,333).

Michael Kloter, the non-executive chairman, is also partner in a legal firm which supplies services to the Group. This firm charged US$Nil (2010: US$7,180) for services rendered to the Group in the year.

David Fisher, a non-executive director of the Company, is also a non-executive director of AREOF.

20. FINANCIAL INSTRUMENTS RISK MANAGEMENT

(a) Use of financial instruments

The wider Group has maintained sufficient cash reserves not to use alternative financial instruments to finance the Group's operations. The Group has various financial assets and liabilities such as trade and other receivables, loans and advances, cash, short-term deposits, and trade and other payables which arise directly from its operations.

The Group's non-subsidiary investments in funds were entered into with the purpose of providing seed capital for these funds.

(b) Market risk

Market risk is the risk that a decline in the value of assets adversely impacts on the profitability of the Group, either as a result of an asset not meeting its expected value or through the decline of assets under management generating lower fees. The principal exposures of the Group are in respect of its seed investments in its own funds. Lower management fee and incentive fee revenues could result from a reduction in asset values.

(c) Capital risk management

The primary objective of the Group's capital management is to ensure that the Company has sufficient cash and cash equivalents on hand to finance its ongoing operations. This is achieved by ensuring that trade receivables are collected on a timely basis and that excess liquidity is invested in an optimum manner. This is achieved by placing fixed short-term deposits or using interest bearing bank accounts.

At the year-end cash balances were held at Royal Bank of Scotland, Laiki Bank, Bank of Cyprus, United Overseas Bank, Bancpost and UBS AG.

(d) Credit/counterparty risk

The Group will be exposed to counterparty risk on parties with whom it trades and will bear the risk of settlement default. Credit risk is concentrated in the funds under management as detailed in note 11. Trade receivables are normally settled on 30-day terms (note 12).

The Group's principal financial assets are bank and cash balances, trade and other receivables and investments held at fair value through profit or loss. These represent the Company's maximum exposure to credit risk in relation to financial assets and are represented by the carrying amount of each financial asset in the balance sheet.

(e) Liquidity risk

Liquidity risk is the risk that the Group may be unable to meet its payment obligations. This would be the risk of insufficient cash resources and liquid assets, including bank facilities, being available to meet liabilities as they fall due.

The main liquidity risks of the Group are associated with the need to satisfy payments to creditors. Trade receivables and trade payables are normally on 30-day terms (note 12).

(f) Foreign exchange risk

Foreign exchange risk is the risk that the Group will sustain losses through adverse movements in currency exchange rates.

The Group is subject to short-term foreign exchange movements between the calculation date of fees in currencies other than US dollars and the date of settlement. The Group holds cash balances in US dollars, Sterling, Singapore dollars, Swiss Francs, Romanian Lei and Euros.

If there was a 5% increase or decrease in the exchange rate between the US dollar and the other operating currencies used by the Group at 31 December 2011 the exposure would be a profit or loss to the Consolidated Statement of Comprehensive Income of approximately US$148,000 (2010: US$74,000).

20. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(g) Interest rate risk

The interest rate profile of the Group at 31 December 2011 is as follows:

	Total as per balance sheet	Variable interest rate instruments*	Fixed interest rate instruments	Instruments on which no interest is receivable
	US$ '000	US$ '000	US$ '000	US$ '000
Financial Assets				
Financial assets at fair value through profit or loss	16,539	-	-	16,539
Loans and receivables	3,592	-	-	3,592
Cash and cash equivalents	8,358	35	5,747	2,576
	28,489	35	5,747	22,707
Financial liabilities				
Financial liabilities at fair value through profit or loss	913	-	-	913

* Changes in the interest rate may cause movements.

The average interest rate at the year end was 0.24%. Any movement in interest rates would have an immaterial effect on the profit/loss for the period.

The interest rate profile of the Group at 31 December 2010 is as follows:

	Total as per balance sheet	Variable interest rate instruments*	Fixed interest rate instruments	Instruments on which no interest is receivable
	US$ '000	US$ '000	US$ '000	US$ '000
Financial Assets				
Financial assets at fair value through profit or loss	15,563	-	-	15,563
Loans and receivables	1,570	-	-	1,570
Cash and cash equivalents	11,907	600	8,282	3,025
	29,040	600	8,282	20,158
Financial liabilities				
Financial liabilities at fair value through profit or loss	1,054	-	-	1,054

* Changes in the interest rate may cause movements.

The average interest rate at the year end was 0.5%. Any movement in interest rates would have an immaterial effect on the profit/loss for the period.

20. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(h) Fair value

The carrying values of the financial assets and liabilities approximate the fair value of the financial assets and liabilities and can be summarised as follows:

	At 31 December 2011 US$ '000	At 31 December 2010 US$ '000
Financial Assets		
Financial assets at fair value through profit or loss	16,539	15,563
Loans and receivables	3,592	1,570
Cash and cash equivalents	8,358	11,907
	28,489	29,040
Financial Liabilities		
Trade and other payables	913	1,054

Financial assets and liabilities, other than investments, are either repayable on demand or have short repayment dates. The fair value of investments is stated at the redemption prices quoted by fund managers and is based on the fair value of the underlying net assets of the funds because, although the funds are listed, there is no active market.

Fair value hierarchy

The table below analyses financial instruments measured at fair value at the end of the reporting period by the level of the fair value hierarchy (note 2p).

	At 31 December 2011			
	Level 1 US$ '000	Level 2 US$ '000	Level 3 US$ '000	Total US$ '000
Financial assets at fair value through profit or loss	960	15,579	-	16,539

	At 31 December 2010			
	Level 1 US$ '000	Level 2 US$ '000	Level 3 US$ '000	Total US$ '000
Financial assets at fair value through profit or loss	-	15,563	-	15,563

21. SHARE-BASED INCENTIVE PLANS

On 14 March 2011 the Group granted options over 5,900,000 shares to directors and employees under The Argo Group Limited Employee Stock Option Plan. All options are exercisable in four equal tranches over a period of four years at an exercise price of 24p per share.

The fair value of the options granted during the period was measured at the grant date using a Black-Scholes model that takes into account the effect of certain financial assumptions, including the option exercise price, current share price and volatility, dividend yield and the risk-free interest rate. The fair value of the options granted is spread over the vesting period of the scheme and the value is adjusted to reflect the actual number of shares that are expected to vest.

The principal assumptions for valuing the options are:

Exercise price (pence)	24.0
Weighted average share price at grant date	12.0
Weighted average option life (years)	10.0
Expected volatility (% p.a.)	2.11
Dividend yield (% p.a.)	10.0
Risk-free interest rate (% p.a.)	5.0

The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The total charge to employee costs in respect of this incentive plan is nil. There were no share option programmes in place in the prior period.

The number and weighted average exercise price of the share options during the period is as follows:

	Weighted average exercise price	No. of share options
Outstanding at beginning of period	N/A	Nil
Granted during the period	24.0p	5,900,000
Forfeited during the period	24.0p	(435,000)
Outstanding at end of period	24.0p	5,465,000
Exercisable at end of period	N/A	Nil

The options outstanding at 31 December 2011 have an exercise price of 24p and a weighted average contractual life of 10 years, with the first tranche of shares being exercisable on or after 1 May 2012. Outstanding share options are contingent upon the option holder remaining an employee of the Group. They expire after 10 years.

The weighted average fair value of the options issued during the period was nil.

22. CLAIM RELATING TO LAWSUIT AGAINST FORMER GROUP COMPANY

Argo Group Limited ("Argo") had been named as an additional defendant in a lawsuit filed against Absolute Capital Management Holdings Limited (now named ACMH Limited ("ACMH")) and others. The suit had been filed in the United States District Court for the District of Colorado, by an investor in several of ACMH's investment funds. This litigation arose after the demerger of Argo from ACMH. The plaintiff, The Cascade Fund LLP ("Cascade"), had made a number of claims against ACMH and had been seeking to include Argo assets as part of the ACMH asset pool available to it by way of compensation.

In April 2010 the Colorado court dismissed Cascade's action against ACMH for failure to state a claim, following which Cascade filed a second amended complaint. On 31 March 2011 the court dismissed Cascade's second amended complaint and dismissed Cascade's claim against Argo and ACMH in its entirety.

Argo is pleased to report that Cascade did not appeal the order of the Colorado court issued on 31 March 2011 thus concluding the matter.

23. EVENTS AFTER THE BALANCE SHEET DATE

The directors consider that there has been no event since the year end that has a significant effect on the Group's position.


20
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